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ANNUAL REPORT 2013

Sida's handling of suspicions of corruption

Sida

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SUMMARY

Sida received a total of 140 reports of suspicions of corruption in 2013, of which 35 reports relate to suspicions among Sida's framework organisations.

The majority of reports relate to cases in which the partner is suspected of using Sida funds for purposes other than those agreed, as well as suspected crime. Only six of the reports relate to corruption in procurement situations.

During the year Sida reclaimed money from partners in 21 cases and with a total amount of approximately SEK 21,700,000. Ten reports to the Police or prosecution were made, of which two in Sweden. 45 investigations were completed and concluded during the year, compared to 17 investigations in 2012.

Sida is now increasing the transparency of handling suspicions of corruption by adding summaries of concluded cases on Open Aid.

During the year Sida developed a mobile application which, among other things, enables reporting of suspicions of corruption from mobile phones. In 2014 Sida will start using new methods, for example, spot-checks, to detect suspicions of corruption in initiatives supported by Sida.

Changes to Sida's whistleblowing system will entail greater opportunities to report suspicions of corruption and other irregularities.

An amendment to Sida's internal regulatory framework clarifies handling of reclaims from partners of incorrectly used funds, which contributes to a more uniform approach towards Sida's partners.

The year's special investment in certain units, with closer collaboration between the Investigation group and units, as well as customised training, have resulted in officers detecting suspicions of corruption more frequently than in previous years.

CORRUPTION INVESTIGATIONS 2013

Sida reclaimed approximately SEK

21,7

million

140 reports of suspected corruption

45 investigations completed and concluded

Sida is now increasing the transparency of handling suspicions of corruption and in 2014 will start using new methods to detect suspicions of corruption.

INTRODUCTION

Sida operates in environments where corruption is widespread and therefore the Agency has a well-developed regulatory framework and system for handling corruption issues. As soon as suspicions of corruption or irregularities arise, these are investigated promptly. Payments are stopped while the investigation is ongoing. If misuse of funds is proved, reclaim is demanded and measures are taken to prevent future corruption cases.

Sida's anti-corruption rule* is the basis of Sida's work for combating corruption and other irregularities in the operations.

The concept corruption is not defined in Swedish legislation. Sida defines corruption as abuse of trust, power or position for improper gain.

Sida has been commissioned to ensure a strong and independent function within the Agency, the Investigation group for handling corruption cases. The group consists of three people with expertise within corruption investigation, finance, audit and law, and is located at the Director General's Office with reporting obligation directly to the Director General.

The Investigation group handles all suspicions of corruption in accordance with determined procedures, which aim to ensure that handling takes place in a uniform, legally secure and prompt manner. The procedures which are presented on the next page, entail that the Investigation group receives reports and conducts investigations which aim to obtain adequate supporting material for Sida to be able to claim that a breach of contract has occurred and decide which measures should be taken. An investigation may cover both internal and external reviews and audits of various sort. Measures which can be taken include Sida freezing payments, reclaiming paid funds, terminating agreements and reporting to the Police or prosecution. In cases where the suspicion of corruption took place for a partner which forwards Sida's funds, the Investigation group ensures that Sida's partner handles the case in accordance with Sida's requirements.

The Investigation group does not have a mandate to investigate suspected crime, but this should be reported to the Police or prosecutor.

Each report is first subjected to an assessment in order to determine whether it is covered by the Investigation group's assignment for investigation. If this is not the case, the report is forwarded to, for example, Sida's Staff Disciplinary Board or Ministry for Foreign Affairs.

The Investigation group coordinates all corruption investigations and has an advisory role in relation to the department which is affected by a case.

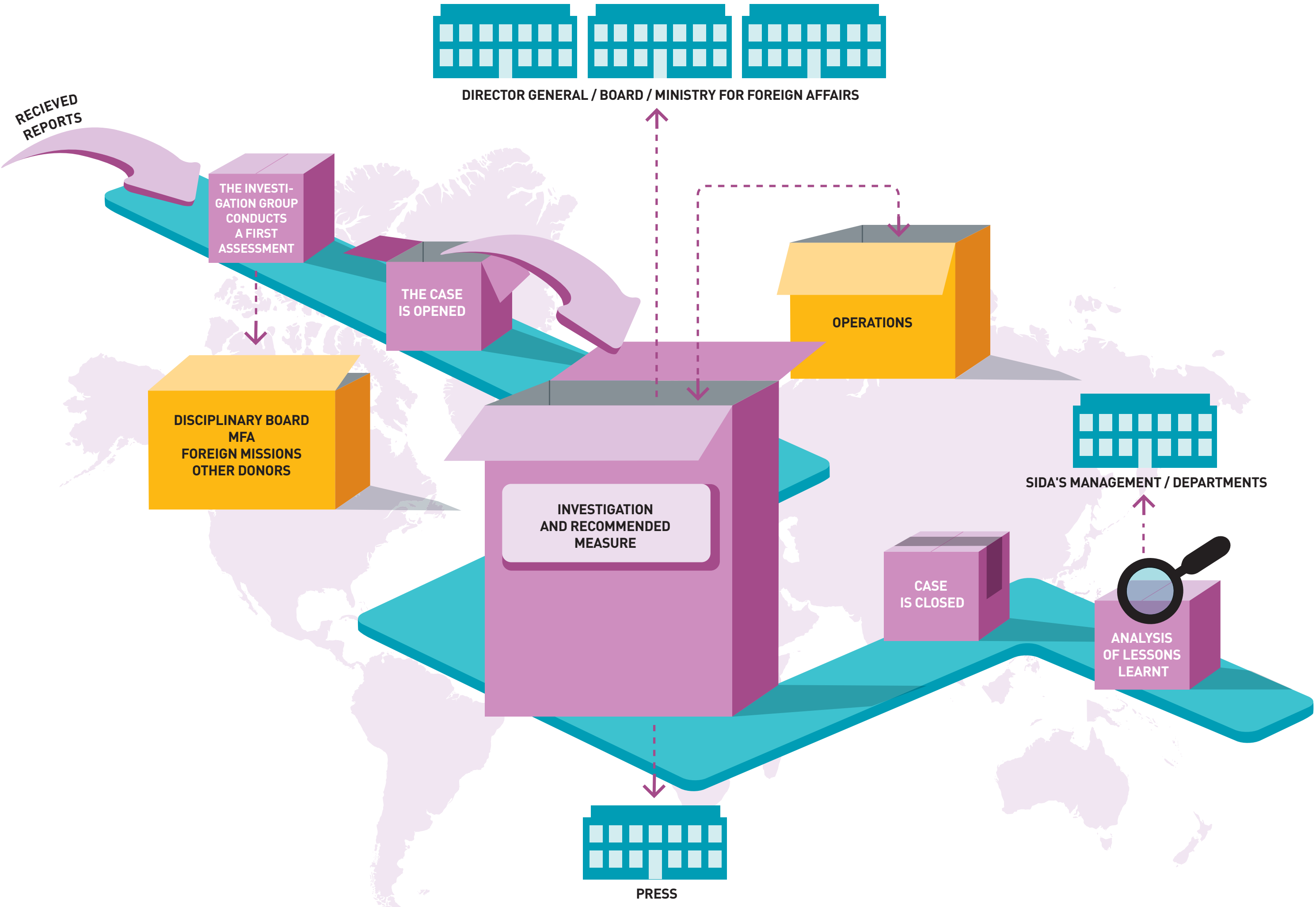
During the investigation period the Group keeps Sida's management and the Media service informed about the case. When the investigation has been completed, the department in charge decides which measures should be taken. Thereafter the Investigation group concludes the investigation case and summarises the lessons which can be drawn from the case in a concluding memorandum. The lessons are then sent to the organisation so that they can be used there, for example, for improved risk assessments or changing formulation in agreement templates.

*SIDA'S ANTI-CORRUPTION RULE

The main message of the rule is to *Always prevent*, *Never accept*, *Always inform* and *Always act* upon suspicions of corruption.

All employees are liable to report all suspicions of corruption and other irregularities to the immediate manager and/or to Sida's investigation function

PROCESS FOR HANDLING SUSPICIONS OF CORRUPTION



SPECIAL ISSUES DURING 2013

Change of rules for reclaim

The Investigation group has an advisory function in relation to the department which is affected by a corruption case. In some cases this results in the Investigation group and the department having different opinions on which measures should be taken in an individual corruption case. Such situations have so far been resolved by the issue being raised to a higher decision level.

During the year, the issue of in which cases Sida should reclaim incorrectly used funds from the partner has been an issue in which the Investigation group and decision-making department have had different opinions. In the individual case the issue was raised for decision-making at the head of department level, but the Investigation group also raised the factual matter of the case to Sida's procedural council, which in the long-run resulted in an amendment on reclaim in the initiative handling rule. The amendment states that Sida, as a general rule, should reclaim money from its partner when it has been asserted that funds have been used outside their agreed purposes and it is only when special reasons exist that Sida can refrain from collecting the funds.

Evaluation of the whistleblowing system

In 2013 Sida conducted an evaluation of the whistleblowing system which Sida introduced in 2012. In the evaluation report the Investigation group recommended certain changes to the system, which will entail greater opportunities for external stakeholders to report suspicions of corruption and other irregularities. The changes simultaneously contribute to Sida obtaining easier and more efficient handling of received reports.

The current system will be expanded with a 'Hotline,' an external reporting function for reporting corruption and other irregularities in the support. Sida's Hotline will be launched as widely as possible and be added as a link to, for example, the Ministry for Foreign Affairs website Sweden Abroad and websites of Swedish NGOs. An internal reporting function for reports which concern serious irregularities committed by people in key positions or in leading positions within the own operations should be added to Sida's Intranet. The mobile application *Open Aid* which contains a reporting function, will also be connected to Sida's Hotline.

The evaluation also shows that the reports which are received through the whistleblowing to a high degree are purely expressions of discontent, compared to reports which are received through other channels. Such reports are dismissed without investigation. More reports against our staff are received through the system compared to other channels, and the reports to a large degree are anonymous.

GREATER TRANSPARENCY

During the year Sida started a process which will result in greater transparency in terms of the Agency's handling of suspicions of corruption. A new format for the annual reporting of handling suspicions of corruption is a part of this.

Another part is the concluding memorandums of cases which the Investigation group has prepared and which in 2014 will be added to *Open Aid*. The development of the mobile application Open Aid, with a reporting function will also result in greater transparency for these issues.

The current whistleblowing system will be expanded with a 'Hotline,' an external reporting function for reporting corruption and other irregularities in the support.

CASE HANDLING IN 2013

This section presents the year's figures for handling corruption cases. Since Sida started to collect and report information on corruption cases in 2007, reorganisations and other changes to the operations have made it difficult to compare figures over time. This report is therefore an overall view of the patterns which can be observed in Sida's corruption cases, taking into consideration both the figures for this year and previous years.

Handling of suspicions of corruption which arise in the development cooperation among Sida's framework organisations within the civil society take place in another manner than that described earlier. The framework organisations shall themselves investigate the suspicions of corruption which arise and keep Sida informed about the investigation and measures taken. The patterns which can be observed for the framework organisations' handling of suspicions of corruption are therefore reported in a separate section.

In 2013 the Investigation group received 20 reports through the whistleblowing system. Of the 20 reports, 11 reports were such that they could be dismissed immediately, for example, pure expressions of discontent. The 9 reports in which investigation was conducted are included in the figures reported in this section.

Reports

In 2013, a total of 140 suspicions of corruption were reported to Sida. This is an increase in the total number of reports by 20 compared to 2012 and 87 compared to 2011. Of the 140 reports, 35 reports relate to suspicions which are investigated by Sida's framework organisations. The increase in number of reports is probably a continued result of Sida's work on internal management and control as well as a focus on training of staff within the area over recent years. 45 investigations were concluded during the year, compared to 17 investigations in 2012. The Investigation group has particularly worked to conclude investigations which have been ongoing for a long time and where there has been adequate supporting material to take

REPORTS 2013

140

reports of suspected corruption

of which

20

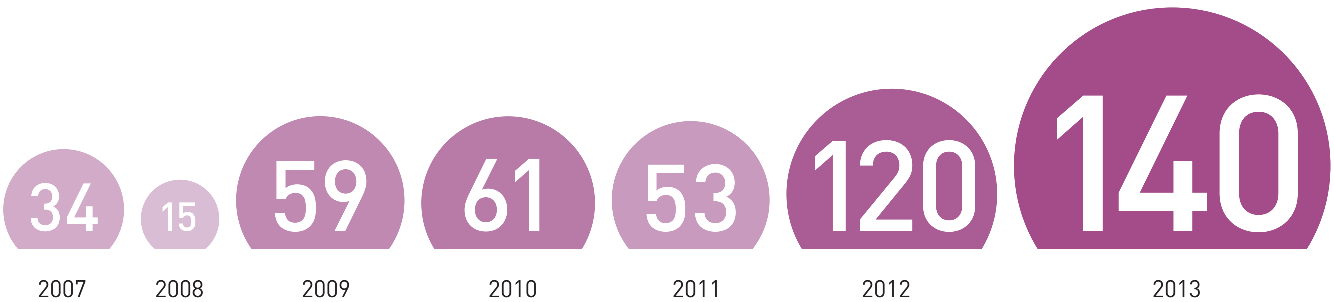
through the whistleblowing system

and

35

relate to suspicions which are investigated by Sida's framework organisations

REPORTS OF CORRUPTION CASES 2007–2013 (INCLUDING FRAMEWORK ORGANISATIONS)



WHO REPORTS?

75

of 94 reports were made by Sida's officers and managers

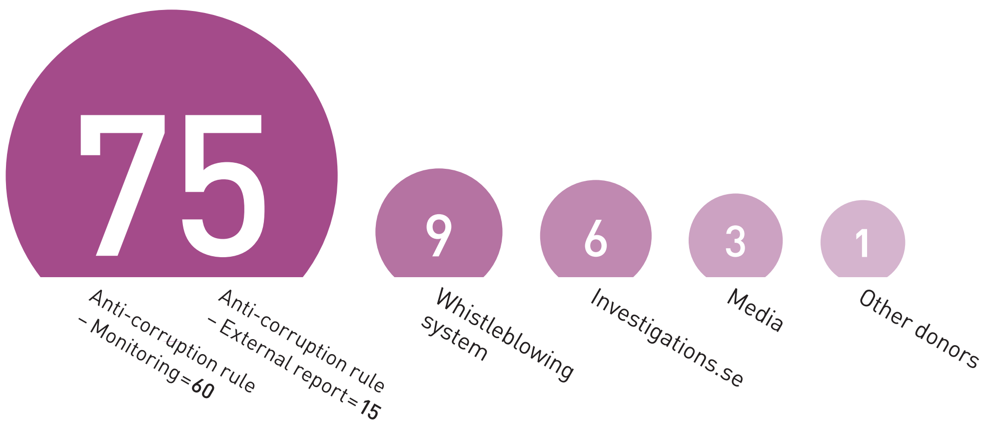
decisions on measures. This work is part of the goal of having speedy handling of corruption cases, which will continue over coming years, and where Sida strives to conclude the average investigation within a year of receiving the report. The number of ongoing investigations at the end of the year has increased slightly compared to previous years, which is in line with the increase in number of reported suspicions and concluded investigations.

Who reports suspicions of corruption?

The absolute majority, 75 of 94 received reports on suspicions of corruption were made by Sida's officers and managers who comply with the provisions of the anti-corruption rule on how such suspicions should be handled. Of the 75 reports which were made by officers and managers, suspicion in 60 cases emerged during the standard monitoring of an initiative. They acted on warning signs in the written reporting, audit reports or in the dialogue with the partner and contacted the Investigation group. In the remaining 15 reports which were received by officers and managers, they were tipped off externally, after which they forwarded the tip off to the Investigation group. That most reports are received by Sida's own staff shows that the control system functions. However there are other methods which could be used for detecting further suspicions of corruption in the initiatives, for example, spot-checks. Sida plans to implement such checks in 2014, see below the section *Other observations*.

Relatively few reports were made externally and reports through the whistleblowing system have declined compared to previous years. It was an expected decline in year two after the system was launched.

WHO REPORTS SUSPICIONS OF CORRUPTION?



Type of corruption

Many reports contain suspicions of different nature and it is not until the investigation has been concluded that Sida can claim which type of corruption existed in the individual case. In light of this and taking into consideration that the investigation is still ongoing for most of the year's reports, Sida can state that the reports largely cover suspected crime and incorrect use of funds. That only six of the reports concern suspicions of corruption in procurement is noteworthy, as the risk of corruption in procurement is particularly large due to, among other things, the attractive contracts which are offered here.

"Disqualification etc." refers to such reports where it is corruption issues internally among partners which are questioned, for example, disqualification, nepotism and partial employments. All five internal reports were received via the whistleblowing system and were made by anonymous informers. Of the five, two could be concluded following investigation which showed that there was no basis for the suspicion. The three remaining related to staff which was not employed by Sida and which therefore were transferred for handling by the Ministry for Foreign Affairs or respective Swedish missions abroad.

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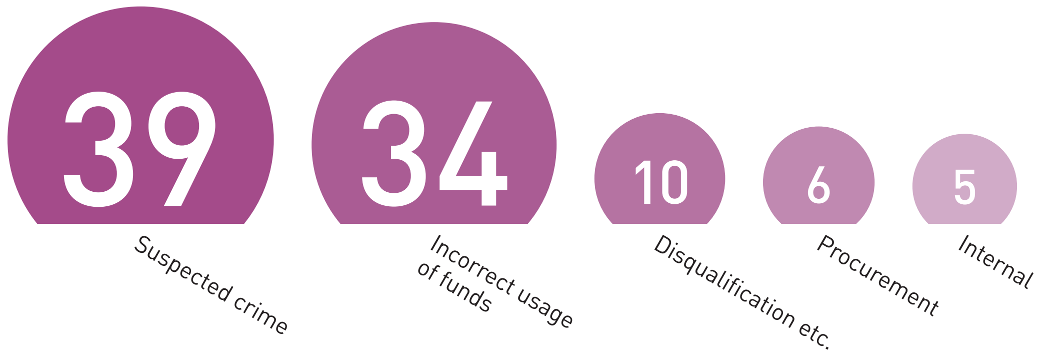
TYPE OF CORRUPTION



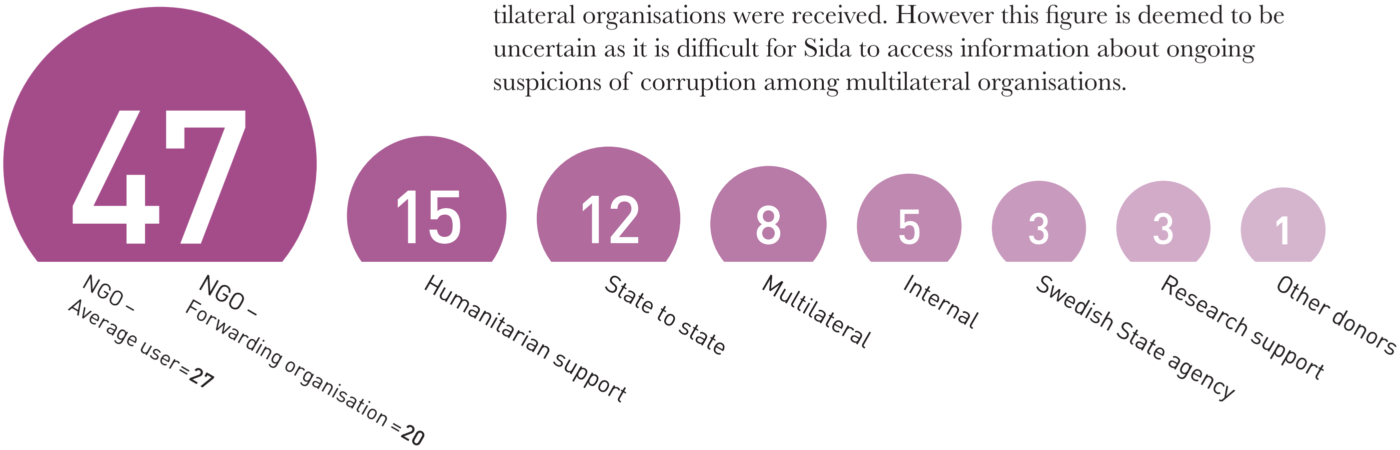
Partners

In terms of the number of suspicions of corruption among Sida's different partners, the majority relate to non-governmental organisations (NGOs), followed by organisations with humanitarian support (NGOs and multilateral organisations) and governments of other states.

NGOs which receive support from Sida may either use the money for their operations or forward it to other NGOs. 20 of the 47 suspicions of corruption which were reported by NGOs concern forwarding organisations. In these cases the suspected corruption occurred in an organisation which has been forwarded Sida funds and thus which is not Sida's direct partner. In these cases, Sida is only able to monitor the case and take measures in relation to its direct contracting party and partner, which in turn monitors the case with its partner, and so on further down in the agreement chain.

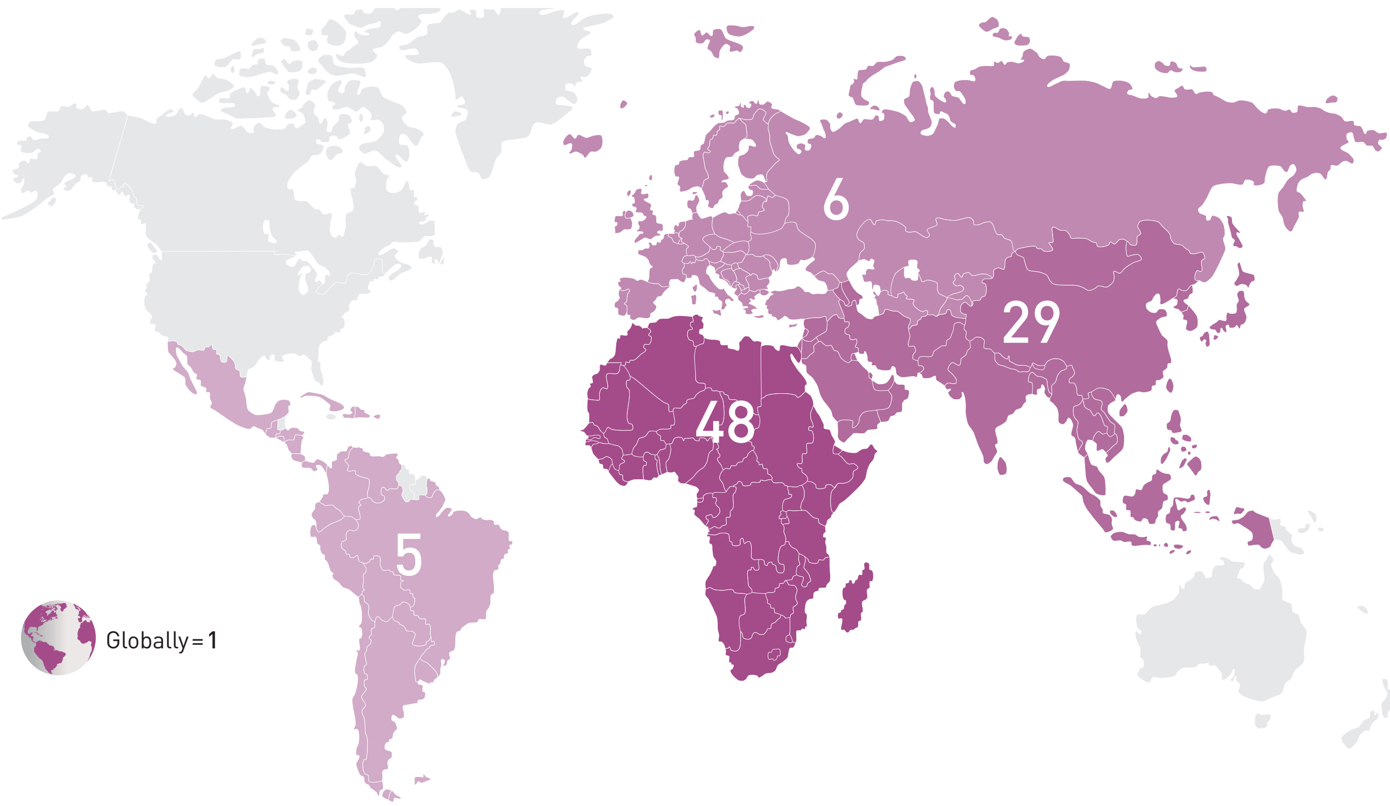
During the year only eight reports from Sida's cooperation with multilateral organisations were received. However this figure is deemed to be uncertain as it is difficult for Sida to access information about ongoing suspicions of corruption among multilateral organisations.

PARTNERS



Distribution among continents

The reported suspicions of corruption which concern initiatives in Africa is highest for natural reasons as Sida has the most initiatives there. The reports from Asia have increased significantly compared to previous years, which is the result of the Investigation group's specific investment in Afghanistan, see further below Other observations. Latin America has moved from zero to five reports, while Europe has declined by half.



Measures taken

Taking into consideration that the investigation is ongoing in many of the year's reports and all measures have therefore not been decided and implemented by Sida yet, the image below shows that external investigations of various sort have been implemented in 42 cases and own investigations in 16 cases. The Investigation group is currently analysing to what extent it is actually necessary to procure external investigations for gaining adequate supporting material for taking decisions on measures. A preliminary conclusion of this work is that in the future Sida could do more of its own investigations, and in this way gain a better and more relevant basis for decision-making, while investigation costs would decrease.

Withholding and reclaiming funds are two of the most important measures which Sida has for ensuring that partners use received funds for agreed purposes. During the year Sida reclaimed money in 21 cases for a total amount of approximately SEK 21,700,000. Funds have been withheld in 25 cases, of which in one case by SEK 80,000,000. In four cases Sida ended agreements with partners prematurely due to corruption investigations.

When there is suspicion of crime in a corruption investigation, Sida shall, or Sida's Swedish partner shall, report this to the Police or prosecution, provided that the crime was committed in Sweden. If the crime was committed in a cooperation country, this shall be reported to the Police there. In such cases, Sida ensures that the partner reports the suspected crime to the Police. During the year reports to the Police or prosecution were made in ten cases, of which two in Sweden.

In four cases, a reported corruption suspicion has been referred to other processes. This means that the report does not refer to an event which Sida has a mandate to investigate, for example, an issue which should be handled by Sida's Staff Disciplinary Board, Ministry for Foreign Affairs or Swedish missions abroad.

Aid to Sida's framework organisations

The number of corruption investigations among Sida's framework organisations is relatively constant and in 2013 there were 35 corruption investigations compared to 31 in 2012. Two-thirds of the year's reports

MEASURES TAKEN

Sida has reclaimed in

21

cases

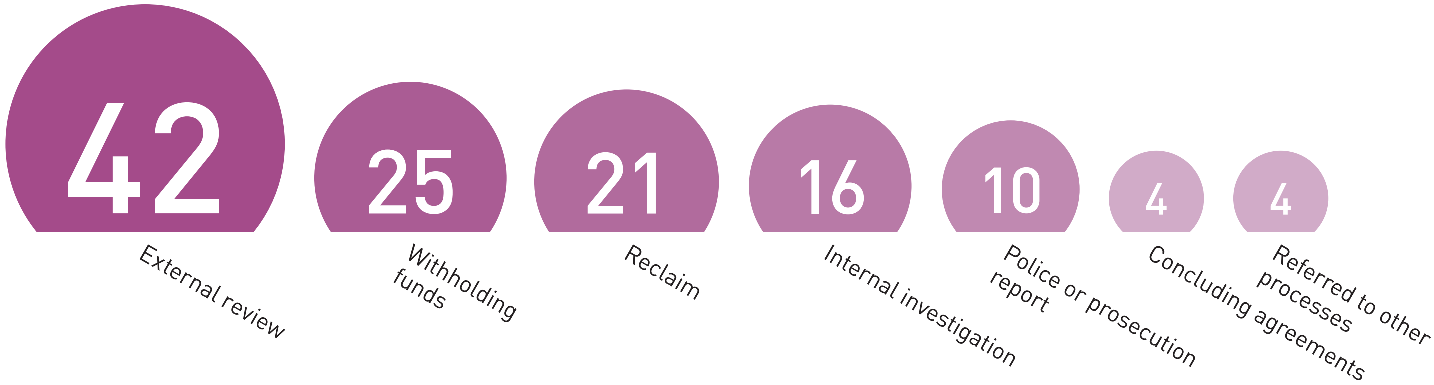
10 reports to the Police were made

FRAMEWORK ORGANISATIONS

35

investigations in 2013 compared to 32 in 2012

MEASURES TAKEN



In 2014 the Investigation group will start using new methods, for example, spot-checks, to detect suspicions of corruption in initiatives supported by Sida.

relate to suspicions of corruption in Africa. Incorrect use of funds and suspected crime comprise the most common type of corruption. In twelve cases framework organisations have reclaimed from partners with a total of approximately SEK 830,000.

Other observations

As the units Afghanistan and Humanitarian assistance had very few reports of suspicions of corruption in 2012, the Investigation group decided to focus particularly on them in 2013. The focus entails a closer collaboration between managers and officers at the units and the Investigation group, participants in the unit meetings and meetings with partners and customised training. In 2013, 12 reports were received from the Afghanistan unit and 15 reports from the Humanitarian unit, which shows that the measures taken have resulted in the officers at the units detecting suspicions of corruption more frequently than in previous years. The experiences from the focus of 2013 mean that in 2014 the Investigation group will have the same focus on the Department for Europe and Latin America, as the reports concerning cooperation countries there have decreased in 2013.

It can be stated that very few suspicions of corruption are reported to the Investigation group from the units which work with loans and guarantees, collaboration with trade and industry and ICT 4D. The Investigation group should therefore plan to focus on these units in an appropriate manner over the coming years.

In 2014 the Investigation group will start using new methods, for example, spot-checks, to detect suspicions of corruption in initiatives supported by Sida. The opportunity in Sida's agreements to conduct reviews and inspections on site will then be used. Norway's equivalent to the Investigation group has utilised this method with very good results to detect new suspicions within Norwegian aid.

An observation made in several of the year's investigations is that the budget for the initiative has not been adequately specified in order to enable monitoring. This means that the budget, during implementation of the initiative, does not comprise support for Sida's officers in the monitoring work and at the same time it creates room for partners to use Sida's funds in an unintended manner.

It can be claimed that in some of the year's investigations there were inadequacies in the agreements which Sida has with partners. The deficiencies have, among other things, involved the lack of entitlement to withhold funds and the entitlement to reclaim incorrectly used funds, which means that it will be more difficult for Sida to take measures when corruption has been demonstrated.

The Investigation group will also in the future actively contribute to an approach for handling initiatives which entails acting early on warning signs with the aim of minimising corruption risks.

THREE EXAMPLES OF INVESTIGATIONS DURING THE YEAR

Aid to the Government in a cooperation country

Sweden, represented by Sida, has a three year agreement with the Government in a cooperation country on aid for a Government programme which aims to increase decentralisation of public power in the country. The support for the Programme is coordinated with several other donors through a Memorandum of Understanding – an agreement which regulates how the coordination between donors should be conducted. According to the agreement, Sida should pay a total of SEK 60 million to the Programme for three years.

Following a procurement audit in the Programme, clear indications of irregularities were reported.

Following consultations in the donor group, immediate freezing of the already paid donor funds among the Government of the cooperation country was requested and it was decided that an in-depth financial audit would be conducted. Sida, which has paid a total of SEK 40 million to the Programme will withhold the remaining SEK 20 million whilst awaiting completion of the investigation.

The audit report from the in-depth audit revealed deficiencies and incorrect usage and/or embezzlement of donor funds, and with the report as a basis Sida decided to reclaim its share of the embezzled funds, approximately SEK 700,000.

Thereafter the donor group claimed that there was a need to also review the last year of the Programme in order to see if there are similar deficiencies for the period. The National Audit Office of the cooperation country will now conduct such an audit with terms of reference which were prepared in collaboration with the donor group and with support from the Investigation group. With an audit report from the review as a basis, Sida will decide whether additional funds should be reclaimed. Sida will then also decide whether the withheld SEK 20 million for the Programme should be disbursed.

The audit report from the in-depth audit revealed deficiencies, incorrect usage and/or embezzlement of funds.

With the report as a basis, Sida decided to reclaim its share of the embezzled funds.

Aid to forwarding NGOs

Sida has an agreement on aid for an NGO (NGO 1), which has forwarded aid to another NGO (NGO 2), which in turn has forwarded the aid to a third NGO (NGO 3) in one of Sida's cooperation countries.

Through foreign media Sida became aware that the NGO in the cooperation country was accused of corruption.

Following consultation between Sida and NGO 1, NGO 1 decided to, whilst awaiting investigation of the accusations, withhold such payments to NGO 2 which were intended for the NGO in the cooperation country.

Sida decided thereafter to conduct an in-depth audit of NGO 2 and 3. An external auditing company was assigned to review NGO 2. The auditing report revealed deficiencies within the organisation's internal management and control. Sida conducted a review on site of NGO 3. This was due to

Through foreign media Sida became aware that the organisation was accused of corruption.

The investigation revealed that there was no basis for the corruption accusations.

the fact that the case was politically sensitive and it was difficult to find external auditors who wanted to undertake the assignment. Sida's review showed that there were certain weaknesses within the internal management and control, while the accounting was organised and that there was complete supporting material. In addition, Sida's partner (NGO 1) conducted an investigation of its transactions to NGO 2 and claimed that there was supporting material for all transactions. Sida made the same assessment following a review of all verifications.

The afore-mentioned investigation gave Sida adequate supporting material to make the assessment that the accusations of corruption in the local NGO did not have a basis. However, Sida could claim that both NGO 1 and 2 failed in their monitoring of the funds and that there were administrative weaknesses among both NGO 2 and 3.

Based on the investigation, NGO 1 prepared an action plan for handling the aid to NGO 2 and 3. After Sida approved the action plan, NGO 1 paid the funds which had been withheld whilst awaiting investigation.

An anonymous tipster reported that the manager used the cooperation organisation's car for private use.

Aid to NGO in a cooperation country

Sida has agreements with a foreign NGO, which receives aid from Sida for its work within the health sector in southern Africa.

The case was reported to Sida by an anonymous tip which entailed the manager of the NGO utilising the organisation's car and funds for private use.

Sida immediately decided to withhold future payments for the organisation's operations whilst awaiting investigation of the accusations, except for funds for the direct operation of the organisation for preventing bankruptcy of the organisation in case the accusations turned out to be false.

An external auditing company was procured for conducting a financial audit. The audit report showed that there were significant weaknesses and deficiencies in the organisation. The deficiencies related to the organisation's manager and the Board's responsibility and control by the manager. Sida also conducted an in-depth financial audit of the organisation to gain clarity of certain details which the first audit did not clarify.

With the audit reports as a basis, Sida decided to reclaim payment of amounts which had been used incorrectly and outside agreed purposes by the NGO. Sida also terminated collaboration with the organisation on the whole and started work on finding other partners for the initiative.

Sida works according to directives of the Swedish Parliament and Government to reduce poverty in the world, a task that requires cooperation and persistence. Through development cooperation, Sweden assists countries in Africa, Asia, Europe and Latin America. Each country is responsible for its own development. Sida provides resources and develops knowledge, skills and expertise. This increases the world's prosperity.

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Address: 105 25 Stockholm, Sweden
Visiting address: Valhallavägen 199
Tel: +46 8 698 50 00 Fax: + 46 8 20 88 64
E-mail: sida@sida.se www.sida.se

Sida