U4 Expert Answer

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Overview of corruption risk management approaches and key vulnerabilities in development assistance

Query

Please provide an overview of risk management approaches designed to minimise corruption at project level and a survey of particularly vulnerable areas in development assistance. The query should be targeted at project managers and field officers.

Content

1. Corruption risk management approaches
2. Risk management of key vulnerabilities in development projects
3. References

Caveat

Corruption in needs assessment, project selection, resource allocation and project specification fall outside the remit of this query.

Summary

Development assistance has great potential to contribute to positive and lasting change. However, certain corruption risks need to be taken into account to ensure that aid does not fuel corruption.

Most donor agencies now have mechanisms to help ensure that their schemes do not unwittingly invite corrupt practices. Yet, non-specialist project staff tasked with programme planning and implementation are often ill-equipped and underprepared to identify and address the corruption risks they face. This Helpdesk answer provides an overview of risk management strategies at project level for areas particularly vulnerable to corruption: financial management, procurement, human resources, training and partner relations.

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1. Corruption risk management approaches

Corruption risk management is the application of project management methodology in order to systematically reduce the likelihood and impact of corruption on project outcomes. This involves identifying, assessing and mitigating potential incidents of fraud or corruption, as well as the continuous monitoring of emerging risks. It operates at the intersection of external risks, such as fraudulent partner organisations and background societal corruption, and internal practices related to administrative processes and vulnerable delivery mechanisms (IACC 2015). These approaches therefore cover a wide range of aid modalities (Kolstad & Fritz 2008).

The need for corruption risk management

Without adequate risk identification, mitigation and control measures, the spending of development funds can facilitate corrupt behaviour by donor staff, project beneficiaries or intermediaries (Guardian 2013; Humanitarian Practice Network 1999; May 2016). While macroeconomic studies tend to demonstrate no significant correlation between aid flows and corruption levels (Menard & Weill 2013), weak governance structures, poor risk assessment mechanisms or inadequate risk monitoring can all lead to development projects inadvertently exacerbating corruption in the very communities they seek to support (Hart 2016). Moreover, some studies suggest that development assistance can be harmful to efforts to reduce corruption, as not subject to the local accountability mechanisms that are in place for tax-based revenues (Mungiu-Pippidi 2015).

In recent years, the development sector has witnessed a proliferation of the “do no harm” principle, which advocates analysing the total impact of development activities (including corruption) within the target community from project inception to closure (Johnston & Johnsøn 2014).

In parallel, the application of risk management strategies to development projects is rapidly becoming the norm among donor agencies. While implicitly acknowledging that such approaches are unable to completely eliminate the risk of corruption in development projects, the rigorous use of risk management tools has the potential to greatly reduce graft and impropriety with donor money.

It is worth noting that using risk management approaches in development aid is not without its critics. Button and Gee (2013) point out that as assessments are based on past experience, analysts can struggle to identify new kinds of risks, that the evaluation of likelihood and impact are subjective, and that it can offer a false sense of security. Hart (2015) also notes that it can result in mixed messaging about its primary function: is its purpose to minimise corruption or improve development outcomes?

However, self-evaluation in the development sector demonstrates strong support for the approach. A 2009 survey of UK charities found that half of those who had experienced fraud put it down to inadequate risk management systems (May 2016).

The corruption risk assessment process

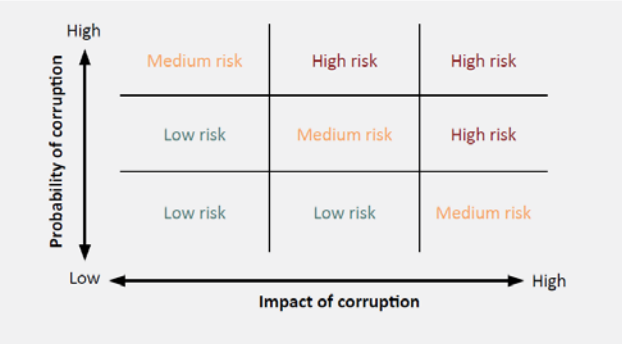
Identification step

Johnsøn (2015) provides a useful elaboration of U4’s corruption risk management model, which progresses through four steps. Firstly, hazards to the project’s outcomes, or reputational or fiduciary risk to the donor need to be identified, and tolerable levels of risk decided upon. Establishing this “risk appetite” is crucial as, during the project’s execution, risks that cross these thresholds will trigger the escalation of avoidance or mitigation measures.

Assessment step

Secondly, a risk assessment exercise needs to be conducted to determine the significance of identified risks. A common means of establishing risk level is to compile a risk matrix, in which the probability that the risk will materialise is multiplied by the severity of its potential impact. This method allows project staff to prioritise risk management actions during the implementation phase of the project.

Overview of corruption risk management at project level



Figures 1: Basic risk matrix. Source: Johnsøn (2015)

Treatment step

During the treatment step, project officers determine which identified corruption risks require active mitigation. Unacceptably high risks (those which are both likely and serious) need to be treated to bring them below the established risk tolerance levels for each type of corruption risk such as bribes, procurement fraud, and embezzlement by donor or partner employees.

Monitoring step

The fourth step, once a project is underway, is to systematically monitor actual risk levels to evaluate whether further risk mitigation is necessary. Finally, where mitigation is required, the most cost-effective means of resolving the risk should be employed (Johnsøn 2015).

Johnsøn notes that donor agencies tend to prioritise risk identification (step 1) over risk assessment (step 2), usually due to a lack of risk assessment methodologies or data. Strikingly, a study of risk management across development agencies demonstrated that even among those which require corruption risk assessments, only half provide specific guidance on how to carry it out (Hart 2016).

In the absence of a thorough assessment of corruption risks faced by a project, mitigation strategies are unlikely to be effective as project officers will struggle to prioritise the corruption risks they face. A central challenge is, therefore, the effective use of tools able to distinguish between types and levels of corruption risk. Risk assessment is essential at all levels within donor agencies, though the kinds of analyses performed will vary.

- At the strategic portfolio level, general country and political economy assessments inform investment decisions (Hart 2015).
- At the programme level, in-depth examination of specific institutional and sectoral risks (policy, regulatory, organisational) should accompany planning processes (Council of Europe 2010).
- At the project level, extensive due diligence procedures are crucial when identifying potential partners and considering local power constellations (Henke 2016).

The Asian Development Bank's (2013) "cascade" approach may be useful for grant-makers, helping them to understand the sequential logic of risk assessment between the country, sector, programme and ultimately project levels. In the Bank's model, findings at each level inform the subsequent (more detailed) evaluation, prioritise risks, and devise avoidance or mitigation strategies. It is not a one-way relationship however; corruption risks are often interdependent between various levels and it can be beneficial for senior management to consider insights from project-level staff during the cost-benefit analysis of an investment in a given programme (Asian Development Bank 2013).

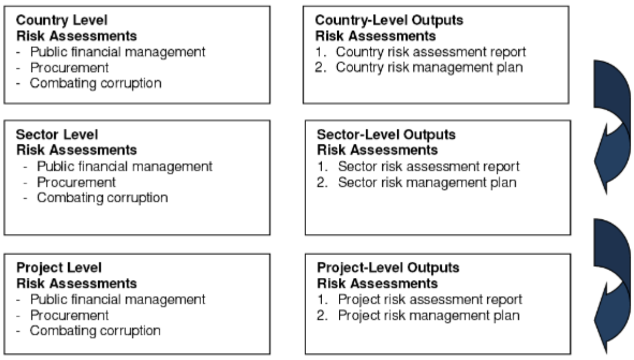


Figure 2: Cascading governance risk assessments. Source: Asian Development Bank (2013)

In terms of content, the Council of Europe (2010) recommends that risk assessments do not focus directly on corruption, but rather consider a range of practices which could threaten project outcomes or institutional reputation. For the same reason, while the corruption risk assessment methodology needs to define corruption, a strictly legalistic definition should be avoided. This is because certain practices understood by the donor agency as corrupt may be legal in countries which have a very narrow definition of corruption, such as being limited to bribery (Terracol 2015).

Finally, USAID has compiled a useful list of diagnostic guides organised by sector to help project staff identify vulnerabilities and develop strategies to reduce opportunities for corruption (United States Agency for International Development 2009a). The guide should be used in conjunction with document reviews, interviews and focus groups with major stakeholders to develop a robust anti-corruption strategy.

Corruption risk management across the project cycle

Project management methodology typically divides projects into four stages, with a distinct monitoring and control component that runs in parallel to the roll-out of the project (European Commission 2004). The process of risk identification, assessment and mitigation described above can occur in each and every phase of the project cycle (Lehtonen 2013). Some risks will need to be mitigated during project inception, while others may only be identified during project implementation.

Inception phase

The inception phase of the project is unlikely to be driven by the individual project manager, as it will be planned in line with broader strategic needs (at portfolio or programme level). During the inception phase, the initial identification and assessment of "higher order" corruption risks is generally assessed by the donor agency's middle management when taking the decision to accept the corruption risks of a project and proceed to the planning phase (Johnsøn 2015).

Planning phase

The project manager is likely to assume overall responsibility of the project at the beginning of this phase, and will inherit the higher order plans which detail broad corruption and governance risks to the project's outputs (see Figure 2). Generally, the project's core team then conducts comprehensive, project-specific risk identification and assessment, clearly distributes responsibilities and takes ownership of mitigation measures and strategies. The findings of the risk analysis should clarify precautionary measures and inform the project's design and governance structure (Hart 2015).

Implementing phase

Corruption risks are generally most acute during the implementation stage of the project, and risks in this phase are primarily financial rather than strategic or reputational (Lehtonen 2013). Some common vulnerabilities are covered in section 2 of this query.

Closing phase

The risks of corruption in this phase are significantly lower than in previous phases, as most of the money will have already been distributed during project implementation (Lehtonen 2013). However, corruption risks related to the handover of any goods or services to local communities, the sign-off on expenses, or audit trails should not be underestimated.

Monitoring and control

An evaluation by the Asian Development Bank (2013) noted that where risk management had failed, this was generally due to insufficient monitoring of risks at project level. While the diagnostic element of risk assessment falls under the initiation and planning phases of the project, risk "re-assessment" is a key component of monitoring. Pertinent risks identified in the initial assessments must be included in the project handbook and monitoring framework as this helps mainstream corruption risks by making them part of standard project supervision. Moreover, the use of risk logs and theories of change can compel project staff to continuously re-evaluate assumptions about threats to the project's integrity (Hart 2015).

Ideally, as in the case of the Inter-American Development Bank's Integrity Risk Reviews, data from previous audit investigations is used as part of a feedback loop to inform the project's anti-corruption approach (Hart 2016).

The development of key performance indicators and the establishment of risk baselines and tolerance is essential to successfully monitor project progression and identify when risks emerge that do not align with the set risk tolerance level. Project managers could also consider including significant corruption risks and their accompanying mitigation strategies in the performance assessment, results framework or systems audit.

The role of project managers in the risk assessment process

Most donor agencies report conducting comprehensive risk assessments at higher levels of management (Hart 2015), and there are a variety of ex-ante instruments donors can use at portfolio level to help them make investment decisions (Johnsøn 2014). Examples include the World Bank's public expenditure reviews, country financial accountability assessments, country procurement assessment reports, and country policy and institutional assessments (Lindner 2014). In addition, DFID's Business Case or SIDA's Contribution Management System may prove useful (Hart 2015).

However, the necessary knowledge and skills are often lacking at the level of generalist project managers (Asian Development Bank 2013). This problem is exacerbated by the fact that much of the existing guidance for practitioners has been written for dedicated anti-corruption teams (USAID 2009b) or those explicitly implementing anti-corruption programmes (USAID 2015) rather than non-specialists. Anecdotal evidence suggests that some project staff treat risk assessments as a one-off box-ticking exercise, in which most risks are cursorily categorised as "moderate" (Hart 2016).

Risk management strategies have been found to be of a higher quality where project staff, sector and governance specialists, and control-orientated staff (auditors and investigators) collaborate during the risk assessment step (Hart 2016).

While control staff may prioritise controlling project costs over comprehensive risk management strategies, where they are not involved in the risk assessment, there is a danger that project teams could fail to earmark sufficient funds from the technical assistance budget to prepare a satisfactory risk management plan or implement any risk mitigation steps foreseen during the planning phase (Hart 2015).

During the assessment step, project staff should also consult local counterparts, such as government officials and partner NGOs, to establish responsibilities and expected courses of action where risk mitigation may be required. As DFID's (2011) strategy on managing fiduciary risk states, the most effective means to reduce corruption risk to DFID financial aid is to work with in-country partners to improve the financial accountability environment.

Unique risks of each project

Each individual project will invariably face a unique set of risks and potential red flags which depend on the external environment, delivery mechanisms, partners, and monitoring and control systems. Despite this, a comparative study of risk management practices across 25 donor agencies has shown that currently only a minority of donors tailor their corruption control systems and risk management strategies to different aid modalities, partners and beneficiaries (Hart 2015). Establishing common minimum standards across an agency's activities may be recommended for consistency, but a "one-size-fits-all" approach at project level risks rendering anti-corruption measures ineffectual, as several respondents to Hart's (2015) survey noted.

Information sources

A wide selection of sources is usually available to project staff conducting risk assessments, and most agencies use a combination of different datasets and information to pinpoint potential risks during the project planning phase (guidelines, regulations, political economy analysis, key informant interviews, checklists, benchmarking.

At a minimum, they should consider data about country and sector context, the audit record of partners and intermediaries, internal financial management processes, training and human resource needs, and procurement standards (Hart 2015).

As much of the data required for the risk assessment will be available from existing sources, this exercise need not be too resource-intensive. Indeed, it should be conducted in line with the principles of feasibility and proportionality, but must be genuinely tailored to the proposed project and frankly address concerns about the institution or process under analysis (McDevitt 2011; World Customs Organisation 2015).

Risk log

Following on from this initial assessment, they should – preferably with the help of expert analysis from the donor agency – compile a risk matrix clearly prioritising risks on the basis of likelihood and impact. This matrix, or risk log, must be updated throughout the life of the project (Johnsøn 2015).

Risk treatment

The central task for project managers is then to translate the results of the risk assessment into tangible project arrangements and control systems. This is naturally challenging for generalists, as each vulnerable area and tool for addressing risks is in itself a specialism. In practice, this can lead to project officers hedging their bets when assessing risks by labelling all as “moderate” (Hart 2015).

Where possible, anti-corruption specialists should help identify mitigation measures and provide guidance on the development of specific anti-corruption measures (Hart 2016).

Unfortunately, such specialist help may not always be available. The following section therefore provides an overview of corruption risk management for project staff, specifically focussed on the vulnerable areas of financial management, procurement, human resources, training and working with partners.

2. Common vulnerabilities in development projects

The following section provides an overview of key vulnerabilities, most of which naturally fall within the implementation phase of the project. It should be stressed, however, that field officers must expect to encounter project-specific risks which fall outside the scope of this query. All risks should be actively monitored throughout the project.

Project financial and asset management

Operating in a cash environment

Some projects operate in largely cash environments, especially those with cash-for-work components or direct transfers to beneficiaries. A large amount of petty cash is an incentive for theft and embezzlement by staff, who could falsify or fail to keep records to cover their tracks.

Red flags could include requests from staff or beneficiaries for cash payments instead of goods and services, “ghost” workers or beneficiaries and incomplete financial records.

The project officer preparing to operate in such conditions should prepare preventative and mitigation measures, such as specific procedures for cash operations (daily cash ledger, protocols for transport and custody of cash, transactions record, insistence on receipts from numbered receipt books, filing of supporting documents), regularly pay surplus cash into a bank account, separate accounting and cash-custodian roles in the team and conduct unannounced spot checks in which cash is counted and compared with the budget (ICRC 2007; Mango n/d; Transparency International 2014).

Asset management

The misuse of donor property can be a real problem for project managers. Staff, partner organisations, power-brokers or local government officials may all seek to use vehicles or ICT equipment for their own personal gain. Staff collusion in the falsification of inventory documents can exacerbate this risk.

Red flags may include an excess amount of equipment requested, the use of donor property outside working hours and inconsistencies between budget lines (such as project-related underspend and vehicle fuel overspend) (Transparency International 2014).

Having conducted the risk assessment, the project team should establish written procedures for the use of donor property, including logbooks to document usage and an asset register (Transparency International 2014). Access to inventory documents should be limited.

Local permits, licences and access

Project managers may be required to obtain permits, licences and access to public services such as electricity, water supply and telecommunications to carry out their work. This provides local officials an opportunity to seek or respond to bribes in order to accelerate the approval process, or overlook real or concocted infringements. “Outsourcing” the problem to local intermediaries or “fixers” can lead to bribes in the form of facilitation payments.

Warning signs may involve deliberate delays by officials in processing requests, extra rules, procedures or fees not stipulated in the regulations, or the appearance of people claiming to have personal relations with officials (Bray 2007).

A risk management strategy can help to prevent these issues from coming to a head by prearranging paperwork with the necessary authorities during the initiation or planning phase, training staff to handle demands for bribes through cultural awareness and negotiating skills, and publicising the anti-corruption policy and code of conduct (Transparency International 2014). The Humanitarian Accountability Partnership (2010) recommends that project managers require local staff and intermediaries to sign contracting agreements to abide by the code of conduct and declare any conflicts of interest.

Budget controls

Corruption risks can be reduced by openly tracking the project budget to ensure that any stakeholder can quickly identify impropriety. The circulation of regular budget monitoring reports which have been baselined against the project plan, and the maintenance of comprehensive documentation of financial transactions can be helpful oversight safeguards (Transparency International 2014).

It is increasingly common practice among donor agencies to establish corruption risk registers to monitor the use of the contingency fund, the prices of budgeted items, and relationships with suppliers (OECD 2014; USAID 2010; EuropeAid 2012; UN 2013).

The results of the risk assessment should also feed into the drafting of a fraud response plan, which includes instructions on reporting suspected fraud, investigation process, liaison with external auditors, internal sanctions, involvement of local law enforcement and dealing with reputational risk (KPMG 2014; Mango n/d).

Audits

Auditing is not generally the responsibility of project managers, but by working with audit staff on the risk assessment during the planning stage, the project team can reduce the risk of external audits uncovering malpractice at a later date. Project managers should, nonetheless, be held fully accountable for monitoring fraud and collusion. Indeed, when corruption risk management is successfully owned and mainstreamed by the project team, thorough book-keeping and random spot checks of receipts and records is the norm (Transparency International 2014).

Risk-based auditing is commonly used by donor agencies to determine which projects to examine, and some agencies systematically publish the results of random audits on their websites (Chêne 2013). Thorough audits often go beyond examining solely the “business” side of the project, to also conduct systems audits examining the project’s internal monitoring and control set up to ensure that procedures are being followed.

Auditors themselves are not above suspicion as they may be bribed to conceal corruption, or simply lack the experience or contextual knowledge to go beyond the paper trail and uncover collusion and kickbacks. Auditors thus also have a clear incentive to cooperate closely with the project manager, who should allow them unrestricted access to documents and people (Transparency International 2014).

Other monitoring mechanisms

Johnsøn (2015) and Transparency International (2015) suggest a number of additional means to monitor projects for any corruption risks, including:

- internal quality assurance review of cases of suspected irregularities
- reporting at regular meetings between stakeholders
- real time or mid-term evaluations
- ex-post cost-benefit or cost-effectiveness analysis, project visits
- quantitative service delivery surveys
- community monitoring

Project managers should set up clear channels to enable members of the public or any stakeholder to complain confidentially to ensure that incidents of mismanagement and corruption are uncovered and corrected (EEA Grants 2015).

It is worth noting that monitoring and evaluation can be prone to corruption. Reports may be falsified to prevent head office from realising aid is being misused, project managers may gloss over problems and community leaders might manipulate evaluations to attract further aid (Transparency International 2014).

Procurement

Donor agencies should have clear policies, rules and procedures in place with which project officers will be expected to comply (Kühn and Sherman 2014). Competitive and transparent bidding should be the norm (including for consultancy work) and exceptions clearly justified (European Commission 2011). The United States Office of the Inspector General (n/d) has developed a handy checklist of red flags at project level, including example scenarios.

Manipulated tender specifications

Technical specifications can be designed to favour a certain supplier (potentially as a result of bribery or a conflict of interest), or the tender specifications may be altered during the procurement process due to undue influence. Project managers should watch out for excessively narrow specifications tailored to one supplier, subjective selection criteria, short bidding deadlines and contracts split into multiple tenders in order to fall below the threshold for competitive bidding or management review (World Bank n/d).

Mitigation measures include the use of technical expertise to draft specifications rather than procurement staff, publicising selection criteria, establishing sanctions for procedural violations, debarring of corrupt suppliers and establishing a complaint mechanism for competing bidders (Kühn and Sherman 2014; World Bank n/d).

Bid rigging

Staff can be bribed into divulging or withholding insider information about the procurement process, and potential suppliers may collude to artificially raise prices. The core project team should pay attention to common patterns across multiple bids, such as the last submitted bid with a marginally lower quote being consistently selected (Transparency International 2014). The presence of “shadow bidders” or unofficial brokers helping to prepare bids are also red flags.

To prevent bid collusion, anti-corruption clauses should be included in bidding documents, and project managers could require bidders to commit to an additional integrity pact (Kühn and Sherman 2014). Kühn and Sherman (2014) also advise evaluating potential bidders not only in light of their proposed bid, but also in terms of their performance history, ownership, financial capacity and integrity. Where resources permit, it is good practice to develop an independent cost estimate for the contract, and promote the participation of local CSOs and beneficiaries as independent monitors or “social auditors” (Transparency International 2014).

Procurement staff should be engaged on the basis of integrity, expertise and local knowledge (market dynamics, prices, cultural norms and suppliers’ reputations), background checks run on staff to check for conflicts of interest, and it should be made a condition of employment to sign a code of conduct and a conflict of interest policy. Ideally, there should be a separation of duties, with different staff responsible for the technical specifications, prequalification, bid evaluation and awarding of contracts (Transparency International 2014).

Supply of substandard goods and services

Even where all procedures have been adhered to during the tendering process, some suppliers may provide low quality, defective or fake supplies and poor services, while still billing for specification standard materials. Unjustified changes to the contract after the decision to award should be avoided. Project managers should distinctly identify staff members responsible for contract monitoring, conduct unannounced control checks and use purchasing manuals conforming to industry-wide standards. Additionally, donor agencies could work together to create and disseminate a list of corrupt suppliers and debar them for future bidding.

Local government public procurement

Occasionally, project teams will be reliant on local public procurement processes outside their immediate control. During the diagnostic phase of the risk assessment, it is crucial that project officers identify how vulnerabilities in local public procurement could expose their project to corruption.

To help identify gaps between real and ideal circumstances, it would be worthwhile comparing existing in-country practice with the OECD (2008) checklist designed to enhance integrity in public procurement. Secondly, project officers could also check to see if there is a recent country procurement assessment report (CPAR) conducted by the World Bank for their country of operation. These reports assess the efficiency, transparency, and integrity of a country's entire procurement system, identify risks and outline action plans to bring procurement in line with internationally accepted best practices (World Bank n/d). See also the Inter-American Development Bank's (2015) Red Flag Matrix System for project procurement.

Training and capacity building

Training and capacity building can be useful instruments in development projects to equip local staff and beneficiaries with additional knowledge and skills. This is particularly the case in projects which will develop a tangible product or service and deliver it to the local community at the conclusion of the project.

However, training and capacity-building projects can themselves be compromised by corruption.

There is extensive literature on how to avoid corruption in training activities in development assistance, particularly around the potentially corrupting influence of per diems.

Per diems

Per diems provided by donor agencies are a frequently used method to facilitate attendance of training and capacity building on the part of local officials, staff and beneficiaries. These often generous daily allowances are flat rates intended to cover accommodation, travel, food and other expenses incurred by work-related activities such as meetings, workshops and conferences. Where abuse of the per diem system is widespread, public servants often top up their salaries by attending workshops which are not relevant to their work, thereby encouraging certain forms of corruption and patronage, and creating situations conducive to conflicts of interest (Jack 2009).

Project teams, particularly those overseeing training and capacity building run by partner organisations, should assess if such risks are pertinent to their activities and, if so, include relevant steps to identify and minimise any incidences of abuse in the risk management plan. Such measures could include conducting spot checks on training sessions to compare the list of participants with actual attendees, checking that genuine participants receive the amount they are entitled to in order to prevent “leakage”, and even verify that the workshop is in fact taking place.

Selection of participants

Financial incentives set by donor agencies to attend training and workshops can lead to high-ranking officials or powerful brokers attending in place of the target audience, which may be lower level public servants or poorer community members (Chêne 2009). The perception that attending donors' capacity building programmes can open the door to lucrative employment opportunities with international agencies can exacerbate this problem. Moreover, discretion over the selection of participants, trainers and guest speakers offers project officers organising the event opportunities to exercise patronage, enabling them to build and cultivate their own clientele (Jordan Smith 2003).

Project managers should set clear and transparent criteria for eligible participants, and communicate these to those people entitled to take part in the training course or workshop (Chêne 2016). Occasional spot checks should help guarantee that selection lists are being drawn up in a fair and transparent manner.

Human resources

Human resources (HR) management processes are often vulnerable to unethical practices. Common forms of corrupt behaviour in this field include cronyism, nepotism, abuse of authority and conflicts of interest (Chêne 2015).

Recruitment, deployment, promotion

Especially in the area of recruitment, promotion and deployment within a project team, professional ethics are crucial. Those seeking employment or a higher salary may bribe HR staff, and biased hiring practices against either individuals or groups based on certain characteristics (age, gender, ethnicity, religion) are both unfair and harmful to project quality. Project managers should therefore be wary of HR units that are very homogenous, as well as HR staff pushing for a candidate who does not appear the most qualified.

In some societies, project teams will be faced by the fact that cronyism and political patronage within groups is considered normal, but accepting these practices risks marginalising other groups who may feel excluded from the project.

Preventing corruption in HR management requires the establishment of competitive, transparent and meritocratic hiring and promotion policies, as well as procedures to prevent favouritism or discrimination, such as codes of ethics, ethics training and whistleblowing channels (Chêne 2015). There should be a standard rating system by which to judge applicants, as well as background checks of candidates and CVs (ICAC 2002; People in Aid 2007). Finally, project managers may find it useful to have an explicit policy on nepotism, whereby family members of staff are not allowed to be recruited.

Conflict of interest

Although not unethical in themselves, conflicts of interest can lead to corruption. Opportunities for personal gain (or that of family and close associates) can influence behaviour and decision making to the detriment of the project.

Potential conflicts of interest should be stated by all stakeholders during the diagnostic phase of the corruption risk assessment, included in the risk log and actively monitored. Staff have a clear obligation to update their statement if their circumstances change. Clear guidelines are recommended on how staff and partners are expected to behave where conflicts of interest arise (e.g. withdrawal from decision-making roles). Where possible, project teams should also establish a register of assets and interests which staff update regularly (Nonprofit Risk Management Centre 2008).

Staff behaviour

Potential misbehaviour of staff could be included in the risk log as practices perceived as corrupt by the local community can undermine the integrity and efficacy of the project. While staff members' private lifestyles may not constitute corruption, inappropriate behaviour can alienate people and create an environment in which pilfering from donor resources is viewed as legitimate. Risk management plans should include strategies to deal with situations in which staff behave inappropriately, or local communities and media report on profligacy and ineffectiveness of the project (Transparency International 2014).

To monitor perceptions of the project and its staff, it is important to communicate frequently with beneficiaries, partners and other stakeholders. To encourage local communities to take control of and responsibility for any project deliverables, it is crucial to give them genuine influence in decisions relating to targeting, allocation and distribution of assistance, and involve them in project monitoring.

Payroll

Ideally, routine financial duties, such as payroll preparation, should be double-checked by a second member of staff to avoid inconsistent billing and manipulation of records (Transparency

International 2014). Payrolls are especially vulnerable as they are often complex, cash-based, and in flux as staff join and leave the organisation. Project managers should pay special attention to temporary and casual staff and ensure close cooperation between the HR and finance teams.

Working with partner organisations

Many donor-funded projects are run through local partners, be these public or private bodies or civil society organisations. Outside of the direct control of the project manager, there are often severe corruption risks which should be evaluated during the risk assessment phase, with precautionary measures put in place where necessary. As stressed in these guidelines for donors on developing corruption risk management systems in partner NGOs, differentiation is key. Partners differ drastically by region, sector and habits; thus risk management measures need to be tailored to the specific partner (Trivunovic, Johnsøn and Mathisen 2011).

There is a clear need for active monitoring of the partner relationship during the entirety of the project, though project teams should seek to balance sound monitoring and control systems with manageable reporting requirements, as some academic studies conclude that "excessive and unrealistic donor demands [on partners] may be an obstacle to openness and transparency" (Burger & Owens 2011).

Due diligence

Project teams working in partnership with in-country private bodies or CSOs should carry out detailed scrutiny of their financial and working practices in the project planning stages to avoid difficulties later. These background checks on partners should, at the very least:

- verify potential partners' physical addresses
- evaluate partners' governance structures
- examine existing relationships between donor agency and proposed partner
- consider prior convictions, civil litigation proceeding and other donors' sanctions lists
- potential partners' track record and reputation

Many development agencies now run accreditation schemes with partner NGOs. These can include codes of conduct partners must adhere to in order to be eligible for grant disbursements, conflict of interest and asset declaration reporting requirements and specific anti-corruption clauses with contracted partners (Fagan 2010; EEA Grants 2015).
Henke (2016) identifies the following poor practices among partners that donor agencies should seek to avoid or discourage:

- full financial responsibility lies with one individual
- NGO's finances are tied up with those of director or other staff
- poor communication (partner does not report on potential problems or risks)
- partner tolerates financial management system with substandard audit trail and/or key records are unavailable

Selection of local partners

Seeking to increase their chance of receiving funding or the amount of funding awarded, potential partners may bribe agency staff to improve their rating in donor assessments. Partners may also be selected on the basis of personal connections rather than objective evaluations. In extreme cases, agency staff may invent "ghost partners" as a vehicle to siphon off donor funds.

Project officers could minimise corruption risks in the selection of local partners through the use of clearly defined criteria, such as whether potential partners strengthen project capacity, fit well with organisational culture and values, are capable of fulfilling reporting requirements and complying with procurement procedures, and whether they have links to lower power structures, economic interests or political parties (Transparency International 2014). Communication with potential partners is crucial to assess and manage expectations, roles and responsibilities.

Partner monitoring

Local partners may, with or without the knowledge of the donor agency, arrange for facilitation payments to "speed up" implementation, divert resources either for private gain or to support other priorities or overhead costs, seek funding for the same work from multiple agencies, and bribe agency staff to ignore contractual obligations. Lack of transparency about partner activities and use of funds, resistance to monitoring and audit, unexplained payments to third parties are all clear red flags (Transparency International 2014).

Project managers need to invest sufficient resources into maintaining productive relationships with partners, and ensure that agency staff have sufficient skills and local knowledge to manage partner organisations. It is recommended to include clear terms of reference and control mechanisms in the partnership agreement to help monitor work against expected outcomes.

Existing toolkits for partner reporting

A number of organisations have produced guidelines for NGO self-evaluations, which may prove useful for project officers seeking to gain an initial impression of possible partners. These toolkits include the International Non-Governmental Organisations Accountability Charter, the Global Reporting Index's NGO Supplement and Reporting Template, Transparency International Switzerland's Prevention of Corruption in Development Cooperation: Checklist for Self-Evaluation, and Bond, Mango & Transparency International UK's Anti-Bribery Principles and Guidance for NGOs.

Anti-corruption strategies

Alongside risk management measures, it is also recommended to have an anti-corruption strategy which explicitly addresses corruption risks within the donor's organisational structure, its project partners and the broader project context, as well as outlining expected responses (Fagan 2010). In practice, this can be in the form a donor-wide document with specific sections or appendixes tailored to the project on the basis of the risk assessment. See this Helpdesk answer for examples of good practice in donor agencies' anti-corruption strategies.

Further reading

See previous Helpdesk answers on the key features of NGO accountability systems, developing codes of conduct for NGOs, donor accountability mechanisms, and assessing NGOs' anti-corruption policies.

Lehtonen (2013) provides an interesting case study of corrupt practices in development projects implemented by local NGOs in Pakistan, which provides insights into corruption risks and vulnerabilities in various phases of the project cycle from a project manager's perspective.

Finally, these guides to the basics of corruption risk management and developing NGO corruption risk management systems, as well as this summary of corruption and aid modalities may prove instructive.

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