



**ADDRESSING
CORRUPTION RISK
IN THE EEA AND
NORWAY GRANTS
ANNEX 1: METHODOLOGY**

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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CORRUPTION RISK ASSESSMENT TOOL FOR THE EEA/NORWAY FINANCIAL MECHANISM 2009- 2014, USER'S MANUAL (STAGE I: RISK FILTERING), 2012

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
PdP	Pre-defined Project
PO	Programme Operator
PP	Project Promoter
RFRM	Risk Filtering and Ranking Method
SC	Selection Committee
TI-S	Transparency International Secretariat

Figures and tables

Figure 1	Overall design of the corruption risk assessment process
Figure 2	Organisational structure of the EEA/Norway Financial Mechanism 2009-2014
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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).¹

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” (RFRM), 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.

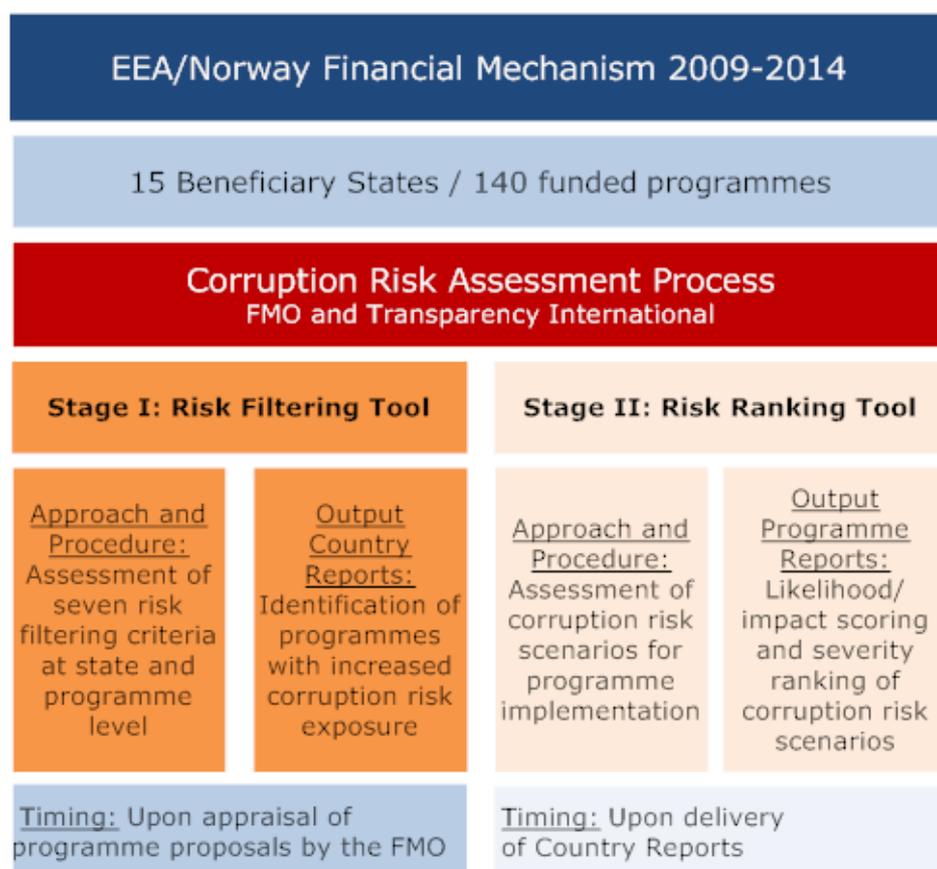
The risk filtering tool is meant to be applied by a single entity assigned by TI-S with the task of executing the first stage of the corruption risk assessment process. The output of this stage shall be reports which, for each BS, contain a substantiated classification of the individual programmes within 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”.

¹<http://www.eeagrants.org/>. The cooperation agreement between TI and the FMO of the EEA and Norway grants is available at <http://www.eeagrants.org/id/2478>

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 and Norway Grants website.²

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.³

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”.⁴ 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

² <http://www.eeagrants.org/id/1937.0>

³ 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 and Norway Grants website, <http://www.eeagrants.org/id/2222>.

⁴ The entire legal framework, including both regulations, are available on the EEA and Norway Grants website, <http://www.eeagrants.org/id/2563.0>.

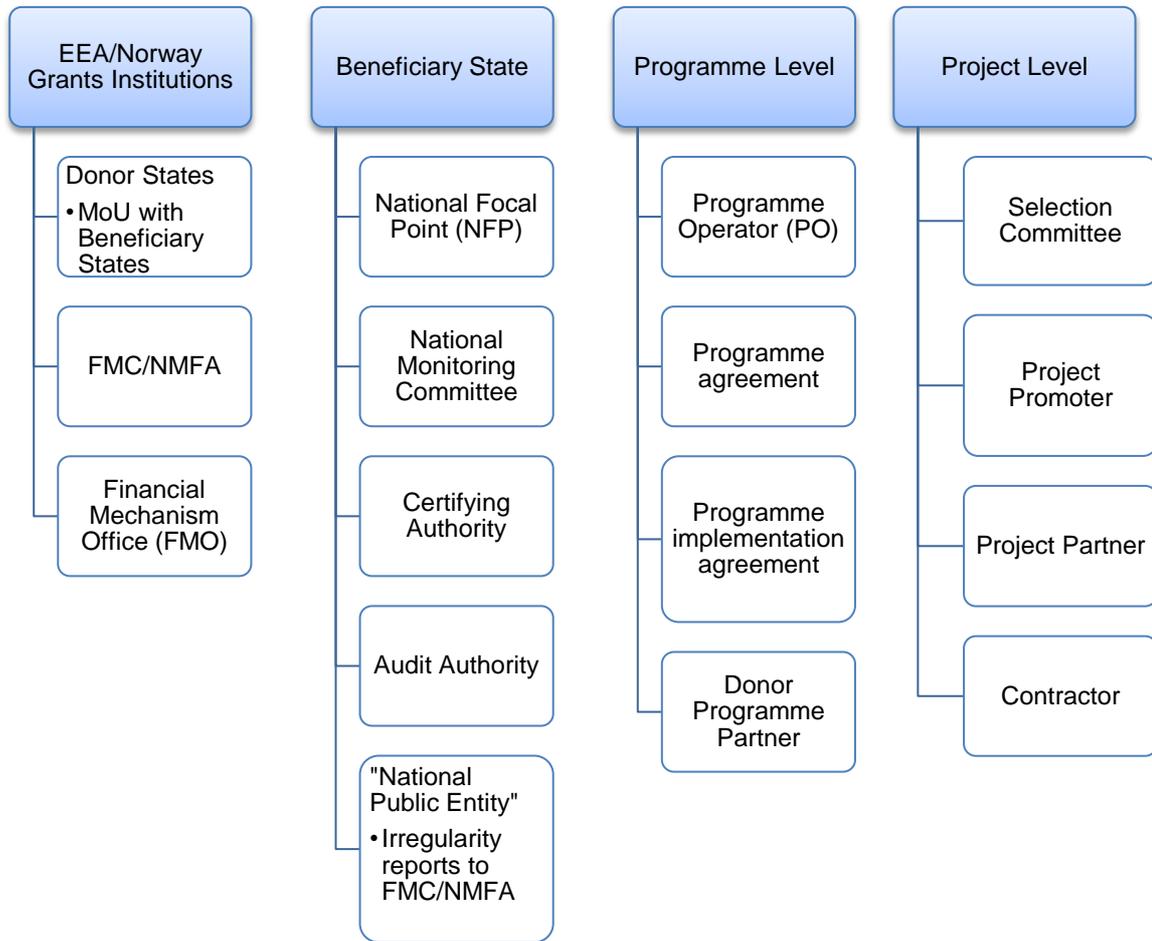
financial mechanisms is, however, operated by the Financial Mechanism Office (FMO), located in Brussels (see *organisational chart below in figure 2*).

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 and 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).⁵ 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

⁵The Corruption Perception Index provides a general indication of the variation between countries; it is, however, not directly related to the management of the EEA and Norway Grants in the respective Beneficiary States. TI's Corruption Perceptions Index 2011, published December 2011, is available at <http://cpi.transparency.org/cpi2011/>

involve large procurement procedures.⁶ 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.⁷

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).⁸ 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

⁶Information about the grant allocation to each programme area is contained in the MoU.

⁷ 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 and 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; and TI’s National Integrity System Assessments (see Annex 3).

⁸Yacov Y Haimes: Risk Modeling, Assessment, and Management, 2nd ed., John Wiley: Hoboken, 2004 (pp. 276).

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.

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

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

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

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.

Risk filtering criterion 2⁹ <i>Total FM grants allocated to a Beneficiary State, reduced by the management cost of the Donor States</i>	
Description: The extent to which the net amount of FM grants allocated to a country warrant enhanced operational corruption risk assessment.	
Research questions	Answer and justification
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 concerned¹⁰.

Sources: FMO data on total grants to all BS, EEA and Norway Grants website.

⁹ Note that criterion 2 was amended in August 2013. The risk rating for criterion 2 was conducted on the basis of revised research questions:

Research questions	Answer and justification
How large is the net amount of FM grants to the BS (in EUR)?	
How large is the net amount of grants compared to other BS?	

¹⁰ 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.

Risk filtering criterion 3 <i>Separation of functions within the FM's management structure</i>	
Description: 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 Annex 4 for background information)	
Research question	Answer and justification
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

<p>Risk filtering criterion 4 <i>Grants allocation to individual programme areas within the BS programme framework</i></p>	
<p>Description: Extent to which the grants allocated to individual programme areas (from both EEA and the Norway grants scheme) warrant an enhanced corruption risk assessment.</p>	
<p>Research questions</p>	<p>Answer and justification</p>
<p>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?¹¹</p>	
<p>Are there any sectoral or financial characteristics which might indicate a lower threshold, such as extensive public procurement within Programme Area X?</p>	

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.

¹¹ The threshold should be set by also taking into consideration the size of project grants within the programmes.

Risk filtering criterion 5 <i>Donor partnership programmes within the BS programme framework</i>	
Description: Degree of transparency of programmes which involve donor programme partners	
Research question	Answer and justification
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.

Risk filtering criterion 6 <i>Programmes including pre-defined projects</i>	
Description: Degree of specification and transparency of pre-defined projects within programmes	
Research questions	Answer and justification
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?	
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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.

<p><u>Risk filtering criterion 7</u> <i>Integrity of Programme Operators</i></p>	
<p>Description: Reputation of the institution functioning as the PO, responsible for preparing and implementing an individual FM programme in the BS.</p>	
<p>Research question</p>	<p>Answer and justification</p>
<p>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?</p>	
<p>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?</p>	

<p>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?</p>	
<p>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.¹²</p>	

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 entities¹³.

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.

¹² Due to practical research requirements, this research question was asked under criterion 6 instead of criterion 7 for all Beneficiary Countries included in the Corruption Risk Assessment.

¹³ 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.

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
EEA Grants								
Programme area X	med	med	low	high	high	high	med	high
Programme area Y								
Programme area [...]								
Etc...								
Norway Grants								
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 TO THE RISK FILTERING TOOL

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

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 - 2012)

Country	Launch date	Links to information / report	Information in English
Bulgaria	01.03.2012	NIS information on Chapter website Direct Link to report	Full report Methodology, findings and recommendations
Czech Republic	08.12.2011	NIS information on Chapter website (in Czech) Direct Link to report (in Czech)	none
Estonia	tbd	NIS information on Chapter website	
Greece	29.02.2012	NIS information on Chapter website	Executive Summary
Hungary	08.03.2012	NIS information on Chapter website Direct Link to report	Full report Executive summary
Latvia	09.03.2012	NIS information on Chapter website (in Latvian) Direct Link to report	Full report
Lithuania	April/May (tbc)		
Poland	05.03.2012	Partner website	Executive summary
Portugal	April (tbc)		
Romania	26.02.2012	NIS information on Chapter website Direct Link to report	Complete report
Slovakia	23.02.2012	NIS information on Chapter website Report not yet published on website	Executive summary

Slovenia	28.02.2012	NIS information on Chapter website (in Slovenian) Direct Link to report	Key findings and Conclusions
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.

REGULAR ANNEXES TO THE COUNTRY REPORTS¹⁴

ANNEX 1: Operationalisation of the Risk Filtering Criteria – Explanatory Notes (June 2013)

The following notes explain how the Risk Filtering Tool was implemented, detailing the operationalisation of the criteria and including various sources used in the research process. It should be noted that country-level results do not predispose the assessment of the programme-level results, and while the country-level criteria serve an important function in setting the national context of the Risk Filtering procedure, the ultimate goal is to identify particular programmes exposed to corruption risk within the country concerned.

Country-level criteria

The implementation of criteria 1-3 of the Risk Filtering Tool required the operationalisation of both quantitative and qualitative indicators to enable a comparative assessment among the Beneficiary States. The following provides insight into the research undertaken and the sources used in the process.

Risk Filtering Criterion 1

The general assessment of corruption risks in Beneficiary States (crit. 1) was guided by three research questions. In order to answer the first question, regarding the rank in international corruption indices, Transparency International's (TI) Corruption Perceptions Index (CPI, published Dec. 2012) was used together with the World Governance Indicator for "Control of Corruption" (WGI, 2012 update).¹⁵ The results for all countries are listed in *Annex 2*.

Based on the rankings, it would be possible to divide the 15 countries concerned into three groups (as displayed in the table with the colours red, orange, and yellow) labelled as high, medium and low corruption risk. However, the results of TI's Global Corruption Barometer (GCB) published in June 2013 suggest a more ambivalent pattern and were used for assessing the second research question regarding structural weaknesses in the efforts to combat corruption.¹⁶

The answers reveal that not only do a vast majority of the respondents in most countries think that the level of corruption has increased, but people also seem to think that their respective government's actions in the fight against corruption are ineffective. This holds true even for those countries that ranked best in the CPI and WGI list, suggesting negative trends and persisting structural weaknesses in most Beneficiary States' efforts to combat corruption.

¹⁴ These annexes were attached to each country report.

¹⁵ For TI's CPI see <http://cpi.transparency.org/cpi2012/results/>. For the WGI see <http://info.worldbank.org/governance/wgi/index.asp>

¹⁶ For GCB 2013 data see <http://www.transparency.org/gcb2013>

The GCB survey also asked a question which is particularly relevant for the EEA and Norway Grants scheme: "To what extent do you think that corruption is a problem in the public sector in this country". A score of 5 means "a very serious problem". The respondents in many Beneficiary States assigned a score that is higher than the global average of 4.1.

In sum the CPI, the WGI, and the GCB results show a pattern of persisting challenges. With some reservations, Estonia could figure as being at low risk of corruption, while many countries seem to be at medium risk, and Romania, Bulgaria and Greece would have to be considered at high risk. At the same time, the results for Lithuania, Latvia, the Czech Republic and Slovakia do pose the question of distinguishing between medium and high risk countries, which requires consideration of qualitative indicators.

The third research question for the Risk Filtering criterion 1 was operationalised by reviewing the results of the National Integrity System Assessments (NIS) generated by the Transparency International Secretariat and the TI National Chapters for most countries concerned, excluding Malta and Cyprus.¹⁷ While the numeric assessments of institutional performance provided in the country studies cannot not be directly compared, they still help to get a more nuanced picture of the situation in the countries.

The information extracted from the NIS reports included (a) the degree of consistency between law and practice, indicating whether corruption is of a systemic nature; (b) the evaluation of the Judiciary and Agencies with the explicit mandate to combat corruption (sometimes called Anti-corruption Agencies, ACA), with the performance of these institutions partly depending on their independence from political influence; (c) the state of the official anti-corruption strategy, taken as an indication of the government's resolve to combat corruption.

Risk Filtering Criterion 2

The second country-level criterion focuses on the absolute grants amount allocated to each Beneficiary State. The relevant table attached in *Annex 2* displays the respective numbers. The net amount of grants (after deduction of Donor management costs) ranges from EUR 4.2 million for Malta to EUR 534.7 million for Poland.

The five beneficiaries receiving the largest net grants in absolute terms are Poland, Romania, Hungary, the Czech Republic and Bulgaria (colour-coded in red). The five medium-range countries (orange) are Lithuania, Slovakia, Latvia, Greece and Portugal (less than EUR 80 million). The final group includes Estonia, Spain, Slovenia, Cyprus and Malta (less than EUR 50 million, coloured yellow).

The rationale behind this financial criterion is that a comparatively larger amount of funding implies an increased exposure of the grants scheme to corruption risk, whereas the risk exposure is lower if the grants amount is comparatively smaller.

With respect to the grants scheme, the Beneficiary States mentioned above, which receive the largest amount of funding (EUR 117.1 to 534.7 million) are generally considered more exposed to corruption risk than the middle group (EUR 53.6 to 77.7 million). The general risk exposure of the

¹⁷ For details on the National Integrity System approach and the NIS Europe project in particular see <http://www.transparency.org/whatwedo/nis/>

third group of Beneficiary States, receiving smaller grants (EUR 4.2 to 44.9 million), is expected to be comparatively lower.¹⁸

Risk Filtering Criterion 3

The third country-level criterion concerns the exposure to corruption risks attached to a possible concentration of functions in the national grant management arrangements. Each Memorandum of Understanding (MoU) between the Donors and the Beneficiary State was screened for information about the national management and control structure.¹⁹

Of particular interest was whether the responsible entities within the national grants management arrangements – the National Focal Point, the Certifying Authority and the Auditing Authority – belong to different institutions or not.

If the Focal Point, the Certifying Authority and the Auditing Authority were all part of one and the same ministry, this would limit the separation of functions, thus increasing the exposure of grant management to corruption risk, even if the respective tasks are assigned to different departments. Particular provisions ensuring functional independence of responsible management entities can improve the separation of functions.

A special constellation in the national grants management arrangements occurs if the Focal Point also functions as the Programme Operator for one or more programmes. Given that the Focal Point carries the overall responsibility for grant management, which usually requires supervision of the Programme Operators, such concentration of functions would entail an increased corruption risk exposure. The programme documents, which were also used for assessing the programme-level criteria (see below) were checked for relevant information.

Additional research questions aim to ascertain whether the National Focal Point is also responsible for submitting reports about possible “irregularities” to the Donors, or whether the Certifying Authority, the Auditing Authority, or another entity, carry out this function independently. Each Memorandum of Understanding also includes an organogram displaying which entity was assigned with the task of reporting irregularities.

Criterion 3 also required the evaluation of the “Complaint Mechanism”, which all Beneficiary States are expected to publicise on the homepage of the national grants website. The complaint mechanism is meant to provide a channel for the confidential reporting of corrupt practices. The Complaint Mechanism was verified by comparing the relevant website information with the template developed by TI and suggested by the FMO for advertising the complaints mechanism on the Focal Point website. Given that the Complaint Mechanism is thought to be a key measure for transparency in grants management, a missing or inadequate Complaint Mechanism would trigger a “red flag” indicating a high exposure to corruption risk.

Programme-level criteria

The implementation of criteria 4-7 of the Risk Filtering Tool chiefly involved research into the non-financial risk facing each programme. This is particularly true of criteria 5-7, which focus on the

¹⁸ For methodological reasons, the grants per capita indicator contained in the Risk Filtering Manual is no longer used in this report.

¹⁹ For the MoU with Beneficiary States see <http://eeagrants.org/Results-data/Results-overview/Documents/Legal-documents/Memoranda-of-Understanding>

involvement of Donor Programme Partners (crit. 5), on the transparency of the so-called Pre-defined Projects within a programme (crit. 6) and on the integrity of the Programme Operators (crit. 7).

Only criterion 4, which deals with comparative grant allocation to the programmes, refers primarily to financial risk. However, it also encompasses specific sector risk linked to a programme area, in addition to risks attached to a predominant single project or large-scale procurement foreseen within a programme.

The following provides a detailed account of the research process in order to explain how the evidence towards the assessment of the programme-level criteria was collected. The process conformed closely with the user's manual and research guidance for the Tool, which also prescribed the involvement of major stakeholders in the investigations.

Following the evaluation of programme documents and the preparation of *Programme Fact Sheets*, a *Corruption Risk Survey* was conducted for each programme. The survey was completed separately by the responsible Programme Manager at the FMO, the responsible Head of the National Focal Point, a Civil Society Organisation and the Donor Programme Partner(s) (if any were involved in the programme in question). More details on the Corruption Risk Survey are provided below.

Simultaneously to the Corruption Risk Survey, the Berlin Risk Institute conducted a *Due Diligence Operation* using the "Dow Jones Risk and Compliance" database and targeted internet searches to illuminate the possible implication of programme institutions and personnel in corruption risk. The Due Diligence Operation is also described in more detail below.

Preparation and completion of programme fact sheets

The Corruption Risk Filtering procedure for a programme started with the finalisation of the Implementation Agreement between representatives of the Donors and the National Focal Point in the Beneficiary State. The FMO sent the Berlin Risk Institute the relevant programme documents, comprising the Implementation Agreement as well as key annexes to the initial Programme Proposal which had been developed by the Programme Operator. In light of this information, a special verification procedure was established in order to take account of changes in the programme structure and organisation made during the appraisal and approval process.²⁰

Using the programme documents provided by the FMO, the Berlin Risk Institute prepared Programme Fact Sheets (see *Annex 3* for the Programme Fact Sheet template) and submitted these to the Focal Point in order to verify the final management structure for each programme.

This cooperative procedure served to gather accurate information about the key personnel at the Programme Operator, including the identity of the "Responsible Senior Official" and the "Main Operational Officer".²¹ The involvement of other institutions and personnel in programmes was also verified. This concerned Donor Programme Partners as well as Project Promoters and Project Partners in Pre-defined Projects; for these institutions the accuracy of our information regarding the

²⁰ The Implementation Agreement does not contain information on key personnel in the management structure, whereas the original Programme Proposal was in part outdated.

²¹ The term "Responsible Senior Official" refers to the senior decision-maker at the institution, who bears overall responsibility for the successful implementation of the programme or project in question. The term "Main Operational Officer" refers specifically to the member of staff in charge of managing the programme or project in question. The Focal Point was informed of these definitions.

respective “Responsible Senior Officials” was also determined. Moreover, the National Focal Point assisted in completing the Programme Fact Sheets by gathering information regarding the “professional associations” and “political affiliation”, of individuals involved in the programmes and by collecting missing CVs.²²

The completed Programme Fact Sheets served as the basis for conducting both the Corruption Risk Survey and the Due Diligence.

Corruption risk survey

The Risk Filtering Manual prescribed that the Berlin Risk Institute should address major stakeholders in the Grants scheme in the process of investigating elevated corruption risk affecting particular programmes. Given that many of the programmes featured a complicated management structure (due to the inclusion of Pre-defined Projects and the participation of Donor Programme Partners), the Berlin Risk Institute developed and implemented a dedicated Corruption Risk Survey with Transparency International. The purpose of the Corruption Risk Survey was directly to elicit from the key actors familiar with the programmes any indications of corruption risks corresponding to the Risk Filtering Criteria at the programme-level.

For this purpose the research questions for the Risk Filtering Criteria were operationalised in the form of a generic questionnaire. As appropriate, a specific combination of these questions was then prepared for each individual group of respondents, i.e. the Programme Managers (at the FMO), a selected representative at the National Focal Point, the Donor Programme Partners (if any were involved in the programme in question) and a Civil Society Organisation in the Beneficiary State (see *Annex 3* for the questionnaire templates for each group).

Before the surveys were sent out to the respondents, each questionnaire was tailored to the specific programme structure, i.e. adapted to account for the actual number of Pre-defined Projects and Donor programme Partners included in the programme.

The appropriate surveys were sent out to the relevant stakeholders for each programme. Each survey was organised as an Excel-file, containing the specific Programme Fact Sheet with the information about institutions and personnel involved and the tailored questionnaire. “Instructions” for completing the Corruption Risk Survey were also attached (see *Annex 4*).²³

Due diligence operation

On the basis of Programme Fact Sheets prepared in cooperation with the National Focal Point, the Berlin Risk Institute executed an Integrity Due Diligence procedure covering the main institutions and personnel involved in managing and implementing each programme. The procedure started with screening CVs and information about professional associations and political affiliations.

The main part of the Due Diligence Operation consisted of searching Dow Jones Risk and Compliance (DJRC) databases for entries in anti-corruption “watch lists”. Such “watch lists” not only

²² The term “political affiliation” refers to an individual’s memberships or posts held presently or in the past in any formal political party. The term “professional associations” refers to any memberships or posts held in any professional boards or associations.

²³ The confidential surveys are electronically stored at the Berlin Risk Institute and can be viewed on request following agreement with Transparency International Secretariat.

indicate serious incidents of corruption, but they also contain records of “Politically Exposed Persons” (PEP) in particular. The term applies to individuals who are, or have been, entrusted with prominent public functions. Politically Exposed Persons represent a greater corruption risk because of the possibility that they might abuse their position to misappropriate state assets or funds and or to accept or extort bribes.²⁴

Following the watch-list checks, the DJRC news database “Factiva” was searched for negative new records in relation to corruption, including all main Beneficiary State institutions and personnel involved in the Programme. Publicly available internet resources were also checked using both English and national languages.

The overview table detailing the Due Diligence Procedure conducted in this operation (*Annex 5*) summarises the standard system applied in order to check the institutions and individuals involved. In order to maintain a clear track record of the search process, both negative and positive results were recorded.

The information retrieved from the databases and news searches feeds into a programme-level risk filtering template (confidential, not included in this report), alongside the information retrieved from the surveys. Each programme-level criterion is rated as representing a low, medium or high exposure to corruption risk based on an aggregated judgment of the findings.

The individual rating of each programme’s criteria is finally displayed in the overview table 3 in the executive summary which contains the general results for the Corruption Risk Filtering procedure for the country. This table also contains the combined assessment of the programme-level criteria for each programme, which is further detailed in the executive summary. Particular recommendations concerning the programmes are eventually based on these combined assessments.

²⁴ Internal supporting Information provided by DJRC: What is a PEP? (see FATF and EC Directive 2006/70/EC Art. 2 for similar concepts of PEP). The PEP categories in DJRC include: Heads of State/National Government (and Deputies), National Government Ministers, Members of the National Legislature, Senior Civil Servants in National and Regional Government, Embassy and Consular Staff, Senior Members of the Armed Forces, Police Services, Secret Services, the Judiciary, State Corporation Executives, State Agency Officials, Heads and Deputy Heads of Regional Government, Regional Government Ministers, Religious Leaders, Political Party Officials, International Organisation Officials, City Mayors, Political Pressure and Labour Group Officials. While there is no guarantee that PEP records are complete, all relevant entries in relation to this Due Diligence Operation were included in the Risk Filtering of the programme-level criteria.

ANNEX 2: Overview tables of Beneficiary States' corruption risk rating and grant allocations (June 2013)

Crit. 1 General Assessment of corruption risks within Beneficiary States (1)				
Beneficiary States	How does the concerned BS rank in international corruption indices?			
	CPI 2012 (2)		WGI 2012 (3) Control of Corruption	
Name	score 0 = highest corruption level, 100 = lowest corruption level	Country Rank (of 176 countries)	Percentile Rank 0 = worst, 100 = best	Governance Performance Score -2.5 = worst, 2.5 best
Greece	36	94	56	-0.15
Bulgaria	41	75	55	-0.17
Romania	44	66	55	-0.20
Slovakia	46	62	66	0.29
Czech Republic	49	54	67	0.32
Latvia	49	54	64	0.21
Lithuania	54	48	66	0.29
Hungary	55	46	67	0.34
Malta	57	43	78	0.91
Poland	58	41	72	0.51
Slovenia	61	37	79	0.93
Portugal	63	33	83	1.09
Estonia	64	32	79	0.91
Spain	65	30	81	1.06
Cyprus	66	29	80	0.96

Explanations
(1) Criterion 1 - Description: The extent to which the BS is generally perceived as being exposed to corrupt practices.
(2) Transparency International's Corruption Perceptions Index 2012 is based on a new methodology with the scores for measuring corruption now ranging from 0, which equals the highest level of perceived corruption to 100, which equals the lowest level of perceived corruption. The scores correspond with country ranks in the next column.
(3) World Governance Indicators measure the quality of governance covering six key dimensions. This column displays the results in the dimension "Control of Corruption". Percentile rank among all countries ranges from 0 (lowest) to 100 (highest) rank. Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

Crit. 2 Net amount of grants to Beneficiary States	
Beneficiary States	Net amount of grants (m. EUR)
Poland	534.7
Romania	283.0
Hungary	141.8
Czech Republic	121.9
Bulgaria	117.1
Lithuania	77.7
Slovakia	74.7
Latvia	67.5
Greece	58.6
Portugal	53.6
Estonia	44.9
Spain	42.5
Slovenia	24.9
Cyprus	7.3
Malta	4.2

ANNEX 3: Programme Fact Sheets and Corruption Risk Survey (templates, June 2013)

EEA and Norway Grants - Programme Fact Sheet (Template)

Category	Programme Information	Personnel Information		
		CV	Professional associations	Political affiliation
Country				
Programme Code				
Programme Title				
Grant Amount (€)				
Programme Operator				
Operator Institution (a)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
Main Operational Officer	(Officer's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
National Programme Partner (b)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past

Main Operational Officer	(Officer's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
Donor Partner(s) at Programme Level				
Partner Institution (a)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)			
Partner Institution (b)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)			
Pre-Defined Project(s)				
Pre-defined Project Title (1)				
Project Promoter (a)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
National Partner (b)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
National Partner (c)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past

Donor Partner (d)	(Institution's name)			
Donor Partner (e)	(Institution's name)			
Pre-defined Project Title (2)				
Project Promoter (a)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
National Partner (b)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
Donor Partner (c)	N/A			
Pre-defined Project Title (3)				
Project Promoter (a)	(Institution's name)			
Responsible Senior Official	(Official's Name and Role Title)	Attach CV	Please detail all memberships and posts in professional boards or associations	Please detail all political party memberships and posts held currently and in the past
National Partner (b)	N/A			
Responsible Senior Official	N/A	N/A	N/A	N/A
Donor Partner Institution (c)	(Institution's name)			
Donor Partner Institution (d)	(Institution's name)			

Survey of Programme Manager

Corruption risk filtering procedure / programme level criteria					
[Country Code, Programme Number] [Title of Programme]					
Your full name:					
Your role in the Programme:					
				Mark correct cell with X	
				if Yes, give a short explanation	
Crit .	Code	Question	No	Yes	
4	41	Does the maximum grant amount for any single project exceed 1/3 of the total Programme grant?			
4	42	Is it expected that the Programme will involve procurement exceeding 1/4 of the total Programme grant?			
4	43	Is the relevant Programme sector known to be affected by corruption risk in the country?			
5	<i>(If the Programme is a Donor Partnership Programme, the survey includes the questions 51-53)</i>				
5	51	Was/were Donor Partner/s involved in revising the Programme Proposal?			
5	52	Does/Do the Donor Partner/s have a decision-making role in the Programme's implementation, including calls for proposals, project selection, and procurement?			
5	53	Does the involvement of Donor Partner/s entail special measures and structures which increase the transparency of the implementation of the Programme?			
6	<i>(If the Programme involves one Pre-defined Project or more, the survey includes questions 61-67 for each Pre-defined Project)</i>				
6	61	Was the Pre-defined Project agreed in the Memorandum of Understanding?			
6	62	Was the Pre-defined Project first introduced in the Programme Proposal?			

6	63	Does the Pre-defined Project involve Donor Partner/s?			
6	64	Was the Pre-defined Project Promoter first introduced in the Programme Proposal?			
6	65	Is the justification for the Pre-defined Project in any way lacking in a clear and satisfactory rationale?			
6	66	Are there any indications that the relationship between key personnel of the Programme Operator and the Pre-defined Project Promoter might present a "conflict of interest"?			
6	67	Are there any indications that the management of the Pre-defined Project might be affected by corruption risks linked to Project Partners?			
7	71	Has the Programme Operator institution been associated with allegations or evidence of corruption?			
7	72	Has the Programme Operator's key personnel ever been associated with allegations or evidence of corruption, either directly or indirectly through personal relationships?			
7	73	Did the appraisal of the Programme Proposal reveal any corruption risks that required changes to the Programme's management structure?			
7	74	Are there any indications that membership in professional associations or political parties exposes the Programme Operator's key personnel to corruption risks?			
7	75	Are there any indications that personal connections might induce a "conflict of interest" involving the Programme Operator's key personnel during the implementation of the Programme?			

Survey of Focal Point

Corruption risk filtering procedure / programme level criteria					
[Country Code, Programme Number] [Title of Programme]					
Your full name:					
Your role in the Programme:					
				Mark correct cell with X	
Crit .	Code	Question	Mark correct cell with X		if Yes, give a short explanation
			No	Yes	
4	43	Is the relevant Programme sector known to be affected by corruption risk in the country?			
5	<i>(If the Programme is a Donor Partnership Programme, the survey includes the following questions 52-54)</i>				
5	52	Does/Do the Donor Partner/s have a decision-making role in the Programme's implementation, including calls for proposals, project selection, and procurement?			
5	53	Does the involvement of Donor Partner/s entail special measures and structures which increases the transparency of the implementation of the Programme?			
5	54	Are there any indications that the involvement of Donor Partner/s exposes the Programme to corruption risk?			
6	<i>(If the Programme involves one Pre-defined Project or more, the survey includes questions 66-67 for each Pre-defined Project)</i>				
6	66	Are there any indications that the relationship between key personnel of the Programme Operator and the Pre-defined Project Promoter might present a "conflict of interest"?			

6	67	Are there any indications that the management of the Pre-defined Project might be affected by corruption risks linked to Project Partners?			
7	71	Has the Programme Operator institution been associated with allegations or evidence of corruption?			
7	72	Has the Programme Operator's key personnel ever been associated with allegations or evidence of corruption, either directly or indirectly through personal relationships?			
7	74	Are there any indications that membership in professional associations or political parties exposes the Programme Operator's key personnel to corruption risks?			
7	75	Are there any indications that personal connections might induce a "conflict of interest" involving the Programme Operator's key personnel during the Programme's implementation?			

Survey of Donor Partner

Corruption risk filtering procedure / programme level criteria					
[Country Code, Programme Number] [Title of Programme]					
Your full name:					
Your role in the Programme:					
				Mark correct cell with X	
				if Yes, give a short explanation	
Crit.	Code	Question	No	Yes	
4	43	Is the relevant Programme sector known to be affected by corruption risk in the country?			
5	51	Were you involved in revising the Programme Proposal?			
5	52	Do you have a decision-making role in the Programme's implementation, including calls for proposals, project selection, and procurement?			
5	53	Does your involvement in the Programme entail special measures and structures which increase the transparency of the implementation of the Programme?			
6	<i>(If the Programme involves Donor Partner's participation in Pre-defined Project/s, the survey includes questions 65-66 for each Pre-defined Project)</i>				
6	65	Is the justification for the Pre-defined Project in any way lacking in a clear and satisfactory rationale?			
6	66	Are there any indications that the relationship between key personnel of the Programme Operator and the Pre-defined Project Promoter might present a "conflict of interest"?			
7	71	Has the Programme Operator institution been associated with allegations or evidence of corruption?			

7	72	Has the Programme Operator's key personnel ever been associated with allegations or evidence of corruption, either directly or indirectly through personal relationships?			
7	73	Did the appraisal of the Programme Proposal reveal any corruption risks that required changes to the Programme's management structure?			
7	74	Are there any indications that membership in professional associations or political parties exposes the Programme Operator's key personnel to corruption risks?			
7	75	Are there any indications that personal connections might induce a "conflict of interest" involving the Programme Operator's key personnel during the implementation of the Programme?			

Survey of Civil Society Organisation

Corruption risk filtering procedure / programme level criteria					
[Country Code, Programme Number] [Title of Programme]					
Your full name:					
Your role in the Organisation:					
				Mark correct cell with X	if Yes, give a short explanation
Crit.	Code	Question	No	Yes	
4	43	Is the relevant Programme sector known to be affected by corruption risk in the country?			
6	<i>(If the Programme involves one Pre-defined Project or more, the survey includes questions 66-67 for each Pre-defined Project)</i>				
6	66	Are there any indications that the relationship between key personnel of the Programme Operator and the Pre-defined Project Promoter might present a "conflict of interest"?			
6	67	Are there any indications that the management of the Pre-defined Project might be affected by corruption risk linked to Project Partners?			
7	71	Has the Programme Operator institution been associated with allegations or evidence of corruption in the last four years?			
7	72	Has the Programme Operator's key personnel ever been associated with allegations or evidence of corruption, either directly or indirectly through personal relationships?			

7	75	Are there any indications that personal connections might induce a "conflict of interest" involving Programme Operator's key personnel during the implementation of the Programme?			
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ANNEX 4: Background and instructions for completing the corruption risk survey (June 2013)

In 2011, the FMO embarked on a partnership with Transparency International (TI) which aims at supporting the donors' policy of zero tolerance to corruption in the EEA/Norway Financial Mechanism. In order to identify any potential corruption risks that may exist in the Grant scheme, TI and the Berlin Risk Institute developed a dedicated risk assessment methodology.

This survey contributes to identifying those programmes which are significantly exposed to corruption risk. To inform this assessment, selected representatives of key stakeholders in the Grants scheme at the National Focal Points, the Financial Mechanism Office, the donor partners, and civil society organisations in each country are asked independently to complete a specially designed version of the survey. The questions asked in the survey are based on provisions outlined in the Risk Filtering Tool. The respondents' answers will complement information gathered through a systematic search of risk and news databases.

Please note that the survey process is confidential, which implies that the information provided in the answers will be aggregated anonymously at the Berlin Risk Institute. Only a summary of the results of this process will be displayed in the country report covering any potential corruption risks facing the programmes.

The country report and subsequent consultations are expected to enable recommendations if any of the programmes may be selected to undergo an enhanced assessment in the second phase, via the implementation of the Risk Ranking Tool.

How to fill out the questionnaires

The Survey comprises two documents for each programme, contained in a single Excel-file:

1. The programme fact sheet detailing key reference information regarding the institutions and personnel involved;
2. The programme questionnaire, to be filled out with reference to the fact sheet.

The procedure for filling out the questionnaire is as follows:

STEP 1: Enter your organisation, your full name and your role in the programme in the boxes provided at the top of the sheet. In the following rows, the respondent should only enter information in the three boxes on the right hand side of the questionnaire.

STEP 2: Please mark your answers with "X" in the "No" or "Yes" box, as appropriate.

If the answer is "Yes", please also provide a short explanation.

Please note:

When answering the questions, any indication of corrupt practices you may be aware of is relevant and should be brought to our attention. The responses for each programme will be thoroughly, and confidentially, cross-checked.

If you have any doubts or questions about how to complete the questionnaire, or concerns regarding certain pieces of information, please do not hesitate to contact the Berlin Risk Institute on a strictly confidential basis.

ANNEX 5: Standard due diligence procedure (June 2013)

STANDARD DUE DILIGENCE PROCEDURE	DJRC Anti-corruption databases search	Factiva news search	Internet search	Search results recorded		Reference
				negative	positive	
Programme Operator (PO): institution	./.	name + corruption-related terms (English& national language)	name + corruption-related terms (English& national language)	no entry	institution associated with corruption incident XY	reference to supporting document
PO key personnel: Responsible Senior Official Main Operational Officer	full name	full name + corruption-related terms (English& national language)	full name + corruption-related terms (English& national language)	no entry	subject associated with corruption incident XY	reference to supporting document
National Programme Partner: Institution (if any)	./.	name + corruption-related terms (English& national language)	name + corruption-related terms (English& national language)	no entry	Institution associated with corruption incident XY	reference to supporting document
National Programme Partner: Responsible Senior Official(if any)	full name	full name + corruption-related terms (English& national language)	full name + corruption-related terms (English& national language)	no entry	subject associated with corruption incident XY	reference to supporting document
Pre-defined Project (PdP): Project Promoter Institution(if any)	./.	name + corruption-related terms (English& national language)	name + corruption-related terms (English& national language)	no entry	institution associated with corruption incident XY	reference to supporting document
PdP Project Promoter: Responsible Senior Official(if any)	full name	full name + corruption-related terms (English &national language)	full name + corruption-related terms (English &national language)	no entry	subject associated with corruption incident XY	reference to supporting document
PdP National Partner: Institution(if any)	./.	name + corruption-related terms (English& national language)	name + corruption-related terms (English& national language)	no entry	institution associated with corruption incident XY	reference to supporting document

PdP National Partner: Responsible Senior Official(if any)	full name	full name + corruption-related terms (English& national language)	full name + corruption-related terms (English& national language)	no entry	subject associated with corruption incident XY	reference to supporting document
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