

**TRANSPARENCY INTERNATIONAL SECRETARIAT**

**Corruption Risk Assessment Tool  
for the**

**European Economic Area and  
Norway Financial Mechanism  
2009-2014**

**User's Manual**

**STAGE I: RISK FILTERING**

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## **Abbreviations**

BS	Beneficiary State
EEA	European Economic Area
EFTA	European Free Trade Area
FM	Financial Mechanism
FMC	Financial Mechanism Committee
FMO	Financial Mechanism Office
MoU	Memorandum of Understanding
NFP	National Focal Point
NMC	National Monitoring Committee
NMFA	Norwegian Ministry of Foreign Affairs
NPE	“National Public Entity”
PO	Programme Operator
PP	Project Promoter
RFRM	Risk Filtering and Ranking Method
SC	Selection Committee
TI-S	Transparency International Secretariat

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## **PART I: INTRODUCTION AND BACKGROUND**

### **OUTLINE OF THE MANUAL**

The following manual describes the process of applying the corruption risk assessment tool, which has been developed in the context of the framework co-operation agreement between Transparency International Secretariat (TI-S, Berlin) and the Financial Mechanism Office (FMO, Brussels). The latter is responsible for managing the European Economic Area and Norway Financial Mechanisms 2009-2014. Within this framework, TI-S agreed to develop a methodology and a tool for assessing the corruption risks affecting the Financial Mechanism (FM) which can also be applied to all Beneficiary States (Art. 2-1).<sup>1</sup>

In accordance with this assignment, the tool aims to identify and prioritise corruption risks concerning the in-country grant management process of the FM in the 15 Beneficiary States (BS). The tool shall eventually serve the purpose of suggesting adequate risk mitigation measures.

Based on a holistic methodology, the “Risk Filtering and Ranking Method” (FRFM), the corruption risk assessment shall be carried out in two stages, by using a corruption risk filtering tool and a corruption risk ranking tool sequentially for each BS. The risk filtering tool shall identify those FM programmes in a BS which face an increased risk of corruption. Regarding these critical programmes, the risk ranking tool shall then be used to conduct an enhanced operational assessment of particular corruption risk scenarios.

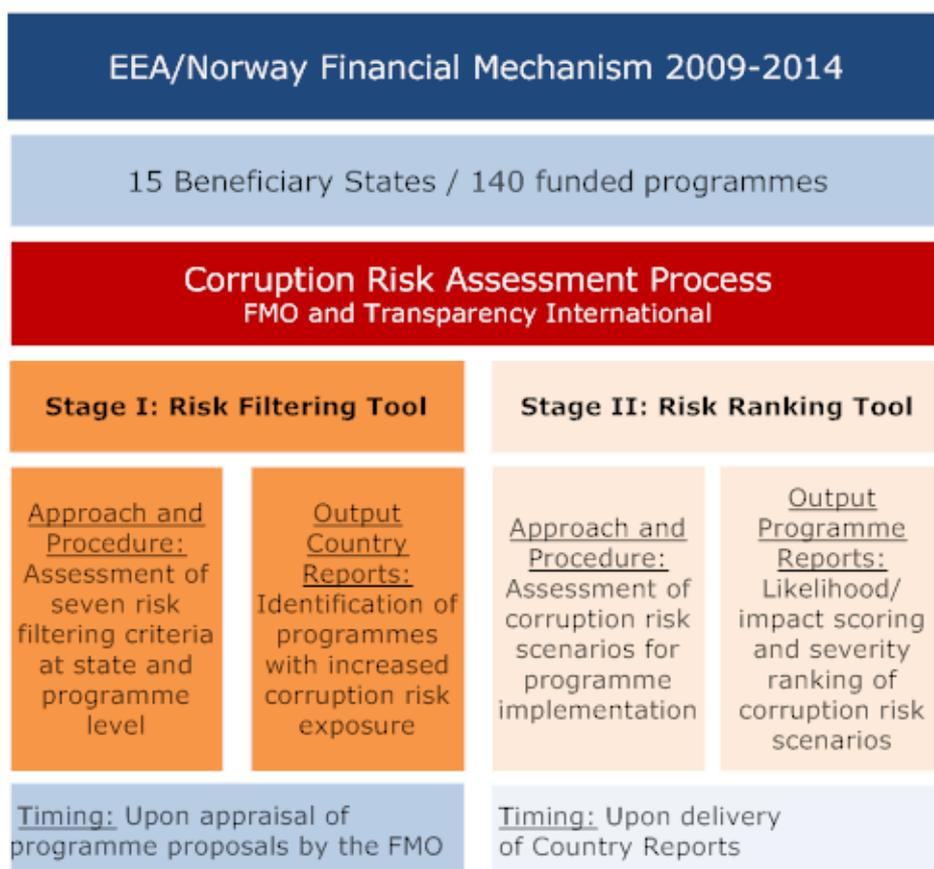
The figure on the following page provides an overview of the entire corruption risk assessment process, with the risk filtering in stage one highlighted in orange.

The risk filtering tool is meant to be applied by a single entity assigned by TI-S with the task of executing the first stage of the corruption risk assessment process. The output of this stage shall be reports which, for each BS, contain a substantiated classification of the individual programmes within a country’s programme framework, as being at low, medium or high risk of corruption during the implementation phases.

Research for a country report can be conducted when a significant majority of the programme proposals are received at the FMO for appraisal. The final country report will be submitted when all programmes have been reviewed within stage one.

Based on the results of the risk filtering stage for each BS, the risk ranking tool in stage two shall be applied on a national level by independent experts appointed by TI-S. The output of the second stage shall be reports on each filtered-out programme assessing and ranking specific corruption risk scenarios related to the initial implementation phases of “calls for proposals”, “selection of projects”, and “subcontracting and procurement”.

Figure 1: Overall design of the corruption risk assessment process



In order to be able to apply the risk filtering tool and the risk ranking tool sequentially by different users, as lined out above, the manual is delivered in two separate documents. The manual for each stage contains the necessary background information about the Financial Mechanism and the risk assessment methodology plus a detailed guidance through the risk filtering or the risk ranking process, respectively.

The present manual concerns the tool for Stage I: Risk Filtering, and is organized as follows.

**PART 1 Background information about the EEA/Norway Financial Mechanism 2009-2014**

This part provides a concise summary of the general characteristics of the grants scheme, including references to relevant regulations and an overview of the organisational structure. It then introduces the methodology which has been pursued in order to develop the corruption risk assessment tool, namely the Risk Filtering and Ranking Method (RFRM).

**PART 2 Risk Filtering Tool**

This part provides detailed guidance on the process of conducting the risk assessment in stage one, the risk filtering procedure, in order to identify those programmes in each BS which may face, *a priori*, increased corruption risks. Also included in this part are instructions on how to rate the seven criteria regarding the corruption risk exposure of each programme and how to aggregate the results. The programmes filtered out in this stage shall be subjected to the second, risk ranking stage of the corruption risk assessment process.

### *PART 3 Risk Filtering Report*

This part provides some suggestions on how to present the results of the risk filtering procedure in the country reports.

## **BACKGROUND TO THE FINANCIAL MECHANISM**

Within the framework of the European Economic Area (EEA) and Norwegian Financial Mechanisms for the period 2009-2014, the EEA EFTA states Iceland, Liechtenstein and Norway will provide a total of EUR 1.79 billion to 15 Beneficiary States (all member states of the European Union), including Bulgaria, the Czech Republic, Cyprus, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain (in Greece, Portugal and Spain funding is limited to the EEA Financial Mechanism).

The overall objectives of the grants are to contribute to the reduction of economic and social disparities in the European Economic Area and to strengthen bilateral relations between the Donor States and the Beneficiary States. The EEA grants amount to EUR 988.5 million and are financed by Iceland, Liechtenstein and Norway (95 %). The grants within the Norwegian Financial Mechanism comprise EUR 800 million and are being exclusively financed by the Norwegian state.

The EEA/Norway FM 2009-2014 will fund projects in 32 programme areas and eleven priority sectors. The priority sectors for the EEA grants include Environmental Protection and Management, Climate Change and Renewable Energy, Civil Society, Human and Social Development, Protecting Cultural Heritage, Research and Scholarship. The Norway grants will support programmes in the priority sectors Carbon Capture and Storage, Green Industry Innovation, Decent Work and Tripartite Dialogue, Research and Scholarship, Human and Social Development, and Justice and Home Affairs. Information about the programme areas within these sectors can be obtained on the EEA/Norway grants website.<sup>ii</sup>

The Donor States and each Beneficiary State agree on the specific funding of different programmes by signing a Memorandum of Understanding (MoU), one for the EEA grants and a second for the Norway grants. The MoU also describes how the implementation of the programmes will be organised and managed in each BS. All MoU are available on the website of the EEA/Norway grants scheme and are essential background documents for the application of the corruption risk assessment tool as described in this manual.<sup>iii</sup>

The preceding reference documents on which all MoU are based, are the “Regulation on the implementation of the European Economic Area Financial Mechanism 2009-2014” and the “Regulation on the implementation of the Norway Financial Mechanism 2009-2014”.<sup>iv</sup> The two regulations differ with respect to the funded programme areas (within the aforementioned priority sectors) and some organisational features. It should be noted that the EFTA states established a Financial Mechanism Committee (FMC) to manage the EEA grants, whereas the Norway grants are managed by the Norwegian Ministry of Foreign Affairs (NMFA). The day-to-day management of both financial mechanisms is, however, operated by the Financial Mechanism Office (FMO), located in Brussels (*see organisational chart below in figure 2*).

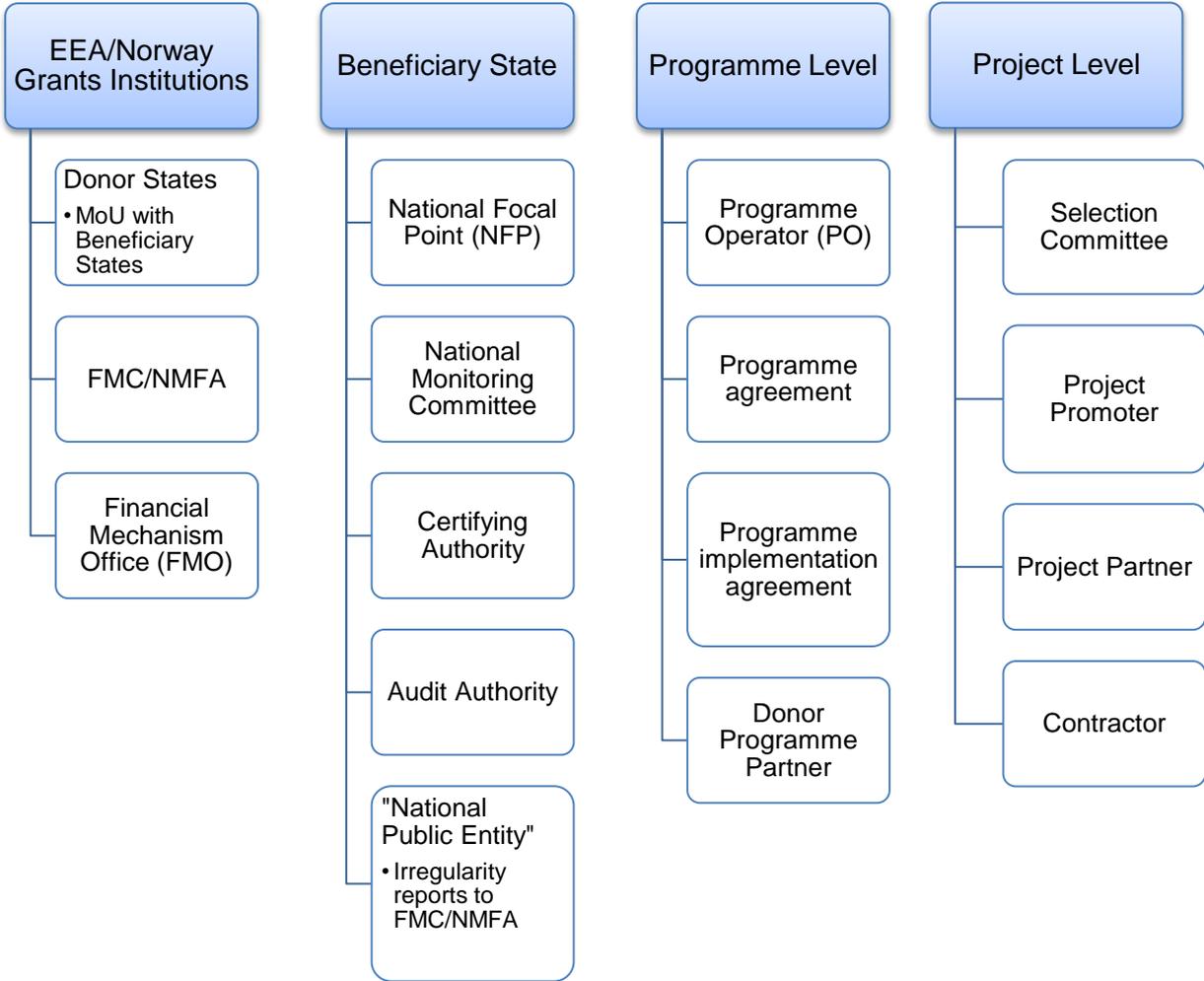
The two regulations are similar in their anti-corruption provisions, which are also highly relevant for the overall design of the risk filtering and risk ranking stages of this corruption risk assessment tool. In that context, the two separate regulation documents will hereinafter be referred to as the “Regulation”. Also, Liechtenstein, Iceland and Norway will generally be denoted as the “Donor States”.

The Donor States are aware of corruption risks that affect the FM. The “Principles of implementation” (Art. 1.6) stipulate the “highest degree of transparency, accountability and

cost efficiency” in all implementation phases of the FM. The Donor States state that they “exercise zero-tolerance towards corruption”. Other articles within the Regulation address possible “conflicts of interest” regarding the selection of projects (Art. 6.6), and corruption risks affecting the project procurement (Art. 7.16). Chapter 11 concerns all kinds of “irregularities” which might compromise the implementation of the FM in a BS, including corruption, fraud, bribery or embezzlement (see Annex 1 for Transparency International’s definition of corrupt practices).

The awareness of corruption risks is also related to the new programme approach which represents one of the key features of the EEA/Norway FM 2009-2014. As determined in the Regulation, the Beneficiary States shall primarily be responsible for the management and control of programmes (Chapter 4). A National Focal Point (NFP, see *figure 2*) in each country is assigned the overall responsibility for implementing the MoU (Art. 4.3), and is expected to demonstrate the set-up of “management and control systems” of the Programme Operators (see below), covering in particular “the system for preventing, mitigating, detecting, reporting on and remedying irregularities” (Art. 4.8).

Figure 2: Organisational structure of the EEA/Norway Financial Mechanism 2009-2014



The NFP shall also establish a National Monitoring Committee (NMC), including representatives from relevant ministries, local and regional authorities, civil society, the social partners, and the private sector (Art. 4.4). The 'stakeholders' assembled in the NMC shall review progress made towards achieving the objectives of the FM. The NMC's role is, however, not envisaged as being established as an independent monitoring entity specifically mandated to assess corruption risks.

The critical new actor within the EEA/Norway grants scheme is the institution of the Programme Operator (PO). While the NFP retains oversight of all programme areas, the Programme Operators are *de facto* in control of the implementation of programmes, including project selection, subcontracting, procurement and financial management. The extent to which the PO might be the entry point for corrupt practices affecting the FM, is therefore of particular concern.

It should be mentioned that the FM establishes donor partnerships at the programme and project level (Art. 3.2). These donor partnerships serve the declared strategic goal of strengthening bilateral relations between the Donor States and the Beneficiary States, as defined in the MoU. The direct involvement of selected donor institutions in implementing programmes and projects may reduce corruption risks affecting the respective programme areas in the BS. However, if corrupt practices nevertheless occurred when implementing these programmes, the negative effect on the reputation of the FM, regarding compliance with good governance standards, and the bilateral relations between the Donor States and the BS in question, may be regarded as being particularly high.

## **Corruption Risk Context**

The users of both tools for the corruption risk assessment process should be aware that they are facing an already highly regulated grants scheme structure, including sophisticated anti-corruption mechanisms, which can be mostly regarded as 'best practice' for grant management. According to the FMO, the contents of the FM Regulation are based on experience and insight from previous grant mechanisms. The challenge for developing and applying the risk assessment tools in this regulated environment consists of understanding the critical elements of the Regulation, identifying possible weaknesses and assessing the risks of these weaknesses being exploited by potential perpetrators of corruption (who might also know the Regulation well).

The corruption risk assessment approach is tailored to the requirements of the EEA/Norway FM. Apart from looking into the integrity of legal procedures, a strong emphasis is placed on undertaking *integrity due diligence* regarding the people involved in the operation and implementation of the programmes, and the nature of relevant personal relationships. While compliance with agreed formal rules and 'codes of conduct' is a key foundation of clean processes, the assessment approach pursued here specifically considers the risks that can arise from hidden personal connections and the opportunities for corrupt practices provided by these connections (see [Annex 2](#) for further details on this approach).

As a starting position, the corruption risk context differs at both the level of Beneficiary States (BS) and at the level of single programmes within Beneficiary States (BS). Therefore, all users of the risk assessment tools should take notice of the following fundamental context variables.

### Beneficiary State level

It is assumed that corruption risks affecting the FM might vary considerably from BS to BS. A general assessment of country corruption risks is compiled by Transparency International's *Corruption Perception Index 2011 (CPI)*.<sup>v</sup> Detailed studies on the extent and causes of corruption in the respective countries as well as the effectiveness of national anti-corruption efforts are provided by Transparency International's comprehensive *National Integrity System (NIS) Assessments* (see Annex 3 for detailed information about the state of NIS reports).

Moreover, the total amount of grants provided to the BS range from EUR 4.5 million for Malta to EUR 578.1 million for Poland. The more grants are available in a country, the greater the incentives and opportunities for corrupt practices might become. At the same time, the BS differ in population size, between 400.000 in Malta and 46,7 million in Spain, which suggests comparing the amount of grants per capita available in the BS too. A smaller population size – nine of the BS have less than ten million people – could imply a higher density of personal and public relationships, which may provide more opportunities for collusive behaviour with respect to the implementation of FM programmes.

### Programme level

The exposure of single programmes to corruption risks may also vary considerably, depending on the grants allocated to the programmes, the sector to which they belong, and also on whether they involve large procurement procedures.<sup>vi</sup> It is assumed that programmes receiving higher levels of funding are more at risk than those programmes receiving lower levels, and that programme areas facing higher sector-specific risks will usually be included within the set of programmes which are granted more funding.<sup>vii</sup>

While programmes are normally implemented beginning with a “call for proposals” and a competitive “selection of projects” phase, there are also so-called pre-defined projects which are partly exempted from these procedures. Programmes including pre-defined projects may be differently exposed to corruption risks, depending on the specification of and the process leading to the identification of such projects.

Finally, the corruption risks for each BS must be assessed with respect to the compliance of the programmes' operation with the FM's anti-corruption regulations generally, and the measures taken to ensure the integrity of the implementation process specifically.

Given the heterogeneity of the BS, the expected different exposure of the FM to corruption risks in these countries, and the existing uncertainty regarding the integrity of the programme approach for 2009-2014, the following methodology for the corruption risk assessment process has been applied.

## **THE RISK FILTERING AND RANKING METHOD**

Pursuing a risk-based approach generally means focusing on major risks, which is common practice when analytical and/or managerial resources are limited. In a nutshell, major risks come with those harmful actions and events that may occur more often and can cause greater damage, if they happen. Concentrating on major risks, also for the purpose of effective risk management and mitigation, implies that minor risks may remain unchecked and will have to be tolerated.

The method of choice for corruption risk assessment within the given context is known as the “Risk Filtering and Ranking Method” (RFRM).<sup>viii</sup> This two stage assessment procedure is best

suited for identifying and prioritising risks within complex settings such as the EEA/Norway FM.

The following are the two stages of the risk assessment process according to the RFRM:

- (1) The *risk filtering* procedure serves to reduce complexity and to identify and focus on the most important risk issues. Based on the assessment of defined risk filtering criteria applicable to all objects in question, various levels of risk exposure for each object can be determined. The objects in question within the EEA/Norway grant scheme are the funded programmes in the BS. Those programmes with a higher exposure to corruption risks require enhanced scrutiny and will be included in the following risk ranking stage.
- (2) The *risk ranking* procedure comprises the operational assessment of defined corruption risk scenarios applicable to the implementation phases of all programmes selected in stage one. For each programme, the likelihood and possible impact of each corruption risk scenario need to be assessed and rated. Combined, the likelihood and impact assessments will allow for ranking the respective corruption risk scenarios as being extreme, high, moderate, or low risk.

The present manual document provides guidance for conducting the first stage which is the risk filtering procedure.

## **PART II: RISK FILTERING TOOL**

The risk filtering stage aims to find out which programmes in each BS may face major corruption risks. The purpose of risk filtering is to identify 'red flags' which indicate increased exposure to possible corrupt practices. These programmes warrant enhanced operational risk assessment during the implementation phases and will therefore be subjected to the risk ranking procedure in stage two.

### **2A. RISK FILTERING CRITERIA**

Given the specific nature of the FM as described in Part I, the risk filtering process is designed around a set of seven key criteria which together should provide sufficient evidence in order to indicate the level of exposure of particular programme areas to corruption risks. These are divided into Beneficiary State-level and programme-level criteria. The programme-level criteria need to be assessed separately for each programme area within the Beneficiary State:

#### Beneficiary State-level

1. General assessment of corruption risk within Beneficiary States
2. Total FM grants allocated to a Beneficiary State
3. Separation of functions within the FM's management structure

#### Programme-level

4. Grants allocation to individual programme areas within the BS programme framework
5. Donor partnership programmes within the BS programme framework
6. Programmes including pre-defined projects
7. Integrity of Programme Operators

### **2B. RISK FILTERING PROCEDURE**

The risk filtering tool is designed to enable the user to identify country-specific programme areas with greater exposure to corruption. For each programme area, the user should answer the qualitative questions around each of the risk filtering criteria. When answering the research questions, references should be made to the sources used. Where information is based on discreet interviews, references need to pay respect to the usual confidentiality requirements. Should limited information not allow for giving a substantial answer, this should also be reported by the user.

Each of the risk filtering criteria is structured in a similar way:

- The description of the criterion
- Detailed research questions to be answered, including justifications for the answers given. (Note: this is required for the final reports)
- The risk rating guidance which serves to understand the implications of the answers given and thus to assign a qualitative risk rating for each criterion (high/medium/low corruption risk exposure). The comments on likelihood and impact of possible corruption illustrate in how far the risk exposure may be increased and why this should be of concern.
- Suggested sources to assist the user in starting the research process

## Beneficiary State-level criteria

<b>Risk filtering criterion 1</b>	
<i>General assessment of corruption risks within the Beneficiary State</i>	
<b>Description:</b> The extent to which the BS is generally perceived as being exposed to corrupt practices.	
<b>Research questions</b>	<b>Answer and justification</b>
How does the concerned BS rank in international corruption indices?	
Are there systematic/ structural weaknesses in the BS's efforts to combat corruption which increase corruption risk affecting public policy?	
Has the BS launched an effective anti-corruption policy improving its 'national integrity assessment'?	

**Risk rating guidance** (High/Medium/Low): If the BS is regarded as a country where the level of corruption is generally perceived as raising serious concerns, concrete corruption risk scenarios for the Financial Mechanism may, *a priori*, be considered to be more likely. The potential negative impact of practices resulting from structural corruption on the strategic goals of the FM appears to be severe, including the overall reputation of the grants scheme and its intended contribution to the reduction of economic and social disparities and the strengthening of bilateral relations between the Donor States and the BS.

**Sources:** TI Corruptions Perception Index, TI's Global Corruption Barometer, TI National Integrity System Assessments.

<b>Risk filtering criterion 2</b>	
<i>Total FM grants allocated to a Beneficiary State, reduced by the management cost of the Donor States</i>	
<b>Description:</b> The extent to which the net amount of FM grants allocated to a country warrant enhanced operational corruption risk assessment.	
<b>Research questions</b>	<b>Answer and justification</b>
How large is the net amount of FM grants to the BS (in EUR)?	

How large is the net amount of grants relative to the population of the BS (in EUR/ per capita)?	
How large is the net amount of grants per capita given to the BS relative to other BS?	

**Risk rating guidance** (High/Medium/Low): Assuming that a relatively high per capita share of FM grants may provide more opportunities and incentives for corrupt behaviour, corruption risk scenarios linked to the programmes scheme would appear to be more likely. A higher per capita share of grants would also indicate that a comparative strategic priority is being assigned to the country by the Donor States, which implies that actual corrupt practices might also have a stronger impact on the FM in the BS concerned<sup>ix</sup>.

**Sources:** FMO data on total grants to all BS, EEA/Norway grants website.

<b>Risk filtering criterion 3</b> <i>Separation of functions within the FM's management structure</i>	
<b>Description:</b> Extent to which national entities commissioned with managing the FM in the BS, namely the NFP, the Certifying Authority, the Auditing Authority, and the "National Public Entity" (NPE) execute their functions separately and independently (see <a href="#">Annex 4</a> for background information)	
<b>Research question</b>	<b>Answer and justification</b>
Are there any organisational arrangements, whereby functionally separate responsibilities are located within the same institution?	
In particular, does the NFP also function as the Programme Operator?	
Does the NFP also function as the NPE, responsible for irregularities reports?	
Does the Certifying Authority also function as the NPE?	
Is the 'complaints mechanism' organized according to 'best practice' so that it can function as an independent and effective anti-corruption measure?	

**Risk rating guidance** (High/Medium/Low): If the combination of functions within any one entity exists, the risk to the integrity of the FM increases. This might be so, because the system of independent checks is reduced, creating corruption opportunities, and because of possible cooperation in covering up corrupt practices. Should incidents of corruption be associated to a lack of separation of functions in the management and control structure, then the negative impact on the FM in the BS would be particularly high.

**Sources:** FMO, MoU with organisational chart, NFP website requiring detailed description of the management and control structures, including the complaints mechanism; optional enquiries with member(s) of the National Monitoring Committee; TI National Integrity System Assessments; BS’s utilisation of best practices experienced in the management of similar grant schemes such as the European structural funds.

**Programme-level criteria**

<b>Risk filtering criterion 4</b>	
<i>Grants allocation to individual programme areas within the BS programme framework</i>	
<b>Description:</b> Extent to which the grants allocated to individual programme areas (from both EEA and the Norway grants scheme) warrant an enhanced corruption risk assessment.	
<b>Research questions</b>	<b>Answer and justification</b>
Does the absolute and/or relative amount of grants allocated to Programme Area X (in EUR or per cent of total grants to BS) cross a critical threshold thus requiring an enhanced operational corruption risk assessment for that Programme area? <sup>x</sup>	
Are there any sectoral or financial characteristics which might indicate a lower threshold, such as extensive public procurement within Programme Area X?	

**Risk rating guidance** (High/Medium/Low): If the grants to the BS are concentrated on particular programme areas, the likelihood of corruption increases, due to the greater financial incentives and potential opportunities provided in these programmes areas. The negative impact of corrupt practices might also be greater due to the higher expected damage resulting from them.

**Sources:** FMO data about programmes grants in the BS, MoU with the BS, NFP website, National Integrity Systems Assessments, Global Corruption Barometer data

<b>Risk filtering criterion 5</b>	
<i>Donor partnership programmes within the BS programme framework</i>	
<b>Description:</b> Degree of transparency of programmes which involve donor programme partners	
<b>Research question</b>	<b>Answer and justification</b>
To what extent are the donor programme partners involved in advising on the preparation of Programme X, including the facilitation of transparency in implementing the programme?	

**Risk rating guidance** (High/Medium/Low): Depending on the specific role donor partners exercise in advising on the preparation and implementation of donor partnership programmes, such programmes may be less exposed to corruption risks. Should corrupt practices nevertheless occur, the negative impact on the FM in the BS, including the strategic aim of improving bilateral relations, may be particularly high.

**Sources:** FMO web site, MoU, NFP views and perceptions; FMO's and DPP's views and perceptions.

<b>Risk filtering criterion 6</b> <i>Programmes including pre-defined projects</i>	
<b>Description:</b> Degree of specification and transparency of pre-defined projects within programmes	
<b>Research questions</b>	<b>Answer and justification</b>
What are the origins of the pre-defined project to be implemented within a programme? To what extent were the pre-defined projects specified in the MoU, including the identification of project partners and donor partners?	
What are the specifics of pre-defined projects set out in programme proposals according to Art. 5.5 or the Regulation?	

**Risk rating guidance** (High/Medium/Low): Pre-defined projects are of particular concern, because open competition which applies to the regular project selection procedure is either avoided or limited. The likelihood of corruption risk depends on whether a pre-defined project is agreed in the MoU, or not. If it is agreed in the MoU, the more details about the pre-defined project, regarding project and donor partners in particular, are specified in the MoU, the less likely the risk of corruption becomes. If pre-defined projects were not agreed in the MoU, but specified by the Programme Operator in the programme proposal according to Art. 5.5 of the Regulation, the level of risk may increase depending on the transparency of the details about how such a project has been selected, by whom and to what extent stakeholder consultation has taken place (see also risk crit. 7).

Pre-defined projects with an increased exposure also carry with them higher corruption risks in the implementation phases of subcontracting and procurement, which also qualifies them for closer scrutiny. Should corruption occur, the impact can be high, depending on the amount of funding allocated to a pre-defined project and its strategic relevance for the achievement of a programme's goals.

**Sources:** MoU, programme proposals/agreements; FMO's, Donor partner's and NFP's views and perceptions.

<b>Risk filtering criterion 7</b> <i>Integrity of Programme Operators</i>	
<b>Description:</b> Reputation of the institution functioning as the PO, responsible for preparing and implementing an individual FM programme in the BS.	
<b>Research question</b>	<b>Answer and justification</b>
Has the Programme Operator, i.e. the institution and its leading officials and main staff, in any way been associated with corruption in the past?	
Do the PO head and/or executive officers entertain personal relations and political affiliations (including politically exposed persons, PEPs) that might expose the respective individual, and thereby the FM programme operation, to corrupt practices?	

Are there any personal connections or dependencies that might reduce the resilience of the staff to attempts of corruption, or the resolve to remedy corrupt practices that might occur during the implementation of projects, including subcontracting and procurement?	
Regarding pre-defined projects (see crit. 6) proposed by the Programme Operators, are there any indications, beyond the information to be provided according to Art. 5.5 of the Regulation, that a “conflict of interest” as defined in Art. 6.6 might be present in relation to the selected Project Promoter.	

**Risk rating guidance** (High/Medium/Low): The Programme Operator (PO) is the new actor in the FM 2009-2014, being commissioned with a high degree of decentralized authority and responsibility, including the selection of projects and overseeing their proper implementation. Moreover, the PO is required to have strong ties to the sector within which the programme belongs. Given that, any doubts regarding the untainted reputation of the leading staff of the POs must be considered as a ‘red flag’ indicating that the PO might be an entry point for corrupt practices, and significantly increasing the likelihood of respective corruption risk scenarios in implementing the programme. All PO are subject to the integrity assessment – including when the function of the PO is taken on by, the NFP, the FMO (including a fund operator appointed by the FMO), or another entity in a Donor State. Given the particular exposure of pre-defined projects (see crit. 6) to possible “conflicts of interest” the relationship between a Programme Operator and a Project Promoter should be given an enhanced background screening, assessing the transparency and integrity of the project arrangement. Generally, should corrupt practices involving the Programme Operator occur, the impact might not only jeopardize the programme itself, but also compromise the entire grants schemes for the BS, in particular, if the incidence is not revealed by the overseeing national entities<sup>xi</sup>.

**Sources:** MoU designating the POs, FMO, biographies of main PO staff verifying the qualification of leading PO officials, media sources regarding the reputation of the leading PO officials; discreet interviews with stakeholders and experts regarding unanswered questions and controversial information.

## 2C. PRESENTATION OF RESULTS

Based on the answers and the associated risk rating guidance in section 1B, an assessment denoting *high*, *medium*, or *low* corruption risk exposure should be assigned to each risk filtering criterion by programme. The results should be recorded in a template similar to the one provided in the table below.

The combined assessment of the seven criteria for the risk filtering procedure should provide sufficient evidence to indicate a greater overall exposure of particular programme areas to corruption risks. Sufficient evidence of greater exposure may exist, if the *a priori* assessment of corruption risks according to the risk filtering criteria raises a number of ‘red flags’.

The combined assessment rating derived from any given combination of *low*, *medium* and *high* risk exposure may vary according to the context. As general guidance, the user should keep in mind that a ‘red flag’ represents a critical qualification, with a decision weight higher than a ‘medium risk’ or ‘low risk’ evaluation. This means that one or two critical ‘high risk’ ratings regarding the seven topics listed above can already lead to an overall assessment of the programme area facing a ‘high risk’ exposure to corrupt practices. Even if ‘low’ or ‘medium risks’ are assigned to the majority of the criteria, already one ‘high risk’ assessment

regarding a specific criterion may warrant the deepening of the corruption risk assessment for the programme’s implementation.

In any case, the assessment and rating procedure for each programme area will have to be fully documented and thus made transparent. The ultimate purpose of completing the table consists of identifying the sources of increased risk exposure affecting a programme, which will also serve to inform the risk ranking procedure in stage two of the corruption risk assessment process.

Table 1: Template for the overview of corruption risk exposure of the programmes in BS

Programme areas in BS	Corruption risk filtering procedure							
	high / medium / low risk exposure							
	1. Country corruption risks	2. Total FM grants	3. Separations of functions	4. Programme grant	5. Involvement of Donor partners	6. Programme w/ pre-defined project	7. Integrity PO	Combined assessment
<b>EEA Grants</b>								
Programme area X	med	med	low	high	high	high	med	high
Programme area Y								
Programme area [...]								
Etc...								
<b>Norway Grants</b>								
Programme area [...]								
Programme area [...]								
Etc...								

## **PART III: RISK FILTERING REPORT**

The results of the corruption risk filtering of the FM shall be documented and summarized in 15 separate country reports, containing the criteria-based assessment of each programme within the BS programme framework. All country reports shall be prepared by the same entity assigned by TI-S with conducting the first stage of the corruption risk assessment procedure.

On completion, a country report is submitted to TI-S, which will then submit it to the FMO. The relevant National Focal Point shall be given the opportunity to provide comments within a defined period of time. Upon consultation with the FMO, the final report will be shared with the Donor States and the National Focal Point.

In accordance with the framework co-operation agreement between TI-S and the FMO and national legal requirements, the major findings of each country report will be made publicly available. The content of what is made publicly available is agreed between TI-S and the FMO.

Each country report should, apart from compiling the rating results in the overview table, provide clear justification for the prioritisation of programmes to undergo the enhanced operational risk ranking procedure in stage two.

Generally, the report should reflect the structure of the research guidance and contain concise and founded answers to the individual research questions, as well as a presentation of the corruption risk exposure levels. Each country report should be limited to max. 20 pages.

It is recommended to structure each country report as follows:

- Introduction, including the mission statement with reference to this tool manual and basic information about the Beneficiary State's programme framework within the EEA/Norway FM 2009-2014
- Summary of major findings
- Assessment of the risk filtering criteria at the BS level and at the programme level, as set out in this tool, by providing the qualitative answers to the research questions together with the necessary documentation of the findings
  - Rating of risk filtering criteria at the BS level, based on the qualitative research
  - Rating of the risk filtering criteria at the programme level for each programme area, based on the qualitative research
- Summary of the results of the risk filtering procedure in the overview table, aggregating the corruption risk exposure ratings for the programmes in the BS
- Recommendation regarding the selection of programmes which should be subjected to enhanced operational risk assessment regarding their implementation (see separate Stage II: Risk Ranking).

The introduction, the summary of the major findings, the summary of results in the overview table and the recommendations will be made publicly available.

## ANNEXES

### Annex 1: Definition of corrupt practices

Source: *Anti-Corruption Plain Language Guide*, Transparency International Secretariat, Berlin, July 2009, [http://www.transparency.org/publications/publications/other/plain\\_language\\_guide](http://www.transparency.org/publications/publications/other/plain_language_guide)

Bribery	The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages (taxes, services, donations, etc.).
Clientelism	An unequal system of exchanging resources and favours based on an exploitative relationship between a wealthier and/or more powerful 'patron' and a less wealthy and weaker 'client'.
Collusion	A secret agreement between parties, in the public and/or private sector, to conspire to commit actions aimed to deceive or commit fraud with the objective of illicit financial gain. The parties involved often are referred to as 'cartels'.
Conflict of interest	Situation where an individual or the entity for which they work, whether a government, business, media outlet or civil society organisation, is confronted with choosing between the duties and demands of their position and their own private interests.
Corruption	The abuse of entrusted power for private gain. Corruption can be classified as <i>grand</i> , <i>petty</i> and <i>political</i> , depending on the amounts of money lost and the sector where it occurs.
Embezzlement	When a person holding office in an institution, organisation or company dishonestly and illegally appropriates, uses or traffics the funds and goods they have been entrusted with for personal enrichment or other activities.
Extortion	Act of utilising, either directly or indirectly, one's access to a position of power or knowledge to demand unmerited cooperation or compensation as a result of coercive threats.
Facilitation payments	A small bribe, also called a 'facilitating', 'speed' or 'grease' payment; made to secure or expedite the performance of a routine or necessary action to which the payer has legal or other entitlement.
Fraud	The act of intentionally deceiving someone in order to gain an unfair or illegal advantage (financial, political or otherwise). Countries consider such offences to be criminal or a violation of civil law.
Grand corruption	Acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good.

Money laundering	The process of concealing the origin, ownership or destination of illegally or dishonestly obtained moneys by hiding it within legitimate economic activities.
Nepotism	Form of favouritism based on acquaintances and familiar relationships whereby someone in an official position exploits his or her power and authority to provide a job of favour to a family member or friend, even though he or she may not be qualified or deserving.
Patronage	Form of favouritism in which a person is selected, regardless of qualifications or entitlement, for a job or government benefit because of political affiliations or connections.
Petty corruption	Everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies.
Political contribution	Here: any inappropriate contribution, made in cash or in kind, to support a political cause. Examples include gifts of property or services, advertising or promotional activities endorsing a political party, and the purchase of tickets to fundraising events.
Political corruption	Manipulation of policies, institutions and rules of procedures in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth.
Revolving door	An individual who moves back and forth between public offices and private companies, exploiting his/her period of government service for the benefit of the companies they used to regulate.
Solicitation	The act of a person asking, ordering or enticing someone else to commit bribery or another crime.
State capture	A situation where powerful individuals, institutions, companies or groups within or outside a country use corruption to shape a nation's policies, legal environment and economy to benefit their own private interests.

## Annex 2: Integrity due diligence approach

The assessment of corruption risks affecting the FM requires a certain degree of personal background screening. The quest for transparency not only concerns the proper documentation of procedures, but also openness regarding personal relationships which might qualify as connections prone to abuse for private gain.

This approach to corruption risk assessment entails a potentially preventive effect. Making it known in advance that the set-up and the implementation of the programmes in a BS are monitored with tools also scrutinizing the risks emanating from close personal relationships, requires the people concerned to provide sufficient evidence to assure the Donors States and the public in the BS, that no corrupt practices, including collusive behaviour to the detriment of fair competition, exist.

Both compliance with the Regulation and disclosure of potentially problematic relationships already pertain to the risk filtering procedure, in particular criteria 3 (Separation of functions within the FM's management structure), and 7 (Integrity of Programme Operators).

Given the established institutional relationship between the Donor States and the National Focal Points (NFP), it was regarded to be acceptable to include the assessment of the Focal Points in the risk filtering criterion 3. The 'separation of function' between the NFP, the Certifying Authority, the Auditing Authority and a special "National Public Entity" responsible for reporting irregularities, is an essential regulatory condition for establishing a system of mutual checks. However, in some countries, the separation of functions might not be perfect. In these cases, it is important to look into the risk of special personal relationships which might create the opportunity to cover up corruption, *inter alia*.

The integrity of the Programme Operators (risk filtering crit. 7) is critical for the proper implementation of the programmes in each BS (for the PO's responsibilities see Art. 4.7 of the Regulation). Therefore, an integrity assessment of the PO is a key element within the risk filtering procedure.

The Programme Operators are designated in the MoU which requires agreement between the FMC/NMFA and the NFP. 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). Art. 4.2 stipulates that the PO "shall have strong ties to the sector within which the programme belongs". Even though this provision is motivated by practical considerations, 'strong personal ties' might also result in collusive behaviour.

The potentially diverse nature of the PO as well as their crucial role within the decentralized structure of the Financial Mechanism warrant increased due diligence regarding personal integrity risks. Any issues attached to PO might also entail corruption risks cascading from one implementation phase to the next, i.e. from calls for proposals, to the selection of projects, and to overseeing project management, including procurement.

**Annex 3: Information about *National Integrity System Assessments***  
(as provided by Transparency International Secretariat and National Chapters)

Country	Launch Date	Links to information / report	Information in English
Bulgaria	01.03.2012	<a href="#">NIS information on Chapter website</a> <a href="#">Direct Link to report</a>	<a href="#">Full report</a> <a href="#">Methodology, findings and recommendations</a>
Czech Republic	08.12.2011	<a href="#">NIS information on Chapter website</a> (in Czech) <a href="#">Direct Link to report</a> (in Czech)	none
Estonia	tbd	<a href="#">NIS information on Chapter website</a>	
Greece	29.02.2012	<a href="#">NIS information on Chapter website</a>	<a href="#">Executive Summary</a>
Hungary	08.03.2012	<a href="#">NIS information on Chapter website</a> <a href="#">Direct Link to report</a>	<a href="#">Full report</a> <a href="#">Executive summary</a>
Latvia	09.03.2012	<a href="#">NIS information on Chapter website</a> (in Latvian) <a href="#">Direct Link to report</a>	<a href="#">Full report</a>
Lithuania	April/May (tbc)		
Poland	05.03.2012	<a href="#">Partner website</a>	<a href="#">Executive summary</a>
Portugal	April (tbc)		
Romania	26.02.2012	<a href="#">NIS information on Chapter website</a> <a href="#">Direct Link to report</a>	<a href="#">Complete report</a>
Slovakia	23.02.2012	<a href="#">NIS information on Chapter website</a> Report not yet published on website	<a href="#">Executive summary</a>
Slovenia	28.02.2012	<a href="#">NIS information on Chapter website</a> (in Slovenian) <a href="#">Direct Link to report</a>	<a href="#">Key findings and Conclusions</a>
Spain	April (tbc)		

Transparency International's 'European National Integrity Systems Project' does not cover Cyprus and Malta. The user of the risk filtering tool is requested to base the evaluation of the extent and causes of corruption in these countries and the effectiveness of respective anti-corruption efforts with reference to available secondary sources.

#### **Annex 4: Corruption risks affecting the financial management of projects**

The “National Public Entity” (NPE) shall be responsible for the preparation and submission of so-called irregularity reports regarding the financial management of the grant scheme in a BS (Art. 11.3).

Chapter 11 of the Regulation requires the BS and the PO to “make every effort possible to prevent, detect, and nullify the effect of any cases of irregularities”. Art. 11.2 of the Regulation mentions infringements such as “unjustified or disproportionate expenditure” or “reducing or losing revenue” under a programme or project. Moreover, Art. 11.4 refers to all suspected and actual cases of irregularities including “allegations of an act or omission which constitutes a criminal offence under the national legislation of the Beneficiary States such as corruption, fraud, bribery or embezzlement”.

In theory, the NPE should enjoy a special status, because irregularities as well as any measures taken by competent national authorities to prevent, detect, investigate, or remedy such irregularities, shall be reported directly to the FMC/NMFA. The practical relevance of this distinct line of reporting will, however, be determined by the relationship between the NPE and the other grant management institutions in the BS, in particular the NFP. If there is no clear institutional and personal separation of functions, it is questionable whether the NPE will be in a position to independently watch and report possible cases of irregularities affecting the financial management, as required by the Regulation.

A related issue is the set-up and operation of the “complaint mechanism” (Art. 11.8). Information about how to submit a complaint shall be “prominently” placed on the website of the NFP. The establishment of a complaints mechanism can be regarded as being ‘best practice’ for improving compliance with good governance in grant management. Similarly, the introduction of an effective and independent complaint mechanism is indicative of the political will to counter corruption. The proper operation of the complaint mechanism will be relevant for gathering intelligence about actual or suspected corrupt practices throughout the implementation phases of the programmes, including irregularities affecting the financial management.

Therefore, it is recommended to pay special attention to the way in which the complaints mechanism will be operated, from the beginning. A complaint mechanism is only fully functional if it is operated by an institution that is capable of guaranteeing anonymity and protecting informants. It also needs adequate resources to further investigate hints and allegations, and needs to avail of the necessary independence to actually disclose and report any corrupt practices. The issue of who will be responsible for managing the complaint mechanism is therefore included in the risk filtering procedure.

## Endnotes

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<sup>i</sup> <http://www.eeagrants.org/>. The cooperation agreement between TI and the FMO of the EEA/Norway grants is available at <http://www.eeagrants.org/id/2478>

<sup>ii</sup> <http://www.eeagrants.org/id/1937.0>

<sup>iii</sup> At the time of writing, MoU have been signed with all Beneficiary States except for Portugal and Romania. See documentation of the MoU on the EEA/Norway grants website, <http://www.eeagrants.org/id/2222>.

<sup>iv</sup> The entire legal framework, including both regulations, are available on the EEA/Norway grants website, <http://www.eeagrants.org/id/2563.0>.

<sup>v</sup> The Corruption Perception Index provides a general indication of the variation between countries; it is, however, not directly related to the management of the EEA/Norway grants in the respective Beneficiary States. TI's *Corruption Perceptions Index 2011*, published December 2011, is available at <http://cpi.transparency.org/cpi2011/>

<sup>vi</sup> Information about the grant allocation to each programme area is contained in the MoU.

<sup>vii</sup> Given that the corruption risk assessment tool shall be applicable to 15 heterogeneous countries with quite distinct programme setups, comparing sectoral corruption risks as a primary risk filtering criteria is in the case of the of EEA/Norway grants not fully feasible. Therefore, financial risk criteria such as size of programme grants and procurement were given priority within the context of this tool. This also seems to be a justifiable approach based on the preliminary observation that some of the relevant policy sectors and programmes areas, which are regarded as being particularly exposed to corruption, such as the health sector or police and justice affairs, will be covered by the financial risk criteria. For the purpose of cross-checking financial and sectoral risk variables, where applicable, users may consult TI's *Global Corruption Barometer 2010*, [http://www.transparency.org/policy\\_research/surveys\\_indices/gcb/2010](http://www.transparency.org/policy_research/surveys_indices/gcb/2010); and TI's *National Integrity System Assessments* (see Annex 3).

<sup>viii</sup> Yacov Y Haimen: *Risk Modeling, Assessment, and Management*, 2<sup>nd</sup> ed., John Wiley: Hoboken, 2004 (pp. 276).

<sup>ix</sup> Note that the Donor States have stated a zero-tolerance policy towards corruption; therefore, any incidences of corruption which might occur would have to be considered as having a negative impact on the FM scheme in a BS.

<sup>x</sup> The threshold should be set by also taking into consideration the size of project grants within the programmes.

<sup>xi</sup> In-depth integrity checks are also required if the PO for a programme area could not be agreed on by the FMO and the BS in the MoU. This might indicate that integrity issues are attached to finding an appropriate institution/staff for implementing the programme.