



**ADDRESSING
CORRUPTION RISK
IN THE EEA AND
NORWAY GRANTS**

Transparency International is a global movement with one vision: a world in which government, business, civil society and the daily lives of people are free of corruption. Through more than 100 chapters worldwide and an international secretariat in Berlin, we are leading the fight against corruption to turn this vision into reality.

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 - Part II: Risk Filtering Tool
 - Part III: Risk Filtering Report
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 - Annex 2: Overview Tables of Beneficiary States' Corruption Risk Rating and Grant Allocations, June 2013.
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EXECUTIVE SUMMARY

This report presents the findings of a corruption risk assessment of the European Economic Area (EEA) and Norwegian Financial Mechanisms (“the EEA and Norway Grants”), a pilot exercise conducted by Transparency International and the Berlin Risk Institute. It summarises the results of the assessment and the measures that are being developed to mitigate the risks identified. It also considers the added value and limitations of the risk assessment methodology and provides recommendations for strengthening corruption risk management in the EEA and Norway Grants scheme as a whole. The report is intended for use by those responsible for managing and implementing the EEA and Norway Grants and other public funding mechanisms, as well as any party interested in monitoring corruption risks in the management and disbursement of public money.

When grant funding is mismanaged and corruption risks are left unaddressed, not only do the intended recipients lose out, but the effectiveness of grant schemes and donor credibility are also threatened. With this in mind, Iceland, Liechtenstein and Norway have partnered with Transparency International to assess and address potential corruption risks in the EEA and Norway Grants. These grants are designed to contribute to the reduction of economic and social disparities in 16 beneficiary states in the European Union and to strengthen bilateral relations between the donor states and the beneficiary states. The aim of the collaboration of Iceland, Liechtenstein and Norway (the donors) and Transparency International is to help ensure that almost EUR1.8 billion of funding goes where it is meant to go and achieves its intended results.

This pilot exercise was developed in consultation with those implementing the EEA and Norway Grants at the national level. Both general country-level risks and more specific risks pertaining to individual programmes within the EEA and Norway Grants were assessed in the beneficiary countries, based on seven criteria.

It is important to stress that the assessment does not look into specific incidents of corruption. Instead it identifies major risks in order to support the beneficiary states in developing concrete mitigation measures to address them.

Notwithstanding the need for further refinement, the risk assessment has shown preventive effects and has led to measures that aim at addressing the identified corruption risks, ranging from the development of tailor-made mitigation strategies to stronger oversight mechanisms within the funded programmes.

KEY FINDINGS

Main corruption risks

With the exception of Estonia, all beneficiary states were assessed as being exposed to medium or high corruption risks at the country level. This suggests that, as a general rule, corruption should be

treated as a systemic risk across the EEA and Norway Grants.¹ Within the EEA and Norway Grants, the two areas of greatest concern are, on the one hand, the separation of functions between those managing and those implementing the EEA and Norway Grants and, on the other hand, the management of the complaint mechanisms. Both areas were rated as high risk in more than 40 per cent of countries. Ensuring that the different actors carry out their functions independently is key to avoiding potential conflicts of interest, while a well-functioning complaint mechanism acts as a crucial channel for confidential reporting of alleged corrupt practices. At the same time, both of these areas are ones over which beneficiary states have substantial control, and hence mitigation efforts should be (and in many cases are being) prioritised in these areas in the respective countries. In particular, it is encouraging to note that strengthening of complaint mechanisms features prominently in the actions implemented to address the risks identified through the assessment.

At the programme level, the picture varies substantially across countries. While eight of the beneficiary states have no high-risk programmes, the remaining six have between one and five programmes that face high corruption risks. Overall the risk assessment has revealed a large number of medium-risk programmes (65 per cent) and a smaller but not insignificant number of high-risk programmes (12 per cent). In most cases a high risk rating is the result of more than one criteria being rated high risk, which suggests that multiple areas within a programme may need to be addressed. The following areas require particular attention:

- programmes operating in sectors that are more prone to corruption (this varies from country to country)
- programmes that have one or more projects with particularly large grant allocations (i.e. more than one-third of programme funding)
- programmes with pre-defined projects (which are exempt from competitive selection processes)
- programmes that involve extensive public procurement (e.g. the purchase of construction material and other equipment).

Ultimately, both high- and medium-risk programmes require further analysis to identify those specific areas that would benefit from targeted mitigation measures. Indeed, the combination of risks that lead to a particular overall programme-level risk rating requires further examination on a case-by-case basis. Thus even low-risk programmes may contain certain risks that need to be managed.

Mitigating the risks

Many beneficiary states have developed and started to implement targeted mitigation measures to address the identified risks. In most cases, these measures target medium- and high-risk areas. They are largely to be implemented by those managing the EEA and Norway Grants at the national level. To date, over 50 mitigation measures have been proposed by the beneficiary states at both national and programme/project levels, including:

- the strengthening of complaint mechanisms to identify and prevent corruption and other malpractice in the EEA and Norway Grants
- enhanced monitoring and oversight of specific programmes, including: (a) close cooperation between partners through regular meetings and reporting on progress; (b) internal review of cases of suspected irregularities; (c) ex-ante and ex-post verification of procurement documents, procedures and expenditures; (d) independent auditing and/or programme evaluation; and (e) regular on-site monitoring of projects.

¹ The assessment at national level is based on Transparency International's Corruption Perception Index, 2013 and National Integrity System Assessments as well as other secondary sources.

- enhanced integrity mechanisms, including the provision of written statements on compliance with ethical rules, declarations of conflicts of interest and the submission of declarations of assets
- provision of training courses and materials on risk management and/or procurement monitoring in the EEA and Norway Grants
- provision of additional human resources to specific programmes to enhance capacity and ensure smooth implementation
- the streamlining of mechanisms to address corruption risks in the management of all external financial assistance (including the EEA and Norway Grants) in Latvia and Bulgaria.

INTRODUCTION: ADDRESSING CORRUPTION RISK IN THE EEA AND NORWAY GRANTS

PURPOSE OF THE EEA AND NORWAY GRANTS

Under the EEA and Norwegian financial mechanisms for the period 2009-2014, Iceland, Liechtenstein and Norway provide a total of EUR1.8 billion to 16 beneficiary states, all of which are member states of the European Union.² The overall objectives of the EEA and Norway Grants are to contribute to the reduction of economic and social disparities in the EEA and to strengthen bilateral relations between the donor states and the beneficiary states. Together, the EEA and Norway Grants fund 150 programmes in 32 programme areas and 10 sectors ranging from human and social development to environmental protection and climate change.

STRUCTURE OF THE EEA AND NORWAY GRANTS

The EEA and Norway Grants are implemented through Memoranda of Understanding (MoUs) between donor states and each beneficiary state. These MoUs are based on a common set of regulations,³ which contain strong anti-corruption mechanisms.

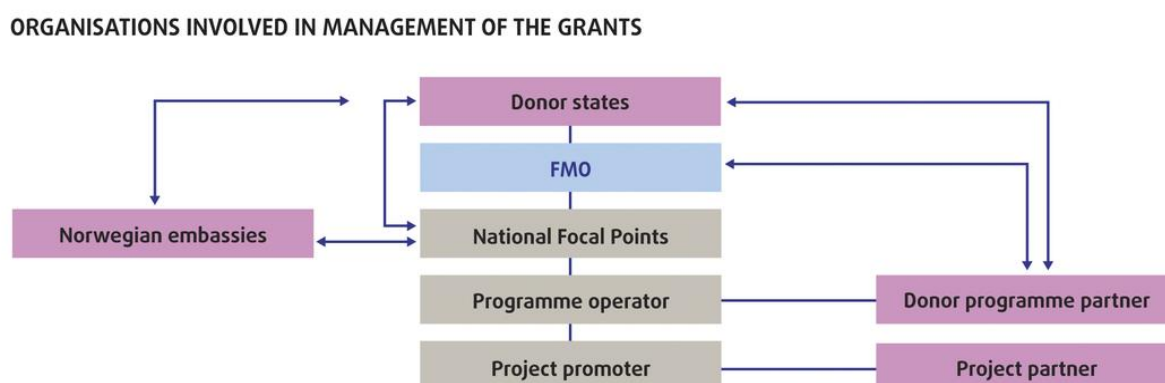
The day-to-day management of both grant schemes is operated by the Financial Mechanism Office (FMO), located in Brussels. Beneficiary states are responsible for the management of programmes through a national focal point (NFP), which is required to set up systems for preventing, mitigating, detecting, reporting on and remedying irregularities in each country. A programme operator is responsible for the implementation of each programme, including project selection, subcontracting, procurement and financial management. In addition, donor partnerships at the programme and project levels strengthen bilateral relations between the donor states and the beneficiary states.⁴

² Namely Bulgaria, Croatia, the Czech Republic, Cyprus, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain

³ See <http://eeagrants.org/Results-data/Results-overview/Documents/Legal-documents/Regulations-with-annexes>

⁴ For more information, see <http://eeagrants.org/Who-we-are/Our-organisation>

Figure 1: Management structure of the EEA and Norway Grants (Source: EEA and Norway Grants)



ADDRESSING CORRUPTION RISK IN THE EEA AND NORWAY GRANTS

In order to address corruption risks in the EEA and Norway Grants, the donor states have partnered with Transparency International to conduct an assessment of the level of integrity in beneficiary states and corruption risks affecting the grant mechanism. The purpose of this pilot exercise is to capture insights from an independent third party on the management of the EEA and Norway Grants and lessons for future similar exercises.

The EEA and Norway Grants adopt a results-based management approach that includes management of risks and uncertainty as well as internal control. Risk management is envisaged as a continuous, proactive and systematic process to understand, manage and communicate risk from a wide perspective.⁵ Iceland, Liechtenstein and Norway also operate a zero-tolerance policy towards corruption, fraud and other mismanagement of funds in the EEA and Norway Grants.⁶ The regulation includes sophisticated anti-corruption mechanisms that address, among other things, possible conflicts of interest regarding the selection of projects,⁷ corruption risks affecting project procurement,⁸ and fraud, bribery or embezzlement.⁹ Moreover, programme operators are required to establish management and control systems for “preventing, mitigating, detecting, reporting on and remedying irregularities”.¹⁰ Hence, the purpose of this exercise was to identify corruption risks that prevail within this rather well-regulated context in order to develop dedicated mitigation measures.

In a first step, a risk assessment methodology was developed in consultation with donors and those implementing the EEA and Norway Grants at the national level. The assessment was then carried out to identify and prioritise corruption risks or “red flags” concerning the grant management process in 14 of the 16 beneficiary states.¹¹ In a final step, the beneficiary states developed a set of concrete mitigation measures to address the main risks identified.

⁵ <http://eeagrants.org/Who-we-are/How-we-work/Managing-risk>

⁶ See “Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2009-2014 - Principles of implementation” (Art. 1.6).

⁷ Ibid. (Art. 6.6)

⁸ Ibid. (Art. 7.16)

⁹ Ibid. (Chapter 11)

¹⁰ Ibid. (Art. 4.8)

¹¹ Hungary and Croatia, which became a beneficiary state in 2014, were not included in the risk assessment.

STRUCTURE OF THE REPORT

This report presents an overview of the risk assessment methodology as well as a discussion of its strengths and limitations as identified through the implementation of the assessment. This is followed by an analysis of the key corruption risks identified across the beneficiary states and programmes and an overview of the mitigation measures that have been developed. The final section draws some conclusions regarding the assessment process itself as well as recommendations for further strengthening corruption risk management in the EEA and Norway Grants more broadly.

The report is accompanied by two annexes. Annex 1 presents the full risk assessment methodology. Annex 2 presents in more detail the key findings of the risk assessment for each beneficiary state, followed by a response from each NFP to the assessment exercise and its findings as well as an overview of the risk mitigation measures taken in each country.

METHODOLOGY

BACKGROUND

The risk assessment methodology was developed in 2012. It aims to identify corruption risks based on an analysis of where corruption is most likely to occur and how serious its impact would be should it occur.¹² It does not assess specific incidents of corruption or involve investigation of past or ongoing corruption cases. The assessment focuses on major risks to enable the targeting of limited resources, thus minor risks may remain unchecked. Similarly, identified risks may never materialise.

The methodology draws on existing risk assessment approaches used in both the private and public sectors and has been tailored to the specific context of the EEA and Norway Grants.¹³ It was developed in consultation with all relevant stakeholders involved in the management of the EEA and Norway Grants and implemented in a collaborative way. Corruption risk surveys were sent to the FMO, NFPs, donors and local civil society organisations to identify any indications of corruption risks in the EEA and Norway Grants that they were aware of.¹⁴

It is important to note that the timing of the delivery of the country reports varied substantially: The first three draft country reports were submitted in summer 2013, while the last reports were finalised in November 2014. This implies that findings are partly outdated by the time of this publication, either because mitigation measures have been introduced or because management structures have been changed or personnel involved have moved on. To address this challenge, certain changes that have occurred after completion of the assessment are considered as mitigation measures.

The reasons for the delays were manifold: Firstly, the consultative nature of the exercise included several rounds of feedback by different actors involved in the management of the EEA and Norway Grants. Sometimes there were substantial delays by respondents, leading to delays in the research process itself. Secondly, due to the pilot character of the exercise, there was a slight adjustment of the methodology following the presentation of the first three draft country reports to key stakeholders. Thirdly, the methodology itself resulted in a complex and time-consuming assessment exercise given that it was tailor-made to the complex structure of the grant mechanism and involved screening of hundreds of actors and several thousands of documents and media articles. Lastly, findings were sometimes controversial, resulting in repeated conversations with affected stakeholders and reviews of draft findings on the back of additional evidence or arguments provided. These challenges should be taken into consideration for any future similar exercise.

¹² Based on the Risk Filtering and Ranking Method (RFRM) according to Yacov Y. Haimes (2004). Risk assessment according to the RFRM takes into consideration that corrupt practices may be more or less likely to happen (likelihood) and may have a more or less serious effect on a mission (impact), if they happen.

¹³ Corruption Risk Assessment Tool for the EEA/Norway Financial Mechanism 2009-2014, User's Manual (Stage I: Risk Filtering), 2012; Operationalisation of the risk filtering criteria – explanatory notes; Overview tables of beneficiary states' corruption risk rating and grant allocations; Programme fact sheet and corruption risk survey (templates); Instructions for completing the corruption risk survey; Standard due diligence procedure.

¹⁴ The full methodology is presented in Annex 1.

OVERVIEW OF THE ASSESSMENT PROCESS

The risk assessment process was designed around seven criteria, divided into country-level and programme-level criteria. Country-level risks are to a large extent beyond the control of those involved in the management of the EEA and Norway Grants, namely the FMO and NFPs. Nevertheless, it is important to take these risks into account as higher levels of perceived corruption and greater amounts of funding at the national level are likely to result in greater corruption risks in the implementation of the EEA and Norway Grants themselves (see below). The programme-level criteria were assessed separately for each programme area within each beneficiary state.

Each of the criteria was rated as being of high, medium or low risk, in order to give an overall assessment of the risk exposure of the EEA and Norway Grants in each case. The rating was based on:

- an analysis of background documents (e.g. the financial mechanism's legal framework, the MoUs and the programme documents)
- the corruption risk survey of all key stakeholders involved and an independent civil society actor
- secondary sources and integrity due diligence screening of relevant institutions and key personnel¹⁵

Country-level criteria

1. **General assessment of corruption risk within beneficiary states:** If the level of corruption is generally perceived as high in the country,¹⁶ this translates into a higher corruption risk for the EEA and Norway Grants and might have a negative impact on the mitigation of such risks. Furthermore, practices resulting from structural corruption may have a significant impact on the strategic goals of the EEA and Norway Grants. It is therefore particularly important to understand whether specific sectors of public administration that are of relevance to the EEA and Norway Grants are particularly prone to corruption.
2. **Total grants allocated to a beneficiary state:** The second country-level criterion focuses on the absolute grants amount allocated to each beneficiary state.¹⁷ The rationale behind this financial criterion is that a comparatively larger amount of funding implies increased exposure of the grants scheme to corruption risk, whereas the risk exposure is lower if the grants amount is comparatively smaller.
3. **Separation of functions within the EEA and Norway Grants management structure and strength of the complaint mechanism:** A combination of functions within any one entity increases the risk of corruption because the system of independent checks is reduced and because of possible cooperation in covering up corrupt practices. Should incidents of corruption be associated with a lack of separation of functions, the negative impact on the EEA and Norway Grants would be particularly high. In order to manage corruption risks, the regulations foresee each beneficiary state establishing and publicising a "complaint

¹⁵ The integrity due diligence process involved evaluating programme documents, establishing facts sheets, collecting and checking CVs, sending out surveys to stakeholders, checking professional watch lists, and searching news databases.

¹⁶ Country corruption risk was based on grouping countries according to TI's Corruption Perceptions Index, qualified by a more detailed analysis of each country's efforts to tackle corruption as assessed by National Integrity System Assessments and other relevant reports. This included evaluation of (a) the legal anti-corruption framework (and its implementation), (b) the performance of the anti-corruption institutions, including anti-corruption agencies and prosecution agencies, and (c) the national anti-corruption strategy, including the political will to develop and enforce it.

¹⁷ The methodology originally envisaged assessing the per capita share of grants for each beneficiary state. However, this was amended to absolute grant size following consultation with stakeholders.

mechanism” that will provide a channel for the confidential reporting of corrupt practices. A missing or inadequate complaint mechanism triggers a “red flag” indicating a higher exposure to corruption risk.

Programme-level criteria

1. **Grant allocation to individual programme areas:** It is assumed that programmes receiving higher levels of funding (relative to other programmes in a country), *or* which operate in more corruption-prone sectors,¹⁸ *or* which have one or more projects with particularly large grant allocations, *or* which involve extensive public procurement are more at risk due to the greater financial incentives and potential opportunities for corrupt practices.¹⁹ The negative impact of corrupt practices might also be greater due to the higher expected damage they would produce.
2. **Donor partnership programmes:** Depending on the specific role of donor partners, donor partnership programmes may be less exposed to corruption risks. Should corrupt practices nevertheless occur, the negative impact on the EEA and Norway Grants and bilateral relations may be particularly high.
3. **Programmes including pre-defined projects:** Pre-defined projects are exempt from open competition that applies to the regular project selection procedures. This may expose them to higher corruption risks. The level of risk exposure depends on the degree of transparency surrounding the setup of pre-defined projects, whether they involved a donor partner, the presence of possible conflicts of interest between the programme operator and project promoter, and any association of the project promoter institution and key personnel with integrity issues. Should corruption occur in pre-defined projects, the impact could be high, depending on the amount of funding allocated and its strategic relevance.
4. **Integrity of programme operators:** Given the role of the programme operator²⁰ in the selection and oversight of projects, any doubts regarding its integrity may raise the risk exposure. Generally, should corrupt practices involving the programme operator occur, the impact might not only jeopardise the programme itself, but also compromise the entire EEA and Norway Grants scheme within the beneficiary state, in particular if the incidence is not revealed by the overseeing national entities. Specifically:
 - The programme operator’s integrity may be compromised if there are any indications of a conflict of interest with selected project promoters.
 - If a key staff member of the programme operator is regarded as a “politically exposed person”²¹ this may also increase the risk exposure. Politically exposed persons represent a greater corruption risk because their position of power may make them more prone to corruption. The “politically exposed person” status of a key staff member affects the rating of risk exposure only in combination with other relevant risk indications as described below.
 - Any recent allegation²² of irregularities related to former or current key staff of the programme operators is considered a “red flag” that may compromise the

¹⁸ The extent to which different sectors are perceived as corruption prone varies from country to country. The rating was based on programme-specific surveys in each country.

¹⁹ The existence of one or more of these scenarios may increase risk exposure.

²⁰ A programme operator can be a public or private entity, commercial or non-commercial, as well as a non-governmental organisation (Art. 1.5 of the Regulation). In most cases, programme operators are sector ministries.

²¹ According to Transparency International’s 2014 Financial Transparency Glossary: “Politically Exposed Persons are individuals who hold or held a prominent public function, such as the Head of State or government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, or important political party officials. The term often includes their relatives and close associates. Banks and other financial institutions are supposed to treat these clients as high-risk, applying enhanced due diligence at both the start of the relationship and on an on-going basis, including at the end of a relationship to ensure that the money in their bank account is not the proceeds of crime or corruption.” http://www.transparency.org/whatwedo/publication/financial_transparency_glossary

²² Allegations of irregularities over the past four-five years.

programme operator's integrity (regardless of whether these persons were involved or not in the management of the EEA and Norway Grants). The fact that corruption or irregularities have affected a programme operator institution in the recent past suggests that this institution may not have adequate prevention mechanisms in place, which could directly affect the management of the EEA and Norway Grants.

- Relevant news reports about programme operators were also taken into consideration, even if they were not further substantiated, as they create a reputational risk for the donor states.

ADDED VALUE AND LIMITATIONS OF THE METHODOLOGY

Overall, this pilot experience has received much support from the parties involved and greatly benefited from their collaborative attitude throughout the implementation period. As a pilot exercise, the corruption risk assessment has been subject to particular scrutiny and evaluation. This has resulted in an open discussion about the added value and limitations of the methodology from which lessons can be drawn for the implementation of similar exercises in the future. These lessons include the following:

- Rating each criterion according to one of three categories of risk exposure (low, medium, high) has resulted in a large number of programmes assessed as medium risk. This makes it challenging to filter and prioritise mitigation measures. At the same time, the detailed information provided for each assessment addressed this challenge to a certain extent. Nevertheless, the introduction of a five point scale (low, medium-low, medium, medium-high, high) could be considered in future to enable clearer interpretation of the results.
- Country corruption risk (criterion 1) was considered mainly in relation to the other countries covered by the risk assessment rather than in absolute/global terms. Likewise, net grant amounts to each country as well as to programmes (criteria 2 and 4) were considered in relation to the total amount of EEA and Norway Grants rather than in absolute terms or relative to larger funding mechanisms such as the EU Structural Funds. This was seen by some as overstating the extent of corruption risk in the EEA and Norway Grants in relation to larger funding mechanisms. Future similar exercises may therefore reconsider this approach. However, in the context of the present risk assessment the focus was on identifying corruption risks and their potential impact in the specific context of the EEA and Norway Grants mechanism.
- It became apparent through the piloting experience that the question of donor partner involvement may not have been responsive enough to the various permutations of the programme setups or designs. While the assumption was that third-party involvement would lead to risk reduction, NFPs pointed to the fact that donor partners may not always be sufficiently involved in the implementation of the EEA and Norway Grants in order to identify corruption risks. This criterion could be revised in future to respond more effectively to the different possible ways for the donor partners or other third parties to be involved in the management of the EEA and Norway Grants.
- With regard to criteria 6 and 7, it should be noted that the integrity due diligence approach to assessing these criteria was informed, among other sources, by media reports that varied in terms of reliability and timeliness from country to country. The identification of politically exposed persons as a potential risk factor was challenged in some cases. Nevertheless, this approach is based on the standard practice in the private sector where politically exposed persons are generally considered to be exposed to increased risk.
- The different timing of the assessments across all 14 countries inevitably means that information on certain countries is more up-to-date than for others. In some beneficiary

states, key personnel left the NFPs or programme operators after completion of the assessment. More recent news reports may since have been published but could not be taken into account in the assessment. Mitigation measures may also have been taken since the assessment was completed to address some of the identified risks. While such limitations are to some extent inevitable, it is acknowledged that the issue of timing should be better addressed for future similar exercises. In the context of the present risk assessment experience, the NFPs were given the opportunity to present more up-to-date information and mitigation measures in their responses to the corruption risk assessment, as presented in Annex 2 to this report.

Overall, useful lessons can be drawn from the implementation of the corruption risk assessment methodology to inform similar exercises carried out in the future. In spite of its limitations, the corruption assessment is deemed a useful tool to identify and highlight potential corruption risks and to give the insights that are required to develop targeted mitigation measures. A particular value was seen in the fact that an external actor implemented the assessment. This has not only helped to reduce the complexity of the risk context, but also provided valuable expert advice to those managing the EEA and Norway Grants. The process and findings were discussed regularly among all parties involved during annual seminars organised by the FMO. In this way, the process helped to shape awareness and understanding of corruption risks as well as ways and means to address them.

OVERVIEW OF CORRUPTION RISK IN THE EEA AND NORWAY GRANTS

The results of the risk assessment have revealed different levels of corruption risk – high, medium and low – across the whole EEA and Norway Grants scheme, calling for different levels of attention. Country-level risks are present in almost all beneficiary states, while there are different clusters of programme-level risks related to different actors in the EEA and Norway Grants mechanism that require targeted and context-specific action.

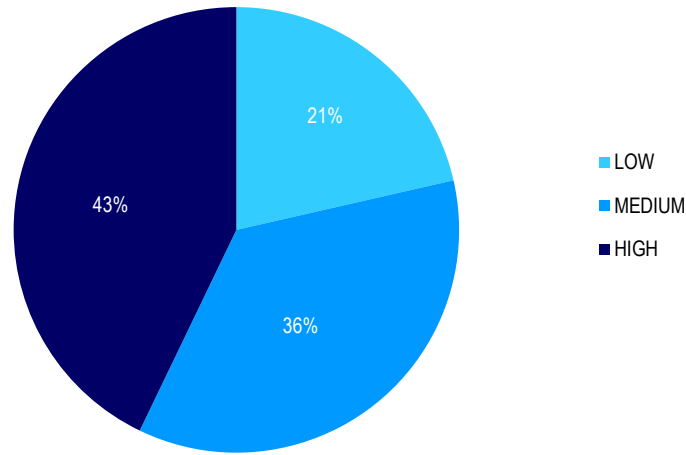
COUNTRY-LEVEL RISKS

With one exception (Estonia), all beneficiary states were assessed as being exposed to medium or high corruption risks at the country level. This suggests that, as a general rule, corruption should be treated as a systemic risk across the EEA and Norway Grants. In addition, those countries with a high total grant allocation should be given special attention, particularly for programmes that have one or more projects with particularly large grant allocations (e.g. more than 1/3 of total programme funding), which operate in sectors that are more prone to corruption (this varies from country to country), or that involve extensive public procurement (e.g. construction or purchase of equipment).

Of the country-level risks assessed, the question of separation of functions and the functioning of the complaint mechanisms within the EEA and Norway Grants structure demands the greatest attention, being rated as high risk in more than 40 per cent of countries, namely Cyprus, Czech Republic, Greece, Romania, Slovakia and Spain. In all high-risk cases, this was due to a *combination* of limited separation between the NFP and other actors and the fact that the complaint mechanisms either did not conform to the required standard or were non-existent. It is important to acknowledge that in two cases (Czech Republic and Slovakia) the concentration of functions is explained as a deliberate strategy to mitigate corruption risks attached to certain institutions. Nevertheless, as a fundamental principle, it is critical to ensure that the different actors managing the EEA and Norway Grants at the country level carry out their functions independently of each other in order to avoid potential conflicts of interest. At the same time, a well-functioning complaint mechanism acts as a crucial channel for the confidential reporting of alleged corrupt practices.

From the point of view of risk management, both of these areas are ones over which beneficiary states have substantial control, and hence mitigation efforts should be (and in many cases have been) prioritised in these areas in the respective countries. In particular, it is encouraging to note that strengthening of complaint mechanisms features prominently in the actions implemented by beneficiary states to address the risk identified through the risk assessment (see overview of risk mitigation measures).

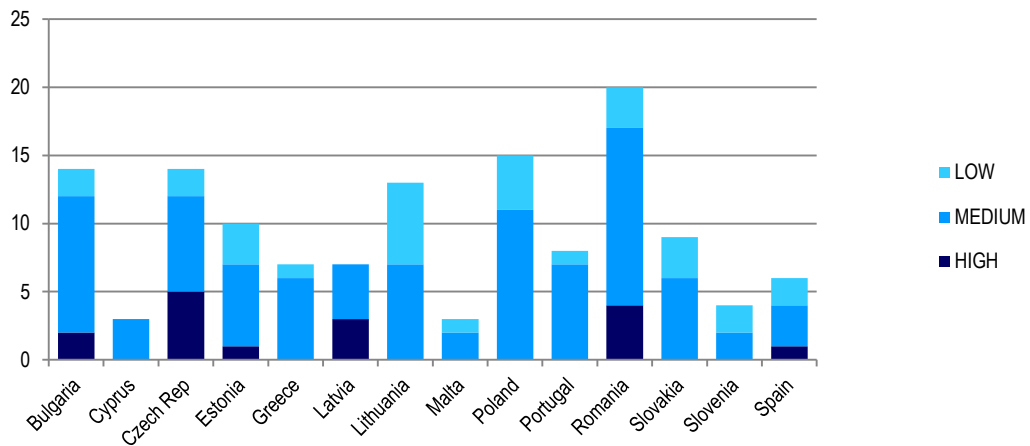
Figure 2: Risk levels relating to separation of functions and complaint mechanisms across all beneficiary states



PROGRAMME-LEVEL RISKS

The number of programmes assessed varies from country to country, ranging from 20 in Romania to three in Cyprus and Malta (see Figure 3 below). The assessment has revealed that the picture varies substantially across countries. While eight of the beneficiary states have no high-risk programmes, the remaining six have between one and five programmes that face high corruption risks.

Figure 3: Number of programmes per country according to risk level

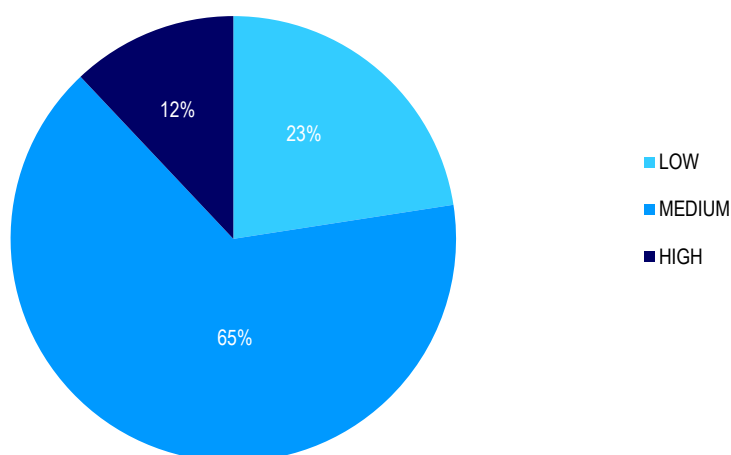


In total, 23 per cent of programmes across the EEA and Norway Grants were rated as low risk, 65 per cent were rated as medium risk, and 12 per cent were rated as high risk, requiring particular

attention. In most cases a high risk rating is the result of more than one criteria being rated high risk, which suggests that multiple areas within a programme need to be addressed. This is particularly true for the five programmes under the EEA and Norway Grants for which both programme operators and pre-defined projects were rated as high risk. Given the role that programme operators play in overseeing pre-defined projects, this combination of risks should be closely monitored.

While the large number of programmes rated as medium risk is partly a result of the methodology applied, it nevertheless indicates that there are some recurring weaknesses in the EEA and Norway Grants scheme at the programme level that should be addressed. Thus programmes that are rated at medium risk exposure also require attention, in particular those programmes that contain at least one criterion rated as high risk. 45 per cent of medium-risk programmes fall within this category. In 15 per cent of medium-risk programmes, the high-risk criterion is related to pre-defined projects or programme operators and should therefore command particular attention (see above). In the remaining 30 per cent of cases, the high-risk criterion is related to the grant allocation to the programme, possibly in combination with risks attached to a particular sector, large projects and extensive procurement.

Figure 4: Proportion of assessed programmes under the EEA and Norway Grants according to risk level



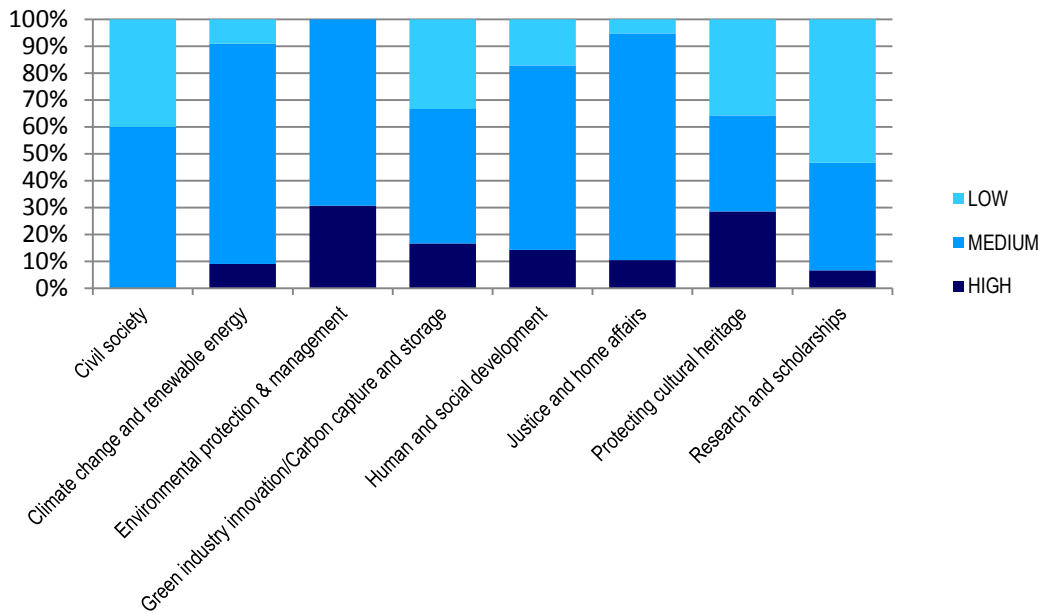
Most risk-prone programmes

In terms of the main programme areas covered by the EEA and Norway Grants, the least risk-prone areas – proportional to the number of programmes per country – are in the fields of civil society and research and scholarships (only 3 per cent of programmes operating in these areas were rated as high risk). In contrast, two out of the three most risk-prone areas are in the fields of environment and clean technology²³ (26 per cent of programmes operating in these areas were rated as high risk). This can be explained by a combination of factors including a greater tendency for procurement risks in these sectors due in part to purchase of construction material and other equipment, a number of

²³ Namely: environmental protection and management, green industry innovation, and carbon capture and storage. For the purposes of this analysis, green industry and innovation and carbon capture and storage are combined.

conflict of interest cases between programme operators and project promoters, and questions surrounding the integrity of the programme operator institutions responsible for the management of the relevant programmes in a number of countries.

Figure 5: Breakdown of programme sectors according to risk level across all countries



Most risk-prone areas within programmes

In terms of the most critical corruption risks *within* programmes themselves, pre-defined projects and the integrity of programme operators represent a high risk for around 15 per cent and 10 per cent of programmes respectively, and in the latter case represent a medium risk in a further 55 per cent of programmes. In the case of pre-defined projects, the most common drivers of risk tended to be a combination of conflicts of interest between programme operators and project promoters and questions about the integrity of project promoters themselves. In the case of the integrity of programme operators, high risk was most often associated with conflict of interests involving the programme operator institution, questions about the integrity of key personnel, or past failures to comply with procurement procedures. These are all areas that require attention given that the potential reputational damage implied in these risks is particularly high, for both the beneficiary and the donor states.

Figure 6: Risk levels related to pre-defined projects

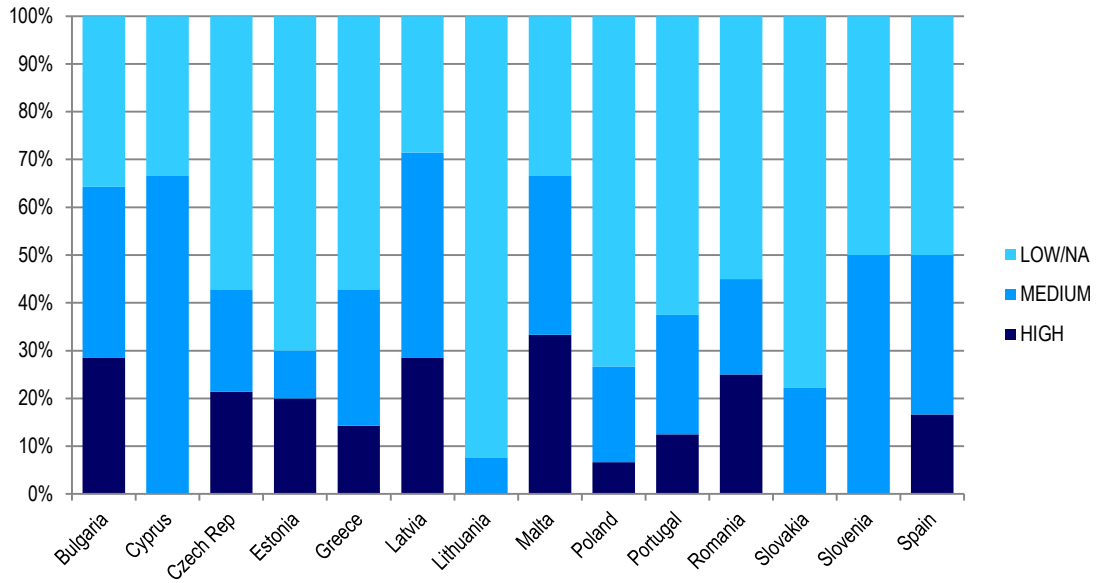
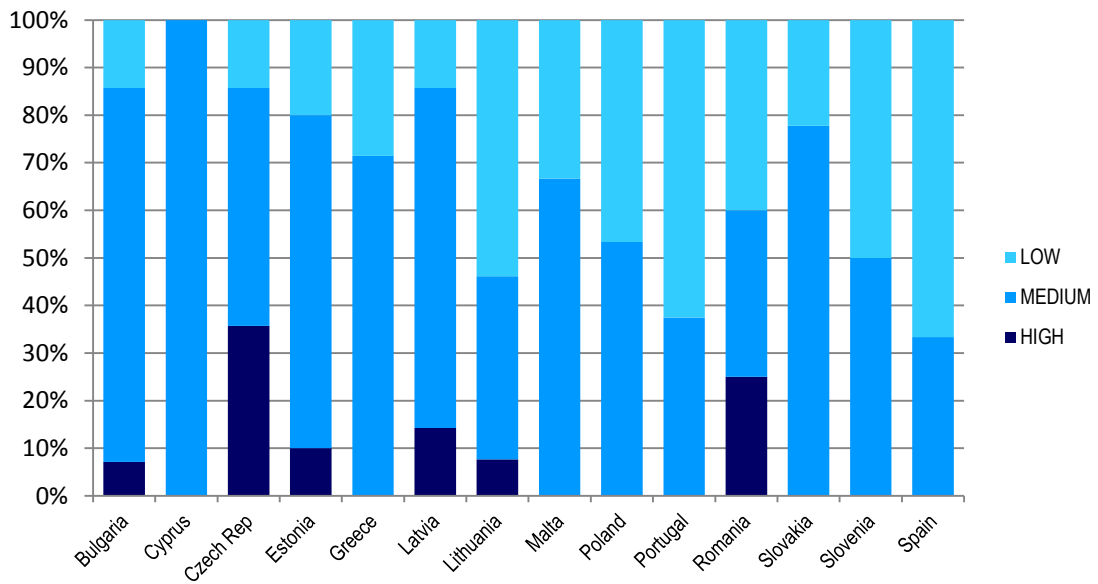


Figure 7: Risk levels related to programme operators



OVERVIEW OF RISK MITIGATION MEASURES

Based on the results of the corruption risk assessment, the beneficiary states have begun developing and in some cases implementing targeted mitigation measures to address the identified risks. In most cases, these measures target medium- and high-risk areas. They are largely to be implemented by NFPs and programme operators, in some cases in collaboration with the FMO depending on the level at which each measure is targeted (country, programme or project level). The targeted mitigation measures presented here are designed to be complementary to the existing anti-corruption mechanisms already built into the EEA and Norway Grants scheme (see introduction). To date, over 50 mitigation measures have been proposed by the beneficiary states. This chapter presents an overview of the types of measures envisaged or implemented and highlights a few promising measures that may be considered for replication by others. In line with the structure of the assessment, the measures are divided into country-level and programme-level. For a comprehensive list of mitigation measures per country and responses from NFPs to their risk assessments, please refer to the individual country annexes to this report.

COUNTRY-LEVEL MEASURES

The introduction of national-level anti-corruption measures in some countries represents an important bulwark against corruption with a positive impact on the implementation of the EEA and Norway Grants. As noted under the methodology section, heightened corruption risks at the national level may filter down to endanger the management of the EEA and Norway Grants and implementation of programmes and projects. As a result, it is important to also consider mitigation measures that, although not directly under the control of the FMO or NFPs, create a more favourable environment for clean implementation of the EEA and Norway Grants.

Anti-corruption reforms

One such example is the recent *introduction of whistleblower protection legislation* in Slovakia. The enactment of this law is relevant to the EEA and Norway Grants as it aims at guaranteeing legal protection to staff who might report suspected irregularities in the EEA and Norway Grants scheme in the country, should such a situation arise. While the enactment of the law is a positive step, it is too early to tell to what extent it will effectively be implemented in practice.

A particularly promising practice is the approach of *streamlining mechanisms to address corruption risks in the management of all external financial assistance* more generally. Thus, for example, in Latvia, the Corruption Prevention and Combating Bureau (CPCB) has recently elaborated a set of Guidelines for Corruption Prevention 2015-2020 incorporating strategic policies and specific activities to be implemented by assigned institutions for the protection of foreign financial assistance instruments, including the EEA and Norway Grants. Under the CPCB Guidelines, the Latvian public sector will organise: (a) methodological trainings for procurement experts to decrease the number of violations of public procurement procedures, and (b) trainings for procurement specialists to develop

their capacities to identify alleged illegal activities in the stage of bid preparation (e.g. cartel agreement) by using preventive measures. In Bulgaria, meanwhile, a number of working groups have been established with the goal of analysing the existing legal framework, the implementation of the Public Procurement Act and the European Commission methodology for financial corrections, with a view to proposing a standard approach and specific law on the management of European funds, including the EEA and Norway Grants.

Complaint mechanisms: closing the enforcement gap

Effective complaint mechanisms are a key tool to identify and prevent corruption and other malpractice. The regulation requires the establishment of such mechanisms. Nevertheless, the corruption risk assessment found that in many cases these mechanisms were either not in place at all or not advertised in a prominent way.

In the process of the risk assessment, all beneficiary states have either established and publicised their complaint mechanism, or have committed to do so, in compliance with the regulation. In the Czech Republic, for example, the complaint mechanism was made more visible and more contact details were included in October 2014, while there are plans to develop an online form for submission of complaints. In Latvia, the complaint mechanism on the NFP's website has been updated according to the suggested checklist (see box). Slovakia and Spain also plan to make use of the checklist, while Spain has taken the added initiative of developing a programme-specific complaint mechanism for the only programme that was rated as high risk in the country. Likewise, Poland has published the complaint mechanism on the websites of both the NFP and the programme operators and ensures that complaints can also be submitted by phone.

THE NEED FOR EFFECTIVE COMPLAINT MECHANISMS

There are indications that not all complaint mechanisms comply with good practice. For example, follow-up on complaints should be ensured, the complainant should have the possibility to remain anonymous and the handling of the complaints should be done independently. In order to support the strengthening of complaint mechanisms and operationalise the requirements in the regulation, Transparency International has developed non-binding guidance documents in consultation with national focal points. A tailor-made checklist for effective complaint mechanisms has been developed, outlining the scope and responsibilities, the reporting channels and formats that should be in place, and guidance on how to handle and refer complaints and keep complainants informed throughout the process. These principles are still to be implemented in many beneficiary states.

PROGRAMME AND PROJECT-LEVEL MEASURES

The second group of mitigation measures comprises those that are targeted at the programme and/or project level within the EEA and Norway Grants in a particular country. In most cases, these measures have been designed by the NFPs or the programme operators in response to the corruption risk assessment. They generally aim to increase levels of accountability and oversight within grant management processes or to strengthen capacity and ethical conduct of key personnel involved in programme implementation.

Enhanced monitoring and oversight of specific programmes

The largest cluster of programme-level mitigation measures covers enhanced monitoring and oversight of specific programmes, especially those rated as medium or high risk. These measures involve a range of approaches including (but not limited to):²⁴

- (a) *close cooperation and communication between partners (NFPs, donors, programme operators and others), which increases the chances of detecting irregularities*: Such cooperation includes regular meetings (such as Cooperation Committee meetings,²⁵ participation of the NFP as an observer in Selection Committees meetings²⁶) and reporting (providing donor partners with interim financial reports,²⁷ providing translations of strategic documents and plans,²⁸ sharing the corruption risk assessment results with audit and certifying authorities²⁹).
- (b) *internal review of cases of suspected irregularities*: In Bulgaria the NFP envisages setting up an internal commission to investigate suspicions of irregularities in the EEA and Norway Grants scheme.
- (c) *ex-ante and ex-post verification of procurement documents, procedures and expenditures*: The Latvian NFP conducts monthly monitoring of planned and actual expenditures. In Lithuania an external agency, the Central Project Management Agency, conducts ex-ante verification of procurement documents and project selection procedures as well as ex-post verification of procurement procedures during verification of eligibility of expenses.
- (d) *independent auditing and programme evaluation*: In Spain, one programme operator has contracted an independent audit company to verify the expenses reported in every interim financial report issued. In Poland, meanwhile, programme operators ensure the use of external institutions to carry out the evaluation of programmes.
- (e) *regular on-site monitoring of projects (in particular pre-defined projects)*: In Malta, under one programme, on-the-spot checks are being carried out following award of contract and prior to verification of first expenditure. This represents an upgrade of the programme operator's obligation in the original plan, which was to perform one on-site visit per programme per year. Regular inspections (desk and on-site controls) of projects are also carried out under one programme in Poland and may be performed by an external audit company for one programme in Spain.

²⁴ Examples are illustrative of the types of measures implemented and do not necessarily include all relevant measures in all countries.

²⁵ E.g. Latvia, Poland, Spain

²⁶ E.g. Bulgaria, Portugal, Spain

²⁷ E.g. Poland, Spain

²⁸ E.g. Poland

²⁹ E.g. Portugal

SLOVAKIA:

A Public Procurement Control Department has been set up under the structure of the NFP to carry out ex-ante and ex-post controls of public procurements. Cooperation with the Antimonopoly Office of the Slovak Republic has resulted in greater understanding among project promoters of how to increase competitiveness in public procurement and detect possible collusion and other unfair business practices in public procurement. An external company has been contracted to check the effectiveness of purchases. Two seminars for project promoters, focused mainly on public procurement and collusion, have already taken place, with more seminars planned for 2015. The ex-ante control of public procurement has uncovered many technical but also several issues in the preparation of public procurement documents.

Enhanced integrity mechanisms

A few countries require staff responsible for implementing programmes to adhere to enhanced integrity mechanisms, including the provision of written statements on compliance with ethical rules, declarations of conflicts of interest and the submission of declarations of assets. In Slovakia, due to the politically exposed status of the NFP and programme operator, its dual role and negative news reports, under all programmes operated by the NFP, several tasks have been delegated to the working level, in order to mitigate the risk of political exposure. In Poland, an anti-corruption policy is being developed for one programme operator that will set uniform standards for the programme operator's staff and cooperating experts. Among other things, the policy imposes mandatory reporting on identified corruption for all staff members.

Training courses and materials

Some countries also provide a range of *training courses and materials* on risk management and/or procurement monitoring in the EEA and Norway Grants (see box). In Poland, programmes operating in the health sector are required to adhere to specific lobbying guidelines designed to reduce corruption risks in that sector.

Additional human resources

In recognition of capacity constraints affecting the implementation of certain programmes, there have been a few cases where *additional human resources* have been assigned to specific programmes. In Latvia, for example, additional staff was hired to ensure timely execution of the programme operator's functions under one of the programmes rated as high risk. An official request was sent to the Ministry of Education and Science (MoES) for improvement of staff capacity for the Research and Scholarships Programme. As a result, an additional employee in the MoES (senior official of Structural Funds and International Financial Instruments Department) was appointed, whose primary duty is directly related to the execution of the programme operator's functions. Two other employees – the departmental director and deputy director – are involved when necessary and additional employees of the programme's implementing agency are involved in the execution of the programme operator's functions delegated by the MoES.

In Poland, meanwhile, a dedicated team for counteracting healthcare fraud and corruption has been operating for several years in support of two medium-risk programmes operating in the health sector. Also in Poland, the programme operator established a proxy director general of the prison

service for prevention of corruption in the prison service to lead on educational and preventive activities among prison staff.

LATVIA:

Trainings on risk management in EU Structural Funds and the EEA and Norway Grants finished at the end of 2014. Trainings included three parts (theoretical, strategic, practical) and focused on basic principles of risk management, identification and assessment of risks, determination of risk appetite and risk tolerance, risk mapping, mitigation and monitoring principles, and IT tools. As a result of the training, proposals on the Risk Management Strategy were developed based on a deep risk assessment. During the assessment, risks related to the EEA and Norway Grants, including corruption and fraud risks, were analysed and the main national level risks were defined. Taking into account the recommendations and conclusions expressed in the report, the Ministry of Finance has elaborated a new procedure for the risk management of EU funds, the EEA and Norway Grants and Swiss contributions and has updated the Risk Register template, which was approved in the risk management group meeting on 19 December 2014. The newly elaborated procedure determines the main risk groups, risk appetite and risk tolerance, and new scales for likelihood and impact (adjusted to the EEA and Norway Grants); it also stipulates the responsibility of each department and its officials. The enhanced Risk Register is more transparent and comprehensible (one sheet for each risk), and methods for filling out the risk register are clearly described in the aforementioned procedure.

CONCLUSIONS AND RECOMMENDATIONS

The corruption risk assessment has proved to be a useful pilot exercise and is testimony to a strong collaborative effort on the part of the donors, beneficiary states, Transparency International and the Berlin Risk Institute. It has demonstrated that while the EEA and Norway Grants scheme incorporates strong anti-corruption mechanisms, there is room for improvement, in particular regarding the implementation and enforcement of the regulations. Across the scheme, various levels of corruption risks have been identified, calling for different levels of attention. The exercise has contributed to shaping awareness and focusing attention regarding prevailing corruption risks and the need to manage these risks in a proactive way. Most importantly, it has resulted in the identification, development and implementation of a wide range of mitigation measures at both country and programme levels.

This exercise has also revealed that the corruption risk assessment methodology is a tool that can yield concrete results and can be used by public grant mechanisms to identify and assess corruption risks. Even though the methodology was developed in consultation with all interested and affected parties, questions around some of the criteria have nevertheless arisen during the assessment process, indicating the need for further improvement.

Overall the risk assessment has looked at specific risk areas in each country and programme of the EEA and Norway Grants. The detailed analysis of each programme shows where these risks lie and provides the basis to develop targeted mitigation measures. These measures should be proportional to the level of risk identified and to the resources available. To enhance the capacity of NFPs and programme operators to mitigate the risks, measures such as trainings or knowledge transfer among beneficiaries in different countries should be considered.

Overall, the following areas are central to minimising risk of corruption in the implementation of the EEA and Norway Grants as a whole:

- **Transparency:** Ensuring full compliance with the regulation and a high level of transparency throughout the EEA and Norway Grants. Comprehensive and easily accessible information plays an important role in curbing corruption, as it allows the public to identify possible cases of malfeasance and make use of available reporting mechanisms.
- **Accountability:** Ensuring that each beneficiary state has a well-functioning and well-publicised complaint mechanism for the confidential reporting of alleged corrupt practices. It is critical for complaints to be adequately processed and followed up and there are indications that this might not always be the case. Therefore, the next step should be to ensure that all complaint mechanisms comply with good practice and key principles such as independence, confidentiality and anonymity, accountability and responsiveness. The quality and effectiveness of complaint mechanisms established by NFPs and programme operators should be monitored regularly.
- **Separation of functions:** Ensuring that the different actors carry out their functions independently of each other unless there is a strong reason to concentrate roles under one particular institution. This is critical to avoiding potential conflicts of interest.

- **Managing conflicts of interest:** Assessing the precautionary measures taken by programme operators to disclose and handle conflicts of interest linked to the project selection process, such as publication and verification requirements.
- **Project oversight:** Conducting enhanced monitoring of high-risk areas and programmes and, in particular, of pre-defined projects. While there may be a strong rationale for including pre-defined projects from the perspective of efficiency, they create a higher risk of favouritism, which can be mitigated through closer scrutiny.
- **Due diligence:** Where necessary, conducting enquiries into hidden personal/political connections between winning project promoters and programme operators based on declarations of interest. Enhanced due diligence may also be carried out at the project level to reveal any hidden ties between the contracting authority and provider.

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