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Norway's Monitoring of Development Aid and it's Results: A Gut-Feeling Approach

The Case of Ukraine

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This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

Abstract

This thesis addresses the risk of corruption in development aid. The study investigates whether the risk assessments and risk mitigating measures used by Norway's Ministry of Foreign Affairs (MFA) sufficiently prevent Norwegian aid from being wasted in fraud and corruption. The methodology is a case study of Ukraine where qualitative data collected in interviews and documents are triangulated by quantitative data collected in aid statistics.

MFA has a zero-tolerance policy for financial irregularities, corruption and misappropriation of assets, including negligence in the management of aid to foreign countries. With respect to Ukraine, MFA had solid information from several sources about the risk of corruption, including the fact that Norwegian development aid to Ukraine could be exposed to the problem. In this study I find there has been an increased effort to improve governance, results-based management and anticorruption in MFA between 2014 and 2018, yet the initiatives do not appear to reach aid-financed projects in Ukraine until 2016-2017.

Despite efforts to improve monitoring of aid, I find that MFA's routines for risk analysis and risk mitigation are inadequate. MFA did not request systematic corruption risk assessment from project partners in grant applications, nor did they monitor how project partners perform corruption risk mitigation. The most frequent response to how MFA and project partners have analyzed and navigated corruption risk is some version of gut-feeling. The practices are inadequate and insufficient given the strict requirements of The Norwegian Penal Code and MFA's own anticorruption guidelines.

Foreword and Acknowledgements

This thesis concludes my Master of Science in Business Administration at the Norwegian School of Economics (NHH) and is written with much appreciated support from the Norwegian Centre for Taxation at NHH.

The topic arose while visiting Ukraine as a student in the course “*Corruption, Incentives, Liabilities and Disclosure*” with professor Tina Søreide in March 2017, where I became aware of the increased level of Norwegian development aid to Ukraine. This caught my interest and raised the question: How do Norwegian aid agencies navigate the corruption risk in Ukraine, where I had learned that corruption permeates all levels of society, without any of the funds being lost in corruption? I initially had the objective to find explanatory factors that lead to misuse of aid, fraud or corruption, using accounting data. Ideally, the objective was to develop an RPA (robotic process automation), to search the entire digitalized accounting data for unexpected transactions and journal entries. While researching the topic, it has become apparent that the digitalized accounting data is not available, nor is the time frame and scope of the master thesis sufficient to conduct such a study. Thus, it is not possible to apply this technique at this time. The methodology had to change, and I focused on corruption risk assessment and monitoring processes in Norwegian development aid.

Working on this thesis has been challenging and interesting. Data availability and establishing best-practice for corruption risk assessment in aid has been demanding and provided me with valuable insights and learning.

I am grateful to the sources who were willing to provide me with their experience and openly discussed their process for corruption risk analysis and monitoring. I would like to thank Development Counselor Petter Bauck at the Norwegian Embassy in Ukraine for his contribution and valuable information, MFA for providing me with documents and information, and the project partner representatives who kindly contributed with documentation and information. The findings in my thesis would not have been possible to obtain without your cooperation. Finally, I would like to thank my supervisor Prof. Tina Søreide for her insightful and patient guidance, and for challenging me.

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Acronyms and Abbreviations

ARMA: Asset Recovery and Management Agency
CMI: Christian Michelsen Institute
COSO: Committee of Sponsoring Organizations of the Treadway Commission
CSO: Civil Society Organization
DAC: The OECD Development Assistance Committee
DOJ: United States Department of Justice
EEA: European Economic Area
EU: European Union
EY: Ernst and Young
FCPA: Foreign Corrupt Practices Act
ILPI: International Law and Policy Institute
MFA: Norwegian Ministry of Foreign Affairs
MNRP: Management of Natural Resources Programme
NABU: National Anti-Corruption Bureau of Ukraine
NACP: National Agency on Prevention of Corruption in Ukraine
NGU: Norges Geologiske Undersøkelser / Geological Services of Norway
NHH: Norwegian School of Economics
NOK mn: Million Norwegian kroner
NOK: Norwegian kroner
Norad: The Norwegian Agency for Development Cooperation
NUCC: Norwegian-Ukrainian Chamber of Commerce
OECD: Organization for Economic Co-operation and Development
SAPO: Specialized Anti-Corruption Prosecutor's Office
SDGs: Sustainable Development Goals
SEC: United States Securities and Exchange Commission
SIVA: Selskapet for industrivekst
TI: Transparency International
UAH: Ukrainian currency Hryvnja
UN: United Nations
UNODC: United Nations Office on Drugs and Crime

List of Translations

Ambassaderåd: Development Counsellor / Counsellor for Development
Riksrevisjonen: Office of the Auditor General
Seksjon for tilskuddsforvaltning: Section for Grant Management
Sentral kontrollenhet: Foreign Service Control Unit
Stortingets kontroll og konstitusjonskomité: Standing Committee on Scrutiny and Constitutional Affairs
Utenriksdepartementet (UD): Ministry of Foreign Affairs (MFA)

1. INTRODUCTION

“All nations have a joined responsibility to contribute to a peaceful and fair world where extreme poverty is eradicated.” Government.no, Development cooperation

A primary objective of foreign aid is to assist economic and democratic development in developing countries, but the motivation for foreign aid is heterogeneous, including disaster relief, mean income, poverty, literacy, access to sanitation, and military or political ends. Though the motivation for aid may be motivated by altruism and a hope for a better world, empirical literature on aid effectiveness is ambiguous to whether aid leads to higher economic growth, savings and investment (Bourguignon & Sundberg, 2007), (Doucouliagos & Paldam, 2009). Measuring the effect of aid on the macro level is also challenged by the difficulty in establishing what the results would have been without aid. On the micro level, about 50% of all development projects are reported to work, based on evaluations (Doucouliagos & Paldam, 2009). This contrast between macro level ineffectiveness and micro level effectiveness is known as the Micro-Macro Paradox (Mosley, 1986).

It has become clear in the past two decades that corruption can hinder development, and the focus on governance and anticorruption initiatives in aid has increased. In the period 2006–2017, Ukraine received a total of 970 million NOK in foreign assistance from Norway¹. The country corruption risk is perceived to be high². In this study I address the fraud and corruption risk factors for Norwegian foreign aid to Ukraine, and how these risks could be mitigated.

“Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish.” – Kofi A. Annan, Secretary General of the UN, UNCAC Foreword (2005)

¹ Norwegian Aid Statistics

² World Bank, Transparency International

Donor motivation for development assistance

The 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) describe recommendations for measures needed to eradicate poverty. Norway is committed to the 2030 Agenda to promote socially, economically and environmentally sustainable development. The framework of SDG, the Addis Ababa Action Agenda on Financing for Development, the Paris Agreement on climate change and the Sendai Framework for Disaster Risk Reduction, are the main drivers of Norwegian national policy. According to the progress report for Norway's implementation of the 2030 Agenda these agreements can lead to an unprecedented leap in sustainable development globally³.

Aid has been linked to geopolitical considerations and interests of the donor in addition to the altruistic motivation of poverty relief. From 1980 to 2002, 25 percent of all aid to Africa was allocated to countries experiencing conflict. Historically (until 1991), poverty selectivity has not been the primary driver for aid allocation, particularly for bilateral aid (Sundberg & Gelb, 2006). There has been a shift in the past 25 years, and aid has to a greater extent been allocated to governments with better civil liberties and political rights. There has been greater emphasis on poverty selectivity and the importance of quality of governance in aid decisions (Sundberg & Gelb, 2006).

Though a large proportion of grants are awarded to development projects, geopolitical considerations are visible also in Norwegian foreign aid. Resources are granted to projects in key foreign policy areas such as security, Arctic issues, EU/EEA affairs, cultural cooperation, and public diplomacy (Ministry of Foreign Affairs, 2017).

The government proposed to increase funds to Ukraine and Moldova in the Norwegian National Budget for 2015 by NOK 180 million to a total of NOK 290 million. The substantial increase was made as a contribution to stabilize and reform related to Russia's annexation of Crimea. The continued destabilization of Eastern Ukraine caused a new political and security situation in Europe, adding pressure to the positive development and European cooperation and integration, according to government documents. The government stated it was important to counteract the changes in the region (Norwegian Ministry of Finance, 2014a).

Anticorruption is an underlying cross-cutting concern in Norwegian development policy, according to the Ministry of Foreign Affairs (MFA) (government.no).

³ One Year Closer, progress report 2016

Norway allocated NOK 34.1 billion⁴ to development aid in 2017, equivalent to 1 percent of GNI in 2017. Syria (NOK 1.07 billion), Afghanistan (NOK 621 million) and South Sudan (NOK 604 million) received the largest distribution, while Ukraine received the largest distribution in Europe, NOK 205 million (OECD, 2017), (Norad, 2006-2017)).

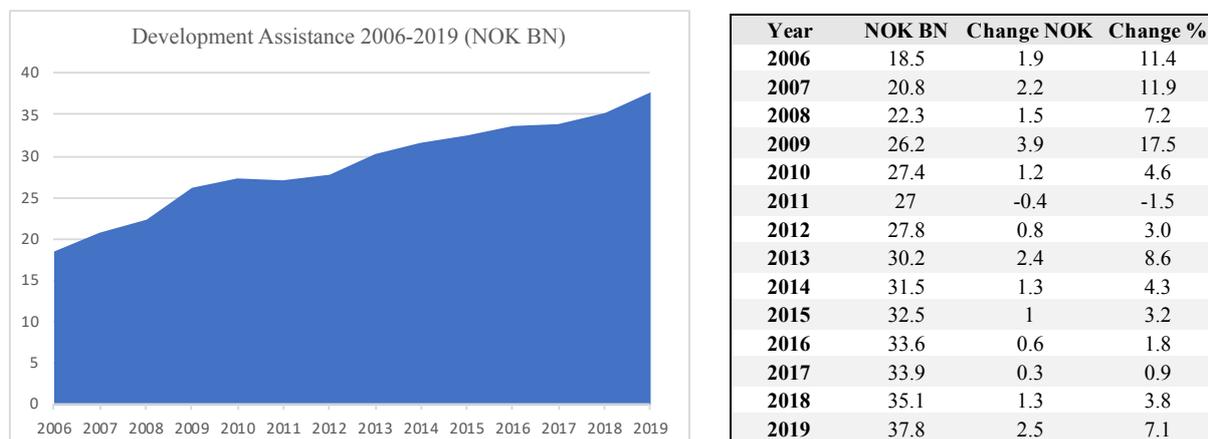


Figure 1: Norwegian Development Assistance 2006-2019 (NOK BN)
Source: National budget proposal 2006-2019

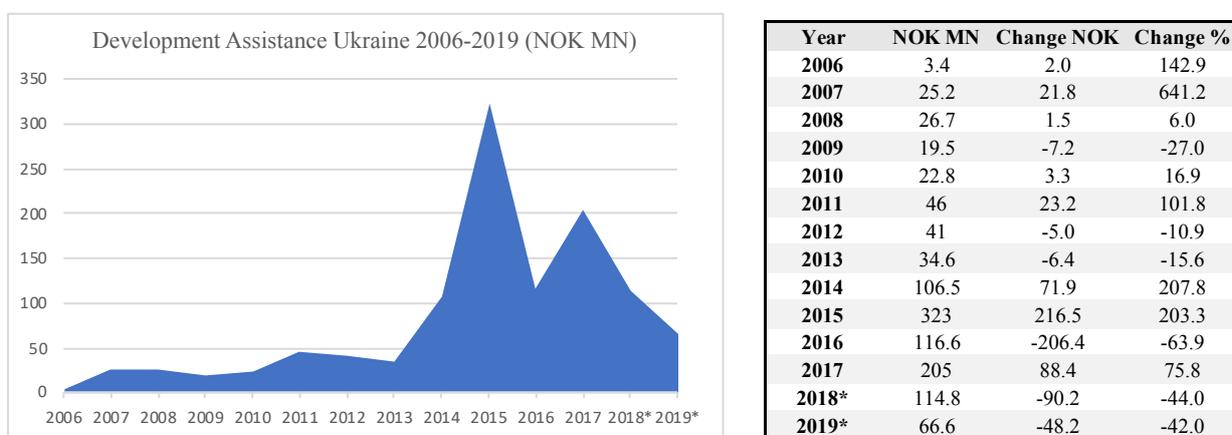


Figure 2: Norwegian Development Assistance to Ukraine 2006-2019 (NOK MN). Source: Norwegian Aid Statistics 2006-2017. MFA Grants Portal 2018-2019 are planned, not disbursed numbers.

A Case study of Ukraine

Norwegian development aid to Ukraine increased tenfold from 2013 to 2015 and has remained at six to seven times the 2013-level. The increase was prompted by the conflict with Russia in 2014 and the Dignity Revolution in Maidan. The Norwegian government had a strong aspiration to show their support to Ukraine in the conflict with Russia. The increase in

⁴ For comparability, budget proposal numbers have been used in the table below, to include 2019. The revised total for 2017 was slightly higher than the original proposal.

development assistance was further motivated by Norwegian national security interests. The large increase in funding lead to many new aid projects and project partners in Ukraine. However, it is well documented that corruption in Ukraine is an established and systemic problem that permeates all sectors of society, and it is reasonable to ask whether this problem impedes development aid efficiency. The Norwegian Agency for Development Cooperation, Norad, who is responsible for the quality-assurance of Norwegian Development Cooperation, has centered its focus on anticorruption to Asia and Africa, and less to Europe⁵.

The Ministry of Foreign Affairs (MFA) is committed to operate with a zero tolerance for corruption. This thesis will evaluate MFA's anticorruption strategy for Norwegian development aid to Ukraine. In terms of general insights, this thesis will explore how fraud and corruption risk factors for aid projects can be identified and mitigated, and if and how anticorruption measures in aid can be evaluated.

2. ROADMAP TO AID, EFFICIENCY AND CORRUPTION

This section provides an overview of literature on aid, governance, and how corruption can impact aid efficiency. Section 2A addresses the economic impact of aid based on economic theory and empirical literature. It continues with an overview of why corruption may be a problem in development aid, and how governance can mitigate the corruption risk. Section 2B provides an overview of governance and anticorruption initiatives in aid. Section 2C addresses the anticorruption strategies by MFA and Norad. Finally, section 2D provides a framework for corruption risk assessment.

A. The economic impact of aid

The Micro-Macro Paradox in aid efficiency has been described in empirical literature for the past 30 years. Emergency relief can have significant short-term effect on health indicators but cannot be expected to impact economic macro data such as growth or median income.

Literacy programs can increase the literacy level in the program area and show positive micro level results in evaluation reports, yet not yield results in macroeconomic data when regressing aid on growth across a cross-section of developing countries (Bourguignon &

⁵ Source: Petter Bauck, Counsellor for Development at the Norwegian Embassy in Ukraine, stated in an interview in January 2018 that there was little focus on anticorruption in Norwegian development assistance to Ukraine up until the summer of 2016.

Sundberg, 2007; Doucouliagos & Paldam, 2006, 2009; Mosley, 1986; Sundberg & Gelb, 2006).

Economists are divided in the view of whether development aid increases economic growth rates or improve human development indicators. Some studies found that aid increases the size of government, but not economic growth or improvement on human development indicators (Boone, 1996). Others find that in poor countries with sound economic policies, aid accelerates growth, while in highly distorted economies, aid is dissipated in unproductive government expenditure (Burnside & Dollar, 2000). Three meta-analysis of aid efficiency literature concluded that aid has been ineffective on a macro-level (Doucouliagos and Paldam 2006, 2007, 2008)⁶.

Though criticized, delivery modalities of aid can have substantial added value. Collier found that aid, compared to oil revenues, have a markedly more successful result (Collier, 2006). Increased prices on natural resources lead to a boom in resource rents for Africa's oil economies in 2004. Collier proposed that if large windfall resource inflows work, there should be evidence of that in the growth rates of the non-oil parts of the economy as well. In practice, the growth rate of the non-oil part of African oil exporter's economies was equal to that of the rest of Africa, meaning the increased resource rents did not have an effect outside of the oil sector. Critics of aid will argue that both aid and resource rents can generate rent-seeking behavior, where individuals will seek to manipulate the social or political environment to obtain rent benefits, rather than investing time and money in productive work to create wealth. In fact, Collier finds that the difference in restriction in how the revenues are transferred can lead to different results. While resource rents are unrestricted, aid is provided in four purposive ways: technical assistance, projects, packages linked to conditions on past or prospective government behavior, and debt relief. Aid brings expertise and conditions that may give different consequences for development effectiveness. Additionally, aid appears to have diminishing returns, meaning that doubling the amount of aid would not double its impact (Collier, 2006).

⁶ See Doucouliagos, H. & Paldam, M. 2009. The Aid Effectiveness Literature: The Sad Results of 40 Years of Research. *Journal of Economic Surveys*, 23(3): 433-461.

The Samaritan's Dilemma and the effectiveness of development aid

The altruistic motives of aid may be counterproductive and in some cases cause the extent of poverty to increase and the relative income distribution to worsen (Pedersen, 2001). Known as the Samaritan's dilemma, Pedersen shows that recipient governments may adjust in order to qualify for aid. The problem may be more severe if the recipient governments perceive themselves as being engaged in a competition to receive aid, and/or if the aggregate aid budget is endogenous. The more urgent the development needs are, the more aid is offered, and the weaker the recipient government's incentives to perform better, as that may reduce development aid in the future. Most-fragile states and emergency situations are most prone to receive financial and other forms of support, as exemplified by the vast amounts that have flowed to countries struck by natural disasters such as Haiti, and fragile states such as Afghanistan and South Sudan. The Russian annexation of Crimea and the Maidan-revolution contributed to making Ukraine a more fragile state, as recently exemplified by Ukraine's parliament approving 30 days of Martial law in 10 oblasts located on the Russian border.⁷ The weak oversight systems combined with a large inflow of funds from a variety of sources are vulnerable to theft and corruption (Søreide, 2014).

Corruption undermines development and reduces the effectiveness of development aid by draining the resources that should be invested in reducing poverty. There is solid evidence that corruption and illicit financial flows (IFFs) have a negative impact on economic growth and development (Johnsøn & Taxell 2015). Yet, there is no evidence that less corrupt governments receive more foreign aid. According to some measures of corruption, more corrupt governments receive more aid. Corrupt countries receive the highest amount of aid, because they are also the poorest countries (Alesina & Weder, 2002). This may be optimal allocation for donors. Given that the rationale for aid is to reduce poverty, it is expected that the poorest countries would receive the most aid. These countries receive the most aid not because of their higher levels of corruption, but because they are in the most need of aid, and the poverty selectivity supersedes the governance selectivity (de La Croix & Delavallade, 2014).

Defining corruption

To study the consequences of corruption, we first have to establish an understanding of what corruption is. A broad and widely used definition of corruption is "the abuse of entrusted

⁷ <https://www.kyivpost.com/ukraine-politics/parliament-approves-martial-law-in-10-oblasts-for-30-days.html>

power for private gain”, used by among others Transparency International (TI) (2018). During the United Nations Convention against Corruption (UNCAC) negotiations it was concluded that any attempt at a comprehensive definition would fail to address some form of corruption. Consequently, the international community reached a consensus on certain manifestations of corruption by listing a series of specific types and acts of corruption:

- Bribery of national public officials;
- Bribery of foreign public officials and officials of public international organizations;
- Bribery in the private sector;
- Embezzlement of property in the private sector;
- Trading in influence;
- Abuse of function;
- Illicit enrichment;
- Laundering of proceeds of crime;
- Concealment of proceeds of crime; and
- Obstruction of justice.

(United Nations Office on Drugs and Crime, 2013).

Table 1: Definitions of Corruption

Definition	Source
The abuse of entrusted power for private gain	UNODC; Transparency International
A trade in decisions that should not be for sale.	Tina Søreide ⁸
A decision “sold” to benefit the briber, while the bribe payment compensates for the decision maker’s risks and moral cost.	Tina Søreide ⁹
The offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.	The Joint International Financial Institutions (IFI) Task Force Against Corruption ¹⁰

In the context of this study, I will use the term corruption as defined in a 2014-World Bank Study by Tina Søreide: Corruption is a decision “sold” to benefit the briber, while the bribe payment compensates for the decision maker’s risks and moral cost of betraying the institution. The “bought” decision deviates from what the institution would otherwise have

⁸ Søreide, T. 2016. *Corruption and Criminal Justice: Bridging Economic and Legal Perspectives*. Cheltenham, Gloucestershire: Edward Elgar Publishing.

⁹ Søreide, T. 2014. *Drivers of Corruption: A Brief Review*. Washington, DC: World Bank Studies: World Bank.

¹⁰ International Financial Institutions Anti-Corruption Task Force. 2006. Uniform Framework for Preventing and Combating Fraud and Corruption.

decided. Directly or indirectly, corrupt decisions distort governance and bureaucratic administration and hinder development (Søreide, 2014).

Corruption can be classified as grand, petty or political, depending on the amount of money and sector involved. Grand corruption refers to acts committed at 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. Petty corruption refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with citizens, often related to basic goods and services such as hospitals, schools and police departments. Political corruption is manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth (Transparency International, 2018).

Corruption distorts decisions

Corruption distorts decisions resulting in less than optimal decisions, which harms society. The direct harm can be understood by assessing how corruption distorts the allocation of benefits and/or increases costs (Olken & Pande, 2012). Susan Rose-Ackerman (1978) developed analytical tools to understand the mechanisms of corrupt decision making. In essence, the corruption’s consequence can be understood by studying its price mechanism: The higher the price increase for a benefit due to a bribe, the higher the cost of corruption caused by such a bribe. In summary, corruption will reward benefits to those who pay bribes rather than those who are formally entitled to the benefits, suggesting corruption distorts the assessment of qualification-steered benefits. The distortion’s consequences depend on the abundance or scarcity of the benefits. The scarcer the benefits are, the higher the willingness to pay a bribe to obtain them will be. A higher willingness to pay bribes increases the decision-makers incentives to accept or request bribes. Based on the work of Rose-Ackerman, Tina Søreide (2016) developed a framework for categorizing corrupt decisions, which I will use to select development projects in this study. The framework is reproduced in the table below.

Table 2: A framework for categorizing corrupt distortions

		TYPE OF ALLOCATION	
		QUALIFICATION-STEERED	AVAILABLE FOR ALL
DEGREE OF SCARCITY	LIMITED	Category A <i>Examples:</i> Public procurement contracts Building permits in a city	Category B <i>Examples:</i> Tickets for public transport Routine public hospital services

		Surgery involving organ transplants Government-appointed positions	Public parking Vaccination programs
	PLENTY	Category C <i>Examples:</i> Customs clearance Tax benefits Drivers' licenses and diplomas Access to credit	Category D <i>Examples:</i> Access to public schools Access to electricity and water Basic health services Passport renewals

Source: Søreide (2016, p. 42)

The most dramatic consequences can generally be found in category A, where there is both an increased cost due to the bribe, and allocation effects, where the optimal allocation is not obtained. In the case of an organ transplant, the patient in most need of the organ based on a medical assessment may not be able to pay, and thereby lose the benefit to someone less in need who is able to pay the bribe. In the examples of public procurement, building permits, and government-appointed positions, allocating benefits based on bribes and not to the most qualified candidate can inflict considerable damage on society. Similarly, the qualification-steered benefits in category C can lead to both higher prices and allocation effects. In the example of diplomas, someone may be able to buy a diploma stating they have earned a medical degree without having the necessary qualifications, which obviously has the potential to inflict considerable damage to patients and society. The degree of scarcity implicates that category B has less dramatic consequences than category A. As an example, the consequences of obtaining a medical degree through bribery would be even greater if there were a limited supply of such diplomas. The examples listed in category B lead to higher costs and possibly limited access to public benefits that are meant to be abundant, such as vaccinations, for those who are unable to pay the bribes. In category D, where benefits are plenty, the consequences are higher accumulated costs, such as extra fees to attend public schools, that are supposed to be free and available to all.

Principle-Agent Theory on corruption

Much of the economic literature on corruption apply the principal-agent theory. The *principal* pays an *agent* to perform a task but has incomplete information on how the agent performs the task. Principal-agent theory assumes that there is a goal conflict between principals, who are assumed to represent public interest, and agents who are assumed to act in their own best interest, which may not align with the public interest. The agent is assumed to prefer being involved in corrupt transactions if the agent's benefits of the transaction outweigh the costs. The second assumption is that agents have more information than the principals, resulting in *information asymmetry* between the two groups of actors. The agent can benefit from having more information than the principal by underperforming or taking part in corruption without

the principal knowing (Persson, Rothstein, & Teorell, 2013; Rose-Ackerman, 1978; Søreide, 2016). Furthermore, the principal often relies on the reports of a third-party player acting as a monitor providing information on how several agents are performing, and there may be a high risk of collusion between the monitor and the agent. For instance, an aid program officer may rely on the information and reports provided by staff in project partner organizations, who monitor performance by staff in a local project organization. For the principal, there is a trade-off between the potential loss due to information asymmetry and the cost of increasing monitoring to incentivize the agent to perform in line with the principal's goals. The principal-agent theory suggests that establishing formal institutions that negatively influence agents' expected gross gain of being corrupt, by increasing the probability and penalty of being caught, would deter corruption.

How corruption may corrupt

Even when leaders (principals) are informed of corruption, they may still fail to act. Firstly, principals, represented by leaders, may be involved in collusion with agents or monitors. Furthermore, the corruption equilibrium may be a coordination problem that in part can be explained by shared expectations about others' behavior (Persson et al., 2013). Even if most individuals disapprove of corruption and would like change, few rational actors have a clear interest in establishing or defending clean institutions, at least in a short-term perspective. The short-term benefits of sustaining the level of corruption in society outweigh the perceived costs of breaking the existing rules of the game. This coordination failure may in part explain why anticorruption reforms based on the assumption of the existence of a group of actors willing to act as "principals" in the society, the drivers of change, may fail.

Corruption itself may corrupt, according to an equilibrium model by Andvig and Moene (1990). Their model shows that in a society with high levels of corruption, the likelihood of encountering a corrupt official to bribe, and the profit of bribery, will be higher, and that this may sustain a higher level of corruption over time. As an example, if a corrupt bureaucrat is detected by a fellow bureaucrat, in a society with low levels of corruption, they will most likely report the bribery to a supervisor, who will then confiscate the bribe and terminate the employment of the corrupt bureaucrat. In a society with low levels of corruption, both the moral and real costs of corruption are high. This supports an equilibrium with low levels of corruption. Similarly, in a society with high levels of corruption, the likelihood of encountering a corrupt bureaucrat willing to accept a bribe is higher. If the bribery of the corrupt bureaucrat is discovered by a colleague who is also corrupt, the problem could be

solved by bribing the colleague. This may be motivated by a “tit for tat strategy”, I do not report you if you do not report me. Alternatively, the gain of keeping the bribe and job is shared between the bureaucrats. Andvig and Moene propose that a bureaucrat who would choose to be corrupt if offered an external bribe, would also accept a bribe to not report a colleague caught in corruption.

When corruption is so prevalent that it is part of the everyday structure of society, it is referred to as *systemic corruption*. This reflects substantial institutional weakness, where the problem is not limited to the flawed integrity of certain individuals. In such an environment, the consequences of working against corruption may be too high for individuals and managers in government institutions, resulting in them adapting rather than reacting to the situation (Søreide, 2014).

The historic approach of establishing the legal framework and related institutions may not be enough, as argued by Larry Diamond (2007):

“Endemic corruption is not some flaw that can be corrected with a technical fix or a political push. It is the way that the system works, and it is deeply embedded in the norms and expectations of political and social life. Reducing it to less destructive levels – and keeping it there – requires revolutionary change in institutions.”

The need for a “big push” or “big bang” involving all major political, economic and social institutions is described by several scholars (Easterly, 2006; Persson et al., 2013; Rothstein, 2011; Søreide, 2016). The “big push” needs to include both formal and informal mechanisms of control – formal monitoring and sanctioning mechanisms, and reciprocity and trust. In order to change their behavior, individuals need to have shared expectations that also most other people can be trusted to act honestly and reject bribes and corruption. Persson et al. (2013) conclude that even though there is general consensus among scholars that variation in institutional quality is the major source of cross-country differences in economic growth and prosperity, there is limited knowledge and evidence on how the transition from a corrupt equilibrium to a less corrupt one can be made. The authors assert that until more knowledge and evidence is available, the international community can attempt to serve as an “external principal”.

Governance and aid efficiency

Governance and aid efficiency, including anticorruption policies, have been high on the agenda for researchers and aid agencies in the past two decades. There are some fundamental economic conditions that may explain why it has proven to be challenging to succeed with aid efficiency, despite the multilateral effort from a vast collection of agencies.

Money flowing in through development aid is generally given without productivity-related efforts from the recipient society. These funds are at risk of grabbing, and can provide a steady source of income for corrupt members of society (Søreide, 2014). However, development aid often comes with collaboration between donor and recipient countries, including competence-raising programs and demands for institutional performance, more external control, and transparency. The causality link between aid and corruption is not obvious, but Charron (2011) found that collaboration with development partners was associated with lower levels of perceived corruption in the last two decades, with a stronger effect for multinational development than bilateral collaboration.

The theoretical propositions on the relationship between corruption and poverty are based on rent-seeking theory and have been proposed by several researchers, including Rose-Ackerman (1978) (Negin, Abd Rashid, & Nikopour, 2010). Autocrats who seek to maximize personal financial return favor an inefficiently large public sector and distorts public sector priorities more than an autocrat who seeks to maximize national income. A kleptocrat whose decision variable is the level of government intervention in the economy will select an excessive level of intervention, where national income is less than optimal. Furthermore, the kleptocrat may need to share the corrupt gains with lower-level officials, causing additional costs. In a case where rent seeking at the top levels is pervasive, natural resources and aid under state control may hinder growth (Rose-Ackerman, 1997).

The institutional challenges of development assistance

Development assistance faces three institutional challenges that may lead to adverse effects that lower the impact of aid, according to Svensson (2006). Firstly, the geographical and political separation between taxpayers and beneficiaries weakens the performance feedback process. Individuals in government aid agencies and implementing development partners may be responsible for ensuring the effectiveness and sustainability of aid, but aid agencies are primarily held accountable for inputs, the effects and outputs are difficult to measure. Second, the government-to-government relationship in aid imposes binding political constraints in

recipient and donor countries that restrict the extents of possible donor actions. Finally, Svensson raises the concern of the multiple principal problem, in that foreign development assistance is handled by multiple agencies and multiple donors, which can lead to coordination failures that may reduce the impact of aid.

Factors that increase the risk of corruption, such as wide civil servant discretion, asymmetric information, market and governance failures, and access to external rents – such as revenues from extractive industries or foreign aid – have been documented through several decades of research (Campos and Pradhan 2007; Johnston 2005; Rose-Ackerman 1978, 1999; Klitgaard 1988, cited by Johnsen and Søreide 2013). Failures in control and integrity systems, such as lack of checks and balances at political level, coordination problems, weak law enforcement, low trust in government institutions, and weaknesses in state legitimacy, allows corruption to persist (Clapman 1985, Pope 2000, Rothstein 2011, cited by Johnsen and Søreide 2013).

These issues have been addressed by numerous governance and anticorruption interventions globally and nationally in the last two decades. The results of such interventions are however challenging to evaluate due to their complex character and few target units, that make comparison and statistical tests difficult. The effect of specific anticorruption measures needs to be isolated beyond anecdotal information to improve anticorruption efforts and defend funding of governance initiatives (Johnsen & Søreide, 2013). Donor agencies have increasingly been defining more measurable goals and determining indicators of success, such as better institutional integrity scores and fewer bribes, over the past 15 years (Liverani and Lundgren 2007, 241-55, cited by Johnsen & Søreide 2013).

The institutional challenges described by Svensson, are further studied by Søreide, Gröning and Wandall (2016), on the anticorruption sanctions regime of the World Bank. The authors conclude that the World Bank's efforts to strengthen law enforcement at the national level are too limited, resulting in a sanctions regime primarily targeting private suppliers, while it is difficult to hold governments accountable for fraud and corruption.

Summary

Empirical literature does not give a clear indication of the effect of development aid on economic growth and human development indicators. Aid seems to have diminishing returns so that a doubling in aid will not lead to a doubling in impact. Critics argue there is a risk of rent-seeking behavior. Weak oversight systems combined with large inflow of funds are vulnerable to theft and corruption. Furthermore, the most corrupt countries are also the

poorest countries, and poverty selectivity supersedes governance selectivity, meaning more corrupt countries receive more aid.

Corruption distorts governance and bureaucratic administration and hinders development by rewarding those who are willing to pay bribes over those who are formally entitled to benefits. The distortion's consequences depend on the abundance or scarcity of the benefits.

Principal-Agent Theory is central in the economic literature on corruption. A principal (such as a donor) pays an agent (such as an NGO) to perform a task (such as an aid project), but the principal has limited information on how the agent performs the task. The principal has a trade-off between the potential loss due to information asymmetry and the cost of increasing monitoring.

Coordination failure is one explanation to why anticorruption reforms based on the principal-agent theory may fail. In societies with high levels of corruption, the consequences of working against corruption may be too high for individuals. A "big push" involving political, social and economic institutions is needed to reduce corruption to less destructive levels. The international community can attempt to serve as an "external principal" in such cases,

B. Governance and anticorruption initiatives in aid

In this section I will give a summary of anticorruption initiatives in development aid.

Universal conventions, such as UNCAC form a basic framework from which initiatives specifically aimed at development aid are created. The Paris Declaration is centered around accountability and monitoring of aid where recipient countries have ownership in improving institutions and tackling corruption. The ownership and accountability measures proposed in the Paris Declaration was reaffirmed by the Accra Agenda for Action, which also emphasizes that aid should be focused on real measurable impact on development. The UNDP GAIN continues the attention on governance and institutions, aiming at expanding the agenda for anticorruption to more sectors and civil society.

A summary of the main areas of UNCAC, the Paris Declaration, Accra Agenda for Action and the UNDP GAIN follow below.

United Nations Convention Against Corruption (UNCAC)

UNCAC is a legally binding universal anticorruption instrument that covers different forms of corruption such as bribery, trading in influence, abuse of functions, and various acts of

corruption in the private sector. It covers the four main areas preventative measures, criminalization and law enforcement, international cooperation, and asset recovery.

Table 3: A Summary of UNCAC

1. Preventative measures Chapter II	Chapter II underlines the need to address the risks of corruption by: (1) Adopting effective and coordinated policies against corruption. (2) Fair and transparent system of public procurement. (3) Strengthening the integrity of the public sector. (4) Strengthened transparency and public reporting.
2. Criminalization and law enforcement	The convention requires countries to establish, or consider establishing, criminal and other offences to cover a wide range of corruption, such as bribery, embezzlement of public funds, trading in influence, and the concealment and laundering of the proceeds of corruption.
3. International cooperation Chapter IV	Countries agree to cooperate in every aspect to fight corruption, including prevention, investigation, and the prosecution of offenders. Main modalities include extradition, mutual legal assistance, and transfer of sentenced persons. It also covers law enforcement cooperation such as joint investigations.
4. Asset recovery Chapter V	Chapter V of the convention provides a framework for the return of stolen assets and require state parties to take measures to restrain, seize, confiscate, and return the proceeds of corruption.

“The UN Convention Against Corruption represents the fundamental recognition that corruption is neither acceptable nor inevitable. Corruption can be prosecuted after the fact, but first and foremost, it requires prevention.”

– António Guterres, United Nations Secretary-General (United Nations Global Compact, 2018)

The Paris Declaration on Aid Effectiveness

The Paris Declaration on Aid Effectiveness (2005) proposes five principles for improving the quality and impact of aid and calls for an international monitoring system with the goal that donors and recipients hold each other accountable (OECD).

Table 4: A Summary of the Five Principles of The Paris Declaration

1. Ownership	Developing countries set their own development strategies, improve their institutions and tackle corruption.
2. Alignment	Donor countries and organizations bring their support in line with these strategies and use local systems.

3. Harmonization	Donor countries and organizations co-ordinate their actions, simplify procedures and share information to avoid duplication.
4. Managing for results	Developing countries and donors focus on producing – and measuring – results.
5. Mutual accountability	Donors and developing countries are accountable for development goals.

The Paris Declaration was followed by the Accra Agenda for Action in 2008, which reaffirms commitment to the Paris Declaration and proposes further improvements for aid efficiency (OECD).

Table 5: A Summary of the Accra Agenda for Action

1. Ownership	Countries have more say over their development processes through wider participation in development policy formulation, stronger leadership on aid coordination and more use of country systems for aid delivery.
2. Inclusive partnerships	All partners – including donors in the OECD Development Assistance Committee and developing countries, as well as other donors, foundations and civil society – participate fully.
3. Delivering results	Aid is focused on real and measurable impact on development.
4. Capacity development	To build the ability of countries to manage their own future.

United Nations Development Program Anticorruption Initiative GAIN (2014-2017)

“During the last five years, UNDP’s contribution to the global anticorruption movement has been expanding the political policy and normative agenda on transparency and accountability and helping to make a link between anticorruption and human development. Consequently, anticorruption is now being recognized as an essential ingredient in national and global development agendas.” – UNDP GAIN 2014-2017

UNDP GAIN builds upon the UNDP Global Program on Anticorruption for Development Effectiveness (PACDE) (2008-2013). It includes four strategies.

Table 6: A Summary of UNDP GAIN

Strategy 1	Expanding the political and normative agenda on anticorruption to development plans by integrating anticorruption in service delivery and other sectors (e.g. climate change and extractive industry).
Strategy 2	Strengthening state/institutional capacities (the supply side of anticorruption) to prevent and combat corruption (working with line ministries and oversight institutions, including parliamentarians)

Strategy 3	Promoting civic engagement and social accountability (the demand side of anticorruption) through youth and women’s empowerment and the participation of civil society and the media.
Strategy 4	Improving results-based management and institutional effectiveness for effective implementation of anticorruption initiatives and monitoring their results.

Why It’s Difficult to Deal with Corruption in Development Aid Programs

Results-based management (RBM) is a core strategy for managing funds by the Norwegian government to improve effectiveness, efficiency and transparency in the use of public resources. The strategy includes setting objectives that achievements are measured against and adapt and report progress according to results. A March 2018 evaluation report investigates how the aid administration in MFA and Norad use RBM in managing the allocation and use of money by civil service organizations (CSOs) and the UN organizations (Balogun, Lloyd, Villanger, & Legaay, 2018). The report found little evidence to support a systematical use of results evidence to inform decisions on which projects to fund. Rather, the main objective of RBM practice in Norad has seemingly been to gather evidence to demonstrate the partners’ results of the tax payer funded projects. This increases transparency but does not make Norwegian development assistance more effective. In order to meet the goal of maximizing development outcomes, it is not sufficient to inquire results evidence to satisfy reporting requirements, the aid administration also has to clearly define how the data will be used to learn and inform decisions about which partners and projects to fund, according to the report.

Norway has a zero-tolerance policy for corruption in development aid. Preventing, detecting and sanctioning corruption still poses challenges and constraints for the government and aid agencies, as discussed in a book chapter by Eirik Jansen¹¹. Recipient responsibility is listed as one of seven general reasons to why Norway may have difficulties in dealing with corruption in development aid. Norway advocated strongly for the implementation of this key concept, as exemplified in the Management of Natural Resources Programme (MNRP) in Tanzania which Norway supported with NOK 300 million from 1994 to 2006. Responsibility for planning and implementation as well as accounts and financial management was gradually transferred to the local authorities. Norway kept responsibility for approving annual reports,

¹¹ Jansen, E. G. 2014. 'Don't rock the boat': Why It Is So Difficult for Norway to Deal with Corruption in Development Aid Programmes. In T. Søreide & A. Williams (Eds.), *Corruption, Grabbing and Development: Real World Challenges*. Cheltenham, UK. and Northampton, MA.: Edward Elgar,.

plans and accounts, supported by comments from PriceWaterhouseCoopers on the local audit report. Based on the evaluation report and forensic audit, it was expected that as much as half the funds had been misused or embezzled. Very little was reimbursed to the Norwegian government.

One explanation to why Norway failed to discover and act upon the misuse of money was the trust placed in the local ministry and audit system, according to Jansen, who worked as a program officer for the MNRP at the Norwegian Embassy in Dar es Salaam. The second lesson learned followed as a consequence of recipient responsibility. Norway's embassy and staff focused on plans for the future, and there was little "hands-on" oversight with program implementation.

Thirdly, "the pipeline problem", referring to that allocated funds must be disbursed within a set timeframe and by the end of the financial year, is among the largest challenges for embassies dealing with development aid, according to Jansen. The former program officer stated that limited knowledge about the risk a program may be exposed to and a pressurized situation can make it easier to trivialize and rationalize irregularities. Furthermore, a strong administrative culture that rewarded timely signed agreements and disbursements and progress reports to Norway at the expense of substantive and technical work, and with little reward for critical reflection on implementation. Additionally, Jensen stated there were too few people employed at the embassy to secure responsible follow up of the NOK 750 million annual budget, disbursed through a large number of projects and activities. The staff also lacked knowledge about corruption in Tanzania's bureaucracy and power structures at various levels of the state administration. The reports the embassy received from MNRP were mechanical, simplistic and maintained the same format over years, focusing on output such as number of seminars held, number of patrol trips conducted, and number of trees planted. Corruption and mismanagement of natural resources were not covered by the reports.

Anticorruption efforts seemed to be aimed at supporting capacity building measures, such the establishing of the Prevention and Combating of Corruption Bureau (PCCB), to prevent corruption from happening in the future, rather than critically assessing corruption that may have already occurred or may be currently going on in Norwegian-supported projects. Finally, the lack of independent reviews lead to a weakened critical perspective. Several of the individuals involved in planning and reviews sat at all sides of the table in MNRP and the ministry.

C. Anticorruption strategies by MFA and Norad

In this section I will give a general overview of how MFA and Norad assess corruption risk, monitor performance and detect irregularities in development aid. I will also give an overview of recent changes in anticorruption strategies in Norwegian development aid.

The current procedures for risk assessment are primarily reviewing the qualitative risk assessment conducted by the organizations receiving aid. MFA generally do not perform an independent risk assessment. In some cases, MFA will engage the Evaluation Department in Norad¹², the Foreign Service Control Unit, and external audit firms to review aid projects.

Project partners are asked to describe corruption risk in grant applications and to report on results and possible incidents of corruption and misappropriation of assets in project reports. Whistleblowing is MFA's primary methodology for detecting corruption in aid projects, often based on internal control and auditing in the recipient organization. Irregularities are generally detected through ordinary administrative procedures, that typically uncovers conflicting information or incomprehensible or omitted details. Irregularities can also be detected by control activities initiated by the Foreign Service Control Unit, or through reports from internal and external sources (whistleblowing) (Ministry of Foreign Affairs, 2011). In the event of suspected irregularities, the grant disbursements shall be withheld until the case has been investigated and sufficient risk mitigating measures are in place. Misused funds must be reimbursed. Inadequate reporting, withholding information or acts that impair MFA's trust in the partner is considered to be a significant violation of the terms of the grant agreement, where MFA may require the grant to be reimbursed in full (Ministry of Foreign Affairs, 2011).

A 2011-report by the Auditor General declares corruption to be a pervasive problem in development cooperation countries and found MFA anticorruption strategies to be inadequate, despite anticorruption, including preventive measures and managing reported cases, being a prioritized objective for MFA. The audit reveals that the ministry's assessment of anticorruption initiatives are insufficient in bilateral aid and that Norwegian oversight with anticorruption in UN-lead multilateral programs is limited (Office of the Auditor General,

¹² The Evaluation Department is governed under a separate mandate for evaluating the Norwegian Development Aid Administration and reports directly to the Secretary Generals of the Norwegian Ministry of Foreign Affairs and the Ministry of Climate and Development.

2011). Norwegian supervision of multilateral development cooperation is volatile, varying between organizations and across time without being founded in a difference in risk scenario, according to the Auditor General. The audit report recognized measures by MFA to strengthen the anticorruption efforts, such as establishing the Foreign Service Control Unit and a whistleblower channel, concluding that these initiatives increase the prospects of meeting development goals. However, the audit of MFA's management of long-term development assistance show weaknesses in the ministry's planning and quality control of aid measures, and in the ministry's efforts to improve reporting procedures and prevent corruption.

The Auditor General's 2011-investigation concludes that MFA's assessment of project progress is inadequate, such as presenting reported results without assessing them against the results required by the grant agreement. High quality data and defined performance indicators is a prerequisite to document results in development assistance, and lack of such data is a primary challenge in reporting, according to Norad (Office of the Auditor General, 2011).

Changes in anticorruption strategies by MFA and Norad

MFA have implemented several strategies to reduce the risk of corruption in aid projects in recent years:

Establishing the Foreign Service Control Unit

The Foreign Service Control Unit is responsible for internal control guidelines and systems and supervise grant allocation in the Foreign Service. The unit is also responsible for administrating and investigating whistleblower cases and suspected financial irregularities (Norwegian Ministry of Finance, 2017).

Establishing whistleblower guidelines and channels

MFA encourage employees to report financial irregularities either by discussing it with their immediate superior or more senior line manager, or by reporting the incident to the Foreign Service Control Unit via external reporting channel. Incidents may be reported confidentially and anonymously through the law firm Wiersholm.

Zero-tolerance policy

MFA has a zero-tolerance policy for financial irregularities, corruption and misappropriation of assets. A 2010-memorandum on the zero-tolerance policy defines financial irregularities as *“corruption, embezzlement, misuse of funds, fraud, theft and favoritism or nepotism. In this context, the concept also includes acts of negligence.”* The Norwegian Penal Code defines negligence as *“Any person who acts contrary to the requirements of proper conduct in any area, and who in the light of his personal qualifications can be censured, is negligent.”* The memorandum further expands on the requirement for negligence as *“Negligence may therefore include passivity, failure to act or lack of judgement.”* (Foreign Service Control Unit, 2010).

Reducing the number of partners

As the total aid grant in the national budget has been held at a range of 0.9 to 1 percent of GNI, the nominal total amount of grants has had a steady increase the past decade. The Government proposed a reform of Norwegian development aid in the 2015-national budget proposal, when the total grants reached a record high NOK 32 billion, an increase of 75 percent since the 2006-budget, covering 116 countries. OECD recommendations indicate that aid will be more efficient when concentrated geographically and by partners. The budget proposal stated that giving more aid will not in and of itself create results. The government suggested concentrating development assistance on 12 countries and reducing the number of partner organizations to streamline aid administration and focus on requiring and creating results (Norwegian Ministry of Finance, 2014b).

Reducing number of funded partners and grant agreements is described by MFA, the Auditor General and the Ministry of Finance as one of the most important measures to increase efficiency and control in development assistance. The number of grant agreements was reduced by 46 percent between 2015 and 2017, with continued efforts to reduce the number of grant agreements in 2018 (Norwegian Ministry of Finance, 2017)

Due diligence of partners

The Storting has stated that an aid partner’s institutional framework and the need to strengthen institutions are important factors when assessing partners. MFA asserted to the Auditor General that partner assessment is conducted before agreements are made, but the investigation found the assessments to be inadequate. In the majority of the investigated projects (4/7), MFA found weaknesses in partners’ competence, capacity and systems without

considering how these weaknesses could be addressed to ensure that the project delivered results (Office of the Auditor General, 2011).

International Law and Policy Institute (ILPI) received a total of NOK 193.6 million in transfers from MFA in the period 2009-2016, of which 68 percent was grant allocations for development assistance. The company was owned by three former MFA-employees. A report by the Foreign Service Control Unit concluded that even though no laws were broken, rules and regulations were not upheld, documentation was lacking in application assessments prior to grant agreements and to monitor results, and the control systems failed. MFA did not adequately consider the financial aspects of a cooperation with ILPI, who according to sample tests had a considerable profit from grant projects. ILPI received NOK 42 million for two projects from a grant scheme in violation of the terms that such grants could not be given to for-profit organizations. Two of the grants allocated from the budget for development assistance were not in line with OECD/DAC criteria for international development aid. The report lists a number of initiatives to improve control since the ILPI-case. In addition to the above-mentioned measures, the report mentions Section for Grant Management established in 2014, with legal and financial competence for quality assurance in grant administration. Several new documents have been implemented in 2016, including agreement-, application- and decision guidelines. Furthermore, offering more accessible staff training is under development, such as online courses (Foreign Service Control Unit, 2017).

Digital Grant Portal

The Ministry of Foreign Affairs Grants Portal is a digital portal where organizations can apply for grants from Norad and MFA. The applications are automatically archived by MFA and Norad. The portal was first used in 2017 and is currently not available for all grant applications. Efforts to digitalize grant application and administrative procedures were continued in 2018, with expectations of increased oversight and efficiency in grant administration (Norwegian Ministry of Finance, 2017).

Despite all the above-mentioned initiatives to increase results-based management and anticorruption efforts, the 2018 National budget pointed out that internal reviews discovered weaknesses in the aid administration. A sample review of MFA's decision-making process for aid allocation concluded that there were general weaknesses in the monitoring of grant agreements, in particular regarding control of reports submitted by grant recipients (Section for Grant Management, 2017). MFA's assessment of the grant agreements' budgets was

generally weak. Additionally, performance indicators were not clearly assessed for all agreements. Furthermore, the quality of partner due diligence was volatile and sometimes reduced to a reference of previous experience working with the grant recipient. The guidelines and rules are in place, but there is a lack of follow-through on MFA's part. The budget proposal recognized the ministry's efforts to improve quality of aid administration in 2016 and 2017 (Norwegian Ministry of Finance, 2017).

D. Risk assessment

In this section I will describe how the terms risk and risk assessment are defined and applied in the thesis. I will introduce how risk can be identified and measured and how a systematic risk assessment process can be conducted based on international best-practice.

Preventing and deterring corruption requires an understanding of the risks an organization or project face. The OECD Anti-Bribery Convention recommends that effective internal control, ethics and compliance measures be developed on the basis of a risk assessment that addresses the individual circumstances of the organization and that risks should be regularly monitored, re-assessed, and adapted as necessary. The US Department of Justice and the US Securities and Exchange Commission guide¹³ notes risk assessment as a fundamental part of a compliance program and recommends avoiding generic solutions, as the level of effort should be proportionate to the organization's risk profile, and that identifying risks by level (high, medium, low) is essential to determine allocation of anticorruption resources. Factors to consider in such a risk assessment include country, industry, size (value/revenue/grants), nature of transactions, and amount of third-party compensation.

I have based this section primarily on the United Nations Global Compact¹⁴ guide for anti-corruption risk assessment (Anti-Corruption Risk Assessment Taskforce, 2013). According to the UN Global Compact, an effective anticorruption program includes five key elements: an explicit and public anticorruption commitment, relevant policies and procedures, controls, trainings and communication, reporting mechanisms, and regular auditing and monitoring. Furthermore, it must be based on a systematic approach to corruption risk factor assessment.

¹³ Criminal Division of the U.S. Department of Justice and the Enforcement Division of the U.S. Securities and Exchange Commission. 2012. A Resource Guide to the U.S. Foreign Corrupt Practices Act: U.S. Department of Justice and U.S. Securities and Exchange Commission.

¹⁴ The United Nations Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it has over 12,000 signatories based in 145 countries. The guide for anti-corruption risk assessment was written by the Anti-Corruption Risk Assessment Taskforce, which included anticorruption experts, NGOs, and business practitioners.

The risk assessment procedure has five steps: (1) Identify the risks, (2) rate the inherent risk, (3) identify and rate mitigating controls, (4) calculate residual risk, (5) develop action plan.

Identify and rate the risks

To perform a corruption risk assessment, it is useful to first define corruption risk factors, corruption risks, and corruption schemes. The political climate in a country may be a corruption risk factor, which may lead to several corruption risks, such as civil servants requesting bribes. The corruption risk may then lead to various corruption schemes, such as cash payments and gifts. In the case of MNRP in Tanzania, described in chapter 2B, the corruption risk factor country corruption level lead to the corruption risk overbilling. This risk lead to the corruption scheme of falsifying travel expenses and duration of seminars and workshop, such as charging 6 days for seminars lasting 2 days, and in some cases, giving employees double per diems and overtime pay while they were on holiday (Jansen, 2014).

The Fraud Triangle theory states that the three conditions pressure, opportunity and rationalization will be present when fraud occurs (Stuart, 2012). Though originally developed for fraud detection, the fraud triangle can also be utilized to identify corruption risk factors. A perceived pressure or incentive to meet financial targets can motivate individuals to take part in corruption. Furthermore, a perceived opportunity to commit an act of corruption with low likelihood of detection, for instance due to internal controls and monitoring being perceived as inefficient, needs to be present. Finally, the act of corruption may be rationalized based on previous acts of corruption, organization culture that accept corruption, the perception that others pay bribes, or the thought that no one will find out etc. (Anti-Corruption Risk Assessment Taskforce, 2013). In the example of MNRP in Tanzania, the former program officer described pressure to approve documents, work out agreements and complete grant disbursements by the end of the year, while also describing the workload as “heavy”. Furthermore, the internal control systems and external monitoring was perceived to be weak enough that it would not prevent or detect corruption, which gave employees in MNRP opportunity to commit corrupt acts. The external audit later uncovered that one project lacked documentation and receipts for 30 percent of the expenses (Jansen, 2014). How an individual rationalizes the act to overcome moral costs of corruption cannot be tested, but as a general insight, it may be that employees were able to rationalize the corrupt acts based on the company culture with a previous history of falsifying travel expenses.

The risk factors may be related to specific processes¹⁵, countries, industries and the organization’s previous record of being involved in corruption. Each risk factor, risk, and scheme can be documented in a risk register, as exemplified in table 7.

Good practice states that the probability and impact of each scheme should be rated to prioritize responses to corruption risks in a logical format. Even with such an approach, there will be subjectivity in the assessments based on experience and bias of the assessment team members¹⁶. The inherent risk is the overall risk level of each corruption scheme without consideration to existing controls. A qualitative scale could rate the risks as for instance high, medium, or low. When applying a quantitative scale, each identified corruption risk has a numeric probability score and numeric potential impact score, and the sum of the two scores can be used to estimate an inherent corruption risk score.

<p>Corruption Risk Probability Score + Potential Corruption Risk Impact Score = Inherent Corruption Risk Score</p>

Figure 3: Inherent Corruption Risk Score

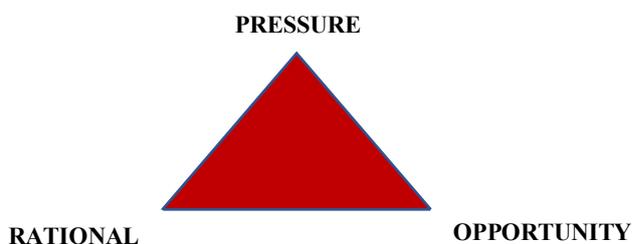


Figure 4: The Fraud Triangle

Risk mitigation and residual risk

Once the relevant risks have been identified and rated, risk mitigating efforts and controls can be identified, mapped, and rated and added to the risk register described above. Despite anticorruption programs and internal controls for mitigating risk, there will still be a residual risk of corruption, which is the risk remaining after considering the risk reduction impact of controls. As with inherent risk, the residual risk can be rated qualitative or quantitative. See table 7 on next page for an illustrative example of risk register using qualitative scale.

¹⁵ Examples of processes include procurement, sales, import and export of goods, government interaction, political support, security protocols, social programs, and charitable contributions and sponsorships Source: Anti-Corruption Risk Assessment Taskforce. 2013. A Guide for Anti-Corruption Risk Assessment. New York: United Nations Global Compact Office., United Nations Global Compact. 2018. Promoting Anti-Corruption Collective Action Through Global Compact Local Networks, Second ed.

¹⁶ See Global Compact Anti-Corruption Guide Section E for further details on how to rate probability and occurrence.

An action plan can then be made based on the risk assessment process described above. The action plan based on the comprehensive initial process is subject to evaluation and is not a static document.

Table 7: Example of Risk Register Using Qualitative Scale

Location/Region: Country A Project: XYZ		
Corruption Risk Factor	Country corruption level	
Corruption Risk	Overbilling	
Corruption Scheme	a) Falsifying travel expenses	b) Billing consultant services that have not been performed
Probability	Medium	Medium
Potential Impact	High	High
Inherent Risk	High	High
Anti-Corruption Controls	<ul style="list-style-type: none"> * Separation of duties, where supervisor needs to sign off on travel expenses. * Internal control of travel expenses and receipts. * External audit/monitoring of travel expenses. * Anticorruption training for employees. 	<ul style="list-style-type: none"> * Separation of duties, including the need for third-party contracts to be pre-approved by program officer. * Internal control verifying validity of contract and delivered reports. * Anticorruption training employees
Control Risk Rating	Effective	Effective
Residual Risk Rating	Low	Low

3. CORRUPTION IN UKRAINE

In this section, I will give an overview of the extent of corruption in Ukraine and the anticorruption strategies in place.

A. Extent of Corruption in Ukraine

Based on numerous surveys, reports and research, it is well-documented that corruption in Ukraine is an established and systemic problem that permeates all sectors of society, including civil service, business and government, and justice sector. This statement is supported by reports by the OECD, World Bank, Transparency International, and Ukrainian national surveys. The World Bank Doing Business 2018 report defines Ukraine as a lower middle-income country with a GNI per capita of \$2,310.

Corruption Surveys and Rankings

Measuring the extent of corruption in a society or country is difficult due to the endogenous nature of corruption (Olken & Pande, 2012). It is in the nature of corruption to keep it secret,

as neither the giver nor receiver of bribes have incentives to disclose their acts. Furthermore, corruption covers a wide range of acts, and where acts classified as illegal corruption vary across countries. Many data analyses of corruption apply perception-based cross-country corruption indicators, and this category of data is the best-known source of information about the extent of corruption (Søreide, 2016). Despite its methodological limitations, the range of available surveys and rankings listed below gives an indication of the level of corruption in Ukraine.

Corruption in Ukraine is pervasive and permeate all areas of life and economic activity in Ukraine (OECD, 2015). According to the deputy chairman of the Employers Federation of Ukraine, cited in a 2015-report¹⁷, companies spent up to 50 percent of their turnover on corruption in 2014. Kickbacks in public procurement in Ukraine amounts to 15-50 percent of the contract value. Only 50 percent of the customs fees were paid to the budget, the rest was paid to shadow intermediaries who ensured smooth and quick customs clearance. The annual corrupt “market” for customs was estimated at more than UAH 40 billion (OECD, 2015) Ukraine is ranked as:

- 76 out of 190 countries on the Ease of Doing Business Rank 2018 (The World Bank, 2018a).
- 77 out of 113 countries on the Rule of Law Index 2017-2018¹⁸, ranking below countries such as Brazil, Ghana and Sri Lanka (The World Justice Project, 2018).
- 130 out of 180 countries on the Transparency International Corruption Perception Index for 2017 (CPI).

Ukraine scores 30 out of 100 points on the CPI for 2017, which is the same as Gambia, Iran, Myanmar and Sierra Leone. Ukraine has climbed 14 places on the CPI between 2013 and 2017, but still ranks below what TI labels “the worst performing regions” of Sub-Saharan Africa (average score 32) and Eastern Europe and Central Asia (average score 34) (Transparency International, 2017).

¹⁷ The Istanbul Anticorruption Action Plan (IAP) is a sub-regional peer-review program. There have been four monitoring reports regarding Ukraine since the program launch in 2003. IAP is an OECD initiative within the Anticorruption Network for Eastern Europe and Central Asia (ACN).

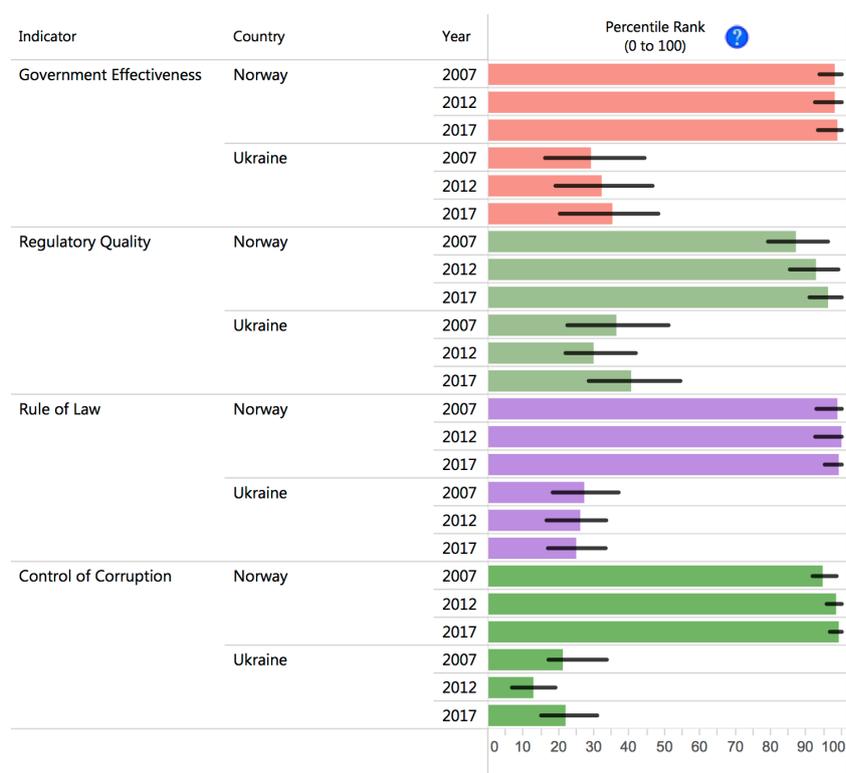
¹⁸ The WJP Rule of Law Index rankings are based on 110,000 household surveys and 3,000 expert surveys to measure how the rule of law is experienced by the general public worldwide. Performance is measured using 44 indicators across eight primary rule of law factors, each of which is scored and ranked globally and against regional and income peers: Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order and Security, Regulatory Enforcement, Civil Justice, and Criminal Justice.

Table 8: Transparency International Corruption Perception Index Ukraine 2013-2017

UKRAINE	2013	2014	2015	2016	2017
Score	25	26	27	29	30
Ranking	144	142	130	131	130

The Worldwide Governance Indicators (WGI) project reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2016 for six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.

Figure 4: Worldwide Governance Indicators 2007-2017: Ukraine vs. Norway



Source: The World Bank

Ukraine scores closer to the world’s poorest economies on most measures of perceived corruption than it does to the European Union, which it aspires to join. Ukraine was ranked in the 20th percentile worldwide in the World Governance Indicators (WGI) Control of Corruption indicator in 2016, well below Poland, Romania, and averages for low middle-income countries and sub-Saharan Africa.

Corruption in public procurement, customs and taxes

In the 2005 and 2008 cross-country BEEPS-reports, problems of doing business in each of the countries were ranked on a scale of 1 to 14, 1 being the most severe, and 14 the least severe¹⁹. For Ukraine, corruption scored 2 on the scale in both 2005 and 2008, indicating that it is one of the most severe problems in doing business in Ukraine. In fact, the problem of corruption seems to have increased in severity between 2005 and 2008, according to some of the indicators in the cross-country report. The percentage of firms indicating that corruption is not an obstacle to doing business fell from 34 to 16 percent between 2005 and 2008. The

¹⁹ The EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS), provides firm-level data on issues such as business-government relations, informal payments and corruption for 28 countries in Eastern Europe and Central Asia.

percentage of firms stating that unofficial payments (bribes) are frequent increased slightly from 27 to 30 percent in the same period. The surveyed businesses responded that they spend about 1.5 percent of annual sales in bribe payments related to taxes. In 2005, the percentage of contract value typically paid to secure a government contract was 1.3 percent, which had increased to 4.6 percent in the 2008 survey data (The World Bank Group, 2010). This trend is further documented by the 2013 World Bank Enterprise Survey, where corruption is found to be the main obstacle for firms, along with access to finance, political instability and tax rates (World Bank & European Bank for Reconstruction and Development, 2013).

99.1 percent of firms reported being expected to give gifts in order to secure government contracts in 2013²⁰. Half of the firms had experienced at least one bribe payment request in the past year, and half of the firms reported being expected to give gifts in meetings with tax officials. More than 70 percent reported they were expected to give gifts to obtain construction permits and to “get things done” (World Bank & European Bank for Reconstruction and Development, 2013).

Crony Capitalism in Ukraine

Ukraine has an unusually high concentration of capital allowing a limited number of businesses to exercise undue influences on public policy (The World Bank, 2018b). Known as “oligarchs”, they dominate the Ukrainian economy, and are usually politically connected. A model of economic governance where policy decisions are subject to undue influence of a small number of businesses is known as “crony capitalism” (Khatri 2016 and Kang 2002, cited in The World Bank, 2018b). Crony capitalism allows politically connected businesses access to benefits that are unavailable to other companies and create barriers to entry for their competitors. This distorts resource allocation, restricts competition, increases economic costs and limits economic opportunity. A March 2018 World Bank report aimed at estimating the economic cost of crony capitalism in Ukraine has four key findings:

(1) Politically connected firms represent two percent of firms, yet control 20 percent of the total turnover, and over a quarter of the assets of Ukrainian companies. Politically connected firms are defined by having at least one politically exposed person among its owners. Politically exposed persons are defined as having been entrusted with prominent public functions, including senior politicians and party officials, senior government, judicial or military officials, and senior executives of state-owned enterprises.

²⁰ Business owners and top managers in 1,002 firms were interviewed from January 2013 through November 2013.

(2) Politically connected firms access economic rents through public procurement, subsidized loans, transfer from the budget, trade regulations restricting import, privileged access to state assets through privatizations, and beneficial tax regimes. Politically connected firms have a 61 percent less likelihood of being audited than a non-connected firm.

(3) The World Bank report finds that there is a strong negative correlation between political connection and productivity. Politically-connected firms are less productive and have slower growth yet are larger with a higher number of employees, according to the report findings.

Finally, there is great resistance from vested interests to implement rule-based systems and regulations in efforts to reduce corruption in Ukraine.

Satu Kahkonen, World Bank Country Director for Belarus, Moldova, and Ukraine, emphasized the effect of the country's crony capitalism in an opinion article in March 2018, based on the World Bank report. Kahkonen stated that Ukraine has struggled with corruption and state capture since its independence from the Soviet Union more than two decades ago. The oligarchs that dominate large sectors of the Ukrainian economy have the power and opportunity to extract rents and exert influence on the state through representation in parliament. Oligarchs have tapped into the rich sources of corruption, including in energy, public procurement, privatization of state assets and tax administration (Kahkonen, 2018). "These governance failures have created an economy largely built around redistribution of rents (excess returns above the normal levels that are generated in competitive markets).", Kahkonen wrote.

Corruption Persists Despite Reforms

Despite the many anticorruption initiatives and reforms that have been in Ukraine for the past decade, the level of corruption remains high. National survey (2015) data showed decrease in public trust across all levels of the Government compared to 2011 and increase of the perception of corruption. Only 14 percent believed that the authorities were willing to fight corruption. 94 percent of Ukrainians considered corruption to be one of the three most serious problems in the country, the first two being the military action in Ukraine and the high cost of living. According to another national survey (KIIS, 2016, cited in OECD 2015), respondents considered corruption as the number one internal threat for the national security.

There is a continued lack of law-enforcement actions that, according to the OECD, may lead to two serious problems. “Firstly, the funds and property that were gained through corrupt means by the previous administration and that were frozen by many foreign countries or remain in Ukraine cannot be legally arrested and confiscated. Secondly, failure to apply zero-tolerance policy by the new administration from the very beginning will undermine the implementation of anticorruption policy in the short- and long-term and will lead to the public rejection of the new administration” (OECD, *Anticorruption Reforms in Ukraine*, 2015, p. 25).

The lack of law-enforcement actions demonstrates the magnitude of opposition and barriers any initiative aimed at revealing the extent of corruption and genuinely fighting it faces in Ukraine. At the same time, these processes revealed the complete powerlessness of the NACP and inability to efficiently carry out its mandate when it comes to the interference by outside forces. (OECD 2017, p. 63-64).

Summary

The range of reports mentioned above indicate that corruption is a severe, systemic and persistent problem in the Ukrainian economy in the period 2005-2018. Despite many anticorruption initiatives and the improvement in CPI-ranking from 2013-2017, there is solid documentation that there is a risk that Norwegian aid to Ukraine could be exposed to corruption.

B Anticorruption Strategies in Ukraine

The Revolution of Dignity following the demonstrations in Maidan in the winter of 2013-2014 was largely instigated by the endemic corruption in the country, and has significantly affected Ukraine’s anticorruption policy (OECD, 2017). The government of president Viktor Yanukovich was overturned, and the Post-Maidan administration pledged to eradicate corruption. The Anticorruption Strategy for 2014-2017 was adopted as law (Principles of Anti-Corruption Policy of Ukraine) in 2014. After numerous revisions in 2013-2015, Ukraine has aligned its criminal law on corruption with applicable international standards. All corruption offences and their elements are now criminalized.

Ukraine’s anticorruption regulations are both national and a result of international trade agreements, such as the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA). Ukraine is part of the Anticorruption Network for Eastern Europe and Central Asia, an OECD

initiative. A recent source of anticorruption regulation in Ukraine is the 3rd and 4th monitoring report of the Istanbul Anticorruption Action Plan by OECD (2015 and 2017).

The main anticorruption reforms implemented between 2015 and 2017 according to the 2017-monitoring report are:

- Anticorruption legislation package and establishing anticorruption institutions²¹
- E-procurement system
- Electronic system of asset declarations with open access to data, launch of verification
- Opening up public registries and information on public finances
- Reforms in banking and energy sector
- Constitutional amendments and new legislation on Judiciary
- Civil service law and public administration reform strategy in line with EU standards
- National police reform

Anticorruption Institutions

Several institutions have a special task to prevent and detect corruption, including the National Agency for Corruption Prevention (NACP), National Anticorruption Bureau of Ukraine (NABU) and the Special Anticorruption Prosecutor's Office (SAPO). NABU is an independent body that investigates high level corruption, supported by the special prosecutor.

Asset Declaration

All public officials who are authorized to perform functions of the State or local self-government, are obliged to file declarations of assets (OECD, 2017). Officials of other public law legal entities, including state and municipal enterprises, budgetary institutions like hospitals, universities, museums and mass media also have to declare assets. The declaration is conducted electronically each year and includes declarations of assets, income, expenses and financial obligations for the previous year. The asset declaration increases transparency and makes it harder to hide kick-backs, bribes and assets whose legal origin cannot be explained.

²¹ National Anti-Corruption Bureau of Ukraine (NABU), Specialized Anti-Corruption Prosecutor's Office (SAPO), National Agency on Prevention of Corruption in Ukraine (NACP), Asset Recovery and Management Agency (ARMA).

Electronic declaration system is the fundamental anticorruption measure implemented by Ukraine in recent years (OECD 2017). As of 1 September 2017, this system has resulted in 1133 criminal proceedings on failure to submit e-declarations or false declarations (Art. 366 of the CC), and 81 cases were sent to the court. As of the end of June 2017, NABU investigated 61 criminal proceedings opened as a result of the analysis of e-declarations, 63 on alleged false declarations (Art. 366 of the CC) and illicit enrichment (Art. 368 of the CC), among them 17 judges 18 members of parliament, and 12 heads of central executive authorities.

E-procurement: ProZorro

Public procurement is a high-risk area of corruption. As part of the Anticorruption Strategy for 2014-2017, Ukraine has developed an electronic system for public procurement, ProZorro, to prevent corruption.

4. RESEARCH QUESTION AND METHODOLOGY

This study has an applied, operational orientation, informed by the above general theoretical approach to understanding mechanisms in development aid and anticorruption. The findings and insights provide the basis for a set of recommendations addressed to Norwegian aid authorities and the governmental and non-governmental project partners that receive development grants.

Research Questions:

- i. MFA has zero tolerance for corruption. Do the risk assessments and risk mitigating initiatives used by MFA and project partners assure that Norwegian funding is not wasted in fraud and corruption?
- ii. Do the risk assessments and risk mitigating measures used by MFA and project partners minimize fraud and waste in development assistance?
- iii. Are the risk assessments and risk mitigating measures used by MFA and project partners in line with anticorruption research and evidence-based evaluation methods?

Research design

The study is designed to gain an understanding of the methodology for corruption risk assessment and risk mitigation in Norwegian development aid and comprises four distinct elements:

- i. a desk study and document review of published literature and reports on the issue, including international best practice;
- ii. a mapping of policies, regulations, methodology and practices in corruption risk assessment and monitoring in Norwegian development aid, and how this has changed in the period 2006-2018, with a case study of Ukraine;
- iii. an assessment of the implied consequences of the current methodology for risk assessment and monitoring
- iv. a set of recommendations.

I aim to gather information on a range of topics including basic descriptive data such as amount and geographical scope of development aid, risk assessment processes applied by MFA, and guidelines and processes applied to monitor projects. Furthermore, descriptive data on substantive details of selected projects, such as project specific methodology for corruption risk assessment, internal controls and monitoring. This task is complex because MFA and the project partners currently do not follow a standardized or best-practice approach to the risk assessment process. Hence, the subject is complex and unstructured, as there is no clear indication of how this risk assessment should ideally be performed.

Case study

The methodology includes a case study of Ukraine, where qualitative data collected in interviews and documents are triangulated by quantitative data collected in aid statistics and surveys.

A case study is “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence” (Robson (2002:178), cited in Saunders et al., 2007). The case study strategy is valuable to gain a rich understanding of the context of the research and the process being enacted (Morris and Wood, 1991, cited in Saunders et al., 2007). Case studies are most often used in explanatory and exploratory research, with various data collection techniques used in combination. The study is a multiple and embedded case, as it explores several aid partners and aid projects.

Documentary secondary data analysis

The purpose of the documentary secondary data analysis is to describe and assess corruption risk factors in Ukraine and to explore how the anticorruption efforts have been documented by MFA and project partners.

The documents include:

- Norwegian Aid Statistics 2006-2017
- Ministry of Foreign Affairs Grant Portal
- Norwegian National Budget 2006-2019
- Project applications and reports
- Evaluation reports: The Auditor General, Norad evaluation department and project evaluation reports.
- Project partner internal control documents
- MFA and Norad guidelines for anticorruption
- MFA and Norad whistleblower guidelines
- Whistleblower reports
- Corruption and governance indicators, such as Transparency International Corruption Perception Index and the World Bank Governance Indicators.
- OECD-reports, such as the monitoring reports for anticorruption reforms in Ukraine.

Explore Grant Data

Using the digital portals that registers all grants – Norwegian Aid Statistics and the Ministry of Foreign Affairs Grant Portal – it is possible to extract information on grants to certain projects, project areas and organizations, and to aggregate total grants received. It is also possible to identify whether the organization and/or project has reimbursed any of the amount received. Projects of interest to sample were identified through sector and project risk assessment, based on literature, such as Søreide (2016), which provides a framework for categorizing corrupt distortions, see section 2B.

The selection of sample projects is focused on sectors and areas where there is scarcity of resources, such as limited licenses, and where the assignment of licenses or resources is qualification steered, implying that the public servant has discretionary authority to make decisions. The energy sector, with particular focus on sustainable energy and climate change,

is one of the Norwegian foreign aid focus areas. The energy sector in Ukraine has a high degree of scarcity and qualification steered allocation due to licenses and few organizations that dominate the market, which is described as risk factors for corruption, ref. section 2B and 2D.

Sample projects were chosen based on five factors:

- i. sectors where concerns have been reported, e.g. energy;
- ii. projects that have reimbursed some of their grant funding, such as the SIVA-projects
- iii. projects that have private organizations and corporations as beneficiaries, such as NEPAS AS.
- iv. projects that have received funding over a long time-period, such as retraining of military officers.
- v. the total amount granted to organizations and projects, such as Nord University.

Survey

The empirical information was gathered through qualitative in-depth interviews and an online questionnaire.

Interviews

Interviews were conducted using a semi-structured interview guide. The objective of the interviews was to explore the organization's methodology for corruption risk assessment and risk mitigating measures. Furthermore, the interviews explore MFA's requirements for corruption risk assessment and risk mitigating interventions, and how this was evaluated during the project horizon.

Representatives from MFA and the Norwegian Embassy in Kyiv were selected for interviews. Furthermore, eight partner organizations identified through quantitative data in Norwegian Aid Statistics, were requested to participate in interviews:

1. Nord University
2. Geological Survey of Norway (NGU)²²
3. SIVA
4. NEPAS

²² NGO Geological Survey of Norway have reported concerns related to undue pressure from management in the Ukrainian geological survey administration. NEPAS, Energigården AS and NEFCO were unable to participate in the survey due to unavailability of personnel involved in the aid funded projects.

5. Energigården AS / The Energy Farm International Foundation
6. Nordic Environment Finance Corporation (NEFCO)
7. Bellona
8. Norwegian-Ukraine Chamber of Commerce (NUCC)

Questionnaire

A questionnaire with 24 questions, based on the semi-structured interview guide was developed and distributed through the online service Qualtrics to 50 project partners that have received MFA project-funding in Ukraine. Additionally, 35 project partners were identified and invited to participate as projects funded by MFA grants administrated by Norwegian Centre for International Cooperation in Education (SiU). A total of 90 individuals received invitations to the survey.

The survey was distributed to all Norwegian NGO project partners that have received MFA project funding in Ukraine in the period 2006-2016, as well as all Norwegian public-sector project partners in Ukraine, less Norwegian ministries and embassies, in the same time period.

The objective of the questionnaire was to reach a higher number of respondents and to explore whether there are some risk factors and risk mitigating factors that can be quantified and generalized to the projects, and thereby serve as a basis for best-practice creation.

Weakness in Methodology

Despite multiple reminders and attempts to increase response rate, only 8 out of the 90 individuals responded to the online survey. The low response rate means it is not possible to generalize the answers to the population. In retrospect, online questionnaires are expected to have a response rate as low as 10-25 percent. Given that the total number of respondents could not be higher than 90, as that included all of the organizations and project managers involved, a questionnaire was not a suitable methodology for this project. I considered calling a number of the project managers, to conduct the questionnaire by telephone, but decided not to out of methodological concern in that different responses may be given in a conversation than when reviewing a survey online. I have requested sources not be anonymous in the surveys which may have contributed to the low response rate. There is a trade-off between obtaining enough data and the transparency of the data. In this case I had a clear intention of reviewing the risk assessment process and monitoring of specific aid projects and grant recipients, hence I prioritized open sources. Given the low response rate to the online survey,

it would have been optimal to have included more projects in the in-depth interviews. However, the information and documentation gathered is substantial and sufficient to analyze the corruption risk assessment process and monitoring of Norwegian development aid.

5. Analysis

A. Anticorruption Strategies by MFA and Norad in Ukraine

In the following section I will analyze the anticorruption strategies applied by MFA in Ukraine. The analysis is based on in-depth interviews and a document analysis of grant applications, grant agreements, reports, and internal documents, such as internal control systems.

A sample review of MFA's decision-making process for aid allocation concluded that there were general weaknesses in the monitoring of grant agreements, (Section for Grant Management, 2017). Performance indicators were not clearly assessed for all agreements. The monitoring weaknesses described in a sample review MFA report apply to the processes in Ukraine as well. An in-depth interview with Petter Bauck, Counselor for Development at the Embassy in Kyiv indicate lack of systematic assessment and monitoring of performance indicators and risks for grant agreements.

“We've seen agreements that are not aligned with reality, meaning the project partner could not meet performance indicators as required in the grant agreement. That doesn't mean there's been corruption, but it raises questions as to which types of agreements were made and what could be expected.”²³

Petter Bauck, Counselor for Development, The Norwegian Embassy in Kyiv

Norad has concentrated their efforts to Asia, Africa and Balkan, with less focus on the anticorruption and monitoring initiatives for Norwegian development aid to Ukraine or other parts of Europe. Consequently, the monitoring of grant agreements in Ukraine has primarily been under direct administration by MFA and the Norwegian Embassy in Kyiv. Prior to his work at the embassy, MFA requested that Bauck review Norwegian-funded development projects in the justice sector in Balkan. He found the project documentation to be insufficient.

²³ An example is a grant agreement with the government institution, Space Agency, nine years ago. I have not been able to access documents regarding the project, so the information is based on the interview with Bauck.

“The risk assessments were weak. The lack of context, performance indicators and an established baseline affected the possibility to monitor and evaluate results.”

Petter Bauck, Counselor for Development, The Norwegian Embassy in Kyiv

Justice is perceived to be the most corrupted sector in Ukraine²⁴. MFA has a project in the justice sector with the objective to assist Ukraine in developing a system for home detention with electronic monitoring. A preliminary study for the project was conducted in 2015, and the agreement signed in October 2016 (Meinich, Sødergren, Wangberg, Damkås, Fjørtoft, Bauck et al., 2015). The prosecutor’s office, courts, prisons and home detention office are involved in the project, as well as the Ministry of Foreign Affairs (MFA), represented by the embassy. An expected corruption risk in the project is the production of goods by prisoners, and the possibility of falsifying production statistics, to enable an official and an unofficial production.

“We’ve seen how power, corruption, and cronyism operate in institutions. The relations between prison wardens and home detention officers are not merely professional. Lawyers say that the prisons in Ukraine are run by mafia, making it an arena for corruption. There are plenty of people who will say what we want to hear. We have to establish connections with external parties, who can serve as a corrective to the institutions.”

Petter Bauck, Counselor for Development, The Norwegian Embassy in Kyiv

Increased Anticorruption Initiatives for Norwegian Aid to Ukraine

The anticorruption initiatives for Norwegian development aid to Ukraine have increased since 2016. I have identified four main strategies: Due diligence of partners, monitoring of reports, increasing staff and staff competence at the embassy in Kyiv, and minimal cash transfer to local partners in Ukraine. The strategies are discussed further below.

Due Diligence of Partners

Due diligence of partners has been a prioritized effort by MFA in recent years and is one of the main responsibilities of the Counselor for Development, Petter Bauck, at the Embassy in Kyiv since medio 2016. Bauck stated in the in-depth interview that the partner assessment consists of coordinating with other donors’ experience, previous MFA experience and

²⁴ Transparency International; Corruption Perception Index 2017;

https://www.transparency.org/news/feature/corruption_perceptions_index_2017; 10.04.2017, 2017.

assessing the organizations previous results in development projects. The key question is whether they can trust the organizations' financial statements, internal controls and reports. Bauck assessed that the risk of Norwegian aid being exposed to corruption is limited, although the aid projects involve institutions challenged by corruption. Consequently, some projects have increased monitoring and control. The systemic corruption in government agencies is the most challenging, as exemplified by the concerns made by NGU during mapping of mineral resources in Ukraine²⁵.

Monitoring of Reports

Reducing the number of partners has been a primary strategy to improve monitoring of aid projects in Ukraine. Continued funding is based on reported results. Project organizations are required to submit budgets, financial reports and external audit reports²⁶. The embassy requests all receipts as documentation of expenses for some projects and required external audit of the entire project accounting for one project. Even receipts may be falsified, according to Bauck.

Deviation from budgets, in particular increased personnel costs, are considered red flags. Material changes in expenses (more than 10%) require preapproval from the embassy.

No cases of suspected financial irregularities were reported from projects in Ukraine in 2016 or 2015, according to the available reports from the Norad Whistleblower Team. Interviews with representatives of the Norwegian embassy in Ukraine and the Ministry of Foreign Affairs report of no whistleblower cases or known cases of financial irregularities. There is no evidence to determine whether lack of whistleblowing is due to non-existence of corruption in Norwegian aid projects in Ukraine, or due to possible corruption going undetected by whistleblower channels.

Increasing Staff and Staff Competence at Embassy in Kyiv

In the 2011-investigation by the Auditor General, MFA asserted that the embassies lack competence needed to discover financial irregularities (Office of the Auditor General, 2011).

²⁵ Separating the mapping of mineral resources and the allocation of licenses is imperative to reduce corruption risk. There has been significant resistance to such reforms in Ukraine.

²⁶ Templates and guides for applications, budgets and reports are available online:
https://www.regjeringen.no/en/dep/ud/grants/project_application/id612525/

A 2015-memorandum by MFA asserted the need for increased and improved efforts in anticorruption and governance in the development assistance to Ukraine, and that additional staff would be needed to ensure such improvements. Petter Bauck was assigned to the embassy in the summer of 2016 with a designated responsibility for overseeing aid efficiency and anticorruption.

Minimal Cash Transfer to Local Partners in Ukraine

Financial governance and management are handled by the Norwegian partner organization, who MFA have assessed as having good institutions for project financing and governance. This results in minimal cash transfer to local partners in Ukraine. Procurement of goods or services is subject to MFA procurement provisions, specified in part III of the grant agreement.

“We will never be able to 100% prevent that public funds are used for personal gain. Some NGOs operate as family businesses. They buy services from family members. We cannot prevent that from happening, but is that primarily a misuse of funds, or is it because the entire society builds on such networks?”

Petter Bauck, Counselor for Development, The Norwegian Embassy in Kyiv

Multilateral vs. bilateral projects

Aid is disbursed through bilateral agreements, multilateral agreements, to multinational organizations, and through NGOs. The risk assessments and control systems in place varies depending on the nature of the funding. For multilateral agreements, such as budget support allocated through the World Bank, the aid administration relies on the institutions in place by the World Bank. The 2011-Auditor General report and the RBM-evaluation report address the challenges of measuring results of multilateral efforts, as the Norwegian aid administration is not involved in the process and have limited oversight and control. In both reports, MFA answered that they would take a more hands on involvement in the governance. For the purpose of this thesis, the work to uncover how monitoring of multilateral projects are monitored have been challenging, which will be further discussed in the next section.

B. Anticorruption Strategies by Project Partners

Aid distributed through Norwegian government institutions and NGOs rely on the risk assessment and internal control systems provided by the grant recipient. These internal

control systems are more heterogeneous than the systems in place by e.g. the World Bank. A review of the corruption risk assessment process and risk mitigating initiatives by nine selected aid projects follow below. The review is based on in-depth interviews and a document analysis of grant applications, grant agreements, reports, and internal documents, such as internal control systems.

UKR-14/0036 Budget Support Ukraine 2014

The Norwegian government made a NOK 200 million disbursement in 2015 to the Ukrainian government state budget for 2014-2015. Documents obtained from MFA show that the funds were funneled through the World Bank, and that disbursement relied primarily on the World Bank risk assessment and result analysis. The World Bank has an obligation to reduce fiduciary risk that conflicts its duty to redistribute wealth from richer to poorer countries, given that there is generally a higher risk of corruption in developing countries. Article III, Section 5(b) of the World Bank Articles of Agreement states that “*The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.*” The World Bank can encourage governments in recipient countries to introduce integrity systems and improve governance, but the local government has a monopoly on law enforcement. This means the World Bank cannot force countries to adapt rules and regulations to donor countries’ aspired level, and at the same time cannot simply refuse support to countries with integrity systems and governments with lower trust and higher risk of corruption (Søreide et al., 2016).

The Norwegian government’s budget support was originally NOK 100 million for 2014 and NOK 100 million for 2015. The grant was however disbursed as one payment in 2015, as the funds were withheld until the Ukrainian government could meet the requirements set out by the World Bank. The objectives and requirements of the funding were satisfied also in post-grant reporting, according to World Bank documents that I received from MFA.

UKR-14/0033 Retraining and Social Adaptation of Military Personnel

The “Retraining and social adaptation of military officers and their family members in Ukraine”, with partner Nord University, has received funding from MFA since 2003. Thousands of military officers have lost their job as an effect of the downsizing of the

Ukrainian military. They have had a lawful right to receive retraining since 2004, however the Ukrainian state does not have the funds to offer this training. According to Norwegian Aid Statistics, Nord University has received NOK 48.5 million in MFA grants between 2007 and 2016.

I chose this project in part because it has received funding before, during and after the increase in Norwegian aid to Ukraine, caused by both the Orange Revolution in 2006, and especially the annexation of Crimea and the Maidan Revolution in 2014. Norwegian aid to Ukraine increased tenfold between 2013 and 2015 and has maintained at six to seven times the 2013-level since then. The project is described as a success by the embassy in Ukraine. It was evaluated in 2011 and was scheduled for evaluation again in 2018²⁷. Based on the duration of the project, I expect the project will have sufficient data available, such as grant applications, reports, accounting data and evaluation reports. Such documentation is public information that I expect to be available through MFA. I have received and reviewed grant letter, progress reports, internal control report, emails and the 2011-evaluation report. Professor Anatoli Bourmistrov is project manager and has been involved since the start in 2003 and participated in a semi-structured interview regarding the project.

The grant application and progress reports require a brief assessment of risks, including risk of financial irregularities. The risk assessment is not quantified, weighted or supported by documentation. The project staff emailed a document of internal control systems to MFA in July 2016, following a request for such systems by MFA. The internal control routines are based on COSO 2013-framework. The internal controls describe the need for an external survey that measures the effect of training on employment. This is in line with recommendations of the 2011-evaluation report. The current reporting system includes that Nord University report numbers and ratios for applications, acceptance to, and graduation from the training project, and employment and self-employment after 3 months and 1 year. I have not found evidence that MFA verifies the reliability of the results, such as comparing the results with employment rate among officers that did not participate in the training program, or verifying what the expected employment rate would be for the officers if they had not received the training. I have not found evidence to show whether it is the training that lead to employment, or if the trained officers were the individuals who were most skilled and likely to receive employment regardless of the project training.

²⁷ The evaluation started in November 2018, including fieldwork in Ukraine in November/December. The evaluation report is expected in February 2019.

Table 8: Reported Results Retraining of Military Officers

REPORT 2015 01.03.2016	Reported	Objective within 3 months	Objective within 12 months
Employed	557 (57%)	75%	100%
Self-employed	125 (24%)		20%
Graduates	984 (95%)		
Female graduates	376 (38%)		30%

Employment reported in retraining project for 2015

Nord University was in the process of gathering data on the effect of the training program at the time of the interview in March 2018. The process is hindered by strict privacy laws in Ukraine that make it illegal to use online surveys to gather the information, as that would share private information with third parties. There is currently no available data to e.g. test the effect of training on employment of the officers participating in the program against a control group that did not receive training. The current data on the effect is restricted to the benefit on micro level as perceived by the individual participant and their feedback.

As a result of the retraining program in Ukraine, Nord University has developed an online training program for internal control, based on COSO 2013-framework²⁸. They have held workshops in Ukraine, and the online version could be made available to Ukrainian and Norwegian development aid project partners. Nord University has also received SiU-funding for a project for internal control training of universities in Ukraine.

«The project aims at developing an online competence improvement course in Internal Control (IC) by applying the framework provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for Ukrainian universities. The COSO framework is among the most used frameworks for internal control today worldwide.»

²⁸ COSO is a joint initiative of American Accounting Association, American Institute of Certified Public Accountants, Financial Executives International, The Association of Accountants and the Financial Professionals in Business, and The Institute of Internal Auditors. The framework consists of the five components control environment, risk assessment, control activities, information and communication, and monitoring activities. The COSO-framework sets out 17 principles based on the abovementioned components. Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO). 2013. Internal Control - Integrated Framework Executive Summary: COSO.

UKR-12/0012 Mapping of mineral reserves and publication of information

The project objective was to survey information on geological mineral resources in Ukraine and to facilitate integration into European research through data harmonization and data sharing on mineral raw materials. Geological Survey of Norway (NGU) was project partner and grant recipient in Norway. According to Norwegian Aid Statistics, NGU received NOK 2.8 million in MFA grants between 2012 and 2016. NOK 135,000 was reimbursed in 2015.

According to NGU Division Director, Tom Heldal, they were aware that the corruption risk in Ukraine was high. Furthermore, they were aware of high sector-related corruption risk in the extractive mineral industries. Heldal explains that mineral resources are important due to high economic value, and sensitive to corruption due to licenses needed to survey and extract minerals.

“A department employee, who was head of Geological Surveys Ukraine shortly before our project started, decided to leave the country during the Maidan. When searching his apartment, they discovered 5 million dollars in cash and 41 kg of gold.”

– Tom Heldal

NGU reported concerns related to corruption risk in the project. Specifically, there were cooperation challenges between the project manager at SGSSU²⁹ and top management. Management requested to participate on study trips abroad, along with their spouse. The local project manager declined the request and reported to the NGU-representative that he felt pressured by management. Email correspondence shows that an MFA-representative responded that he “hoped the cooperation challenges would work out”, that the value of the grant agreement was low, and that the third-party agreements with local partners were not MFA’s concern, as only NGU were affiliated with the grant agreement. MFA requested to be updated on any development of the issue and suggested that the Norwegian Embassy could reach out to SGSSU management to request a direct and professional cooperation with the embassy. The objective was to send an indirect signal that travels abroad for management and their family was not within the scope of the project.

According to NGU Division Director Tom Heldal, the risk assessment required in the grant application to MFA consisted of a one paragraph general description. Heldal describes the

²⁹ Geological Services Ukraine

anticorruption risk assessment as “questions and an open hearted discussion with local partner”. They talked about challenges that might arise, and how they could solve such challenges. Risk-mitigating efforts were based on conversation. NGU did not quantify the risk assessment, but would probably do a weighted and quantified assessment if they were to start a similar project in 2018, according to Heldal. An example of the risk assessment follows below.

Risk management described in final report February 2018:

During the start-up of the project, it was regarded (in accordance with GeoInform) high risk to perform a standard procedure for project funding - i.e. prepayments of lump sums to the partner and financial reporting from partner on the spending. The reason for this was that the partner was not rigged for keeping separated auditable accounts for international projects, creating a risk of internal mix of funding.

Our solution (agreement in the partnership) was a reimbursement model; the project covered actual costs (salary not included - this is in-kind) where final payment of expences was effectuated upon the arrival of receipts and explanations of spending.

Thus, NGU has detailed accountance of all costs incurred in the project, and all receipts.

We would like to add that during the project period, GeoInform has been working with improving their financial system, and NGU is now of the opinion that they for future projects are able to perform their financial responsibilities in line with standard procedures in Europe. This achievement may also be viewed as a result of the MFA funding.

UKR-12/0001 / UKR-14/0024 CCS - Capacity building through energy and climate dialogue

The project objective was to assess possibilities for carbon capture in Ukraine. It started with a feasibility study and continued with a project to develop network for carbon capture technology and development. According to Norwegian Aid Statistics, Bellona received NOK 4.9 million between 2012 and 2016.

Bellona staff were aware of corruption as a risk factor in Ukraine, based on their 20 years’ experience working with similar challenges in Russia. Bellona manager Nils Böhmer assesses

the corruption risk in Ukraine to be higher than in Russia, due to a more cash-based economy in Ukraine.

“It’s challenging to get receipts in Ukraine, similar to the situation in Russia in the 1990s. Money transfer and electronic payment is easier in Russia than in Ukraine.”

– Nils Bøhmer

The corruption risk assessment was based on gut-feeling and experience, according to Bøhmer. No quantitative approaches such as weighting of risks or risk matrix were used. Bøhmer sees value in quantitative approach, as exemplified with audit risk model³⁰ for future projects.

“Corruption risk is just a box on the grant application form, where an informal and general assessment is written, it is not a precise estimation.”

– Nils Bøhmer

Bellona had a staff member on site for the 3-year project, a factor they assessed to greatly reduce corruption risk for the project, due to a “hands-on” approach. Payments to local partners or contractors were made upon approval by the local staff member. Contracts stated that a small amount would be disbursed up front, and the rest upon delivering results.

Bellona found the control efforts from MFA to be weak. They experienced several changes in MFA-personnel overseeing the project and limited dialogue regarding the project and progress.

“Corruption risk in Ukraine has not been a concern raised by MFA.”

– Nils Bøhmer

³⁰ Auditors assess material misstatement risk by assessing the inherent risk, control risk (risk that the internal control system will fail to prevent or detect material misstatement, value between 0.3 and 1) and detection risk, which is the only risk factor the auditor can control. The audit risk (risk of auditor approving a financial statement with material misstatements) cannot be more than 0.05. The auditor must adjust the detection risk by how much substantive testing is conducted to ensure that the audit risk is below or equal to 0.05 Stuart, I. C. 2012. *Auditing and assurance services : an applied approach*. New York: McGraw-Hill Irwin..

Audit risk = Material Misstatement Risk = inherent risk x control risk x detection risk.

The Bellona project had funding through 2017. Ordinarily, 10 percent of the funds will be withheld until final reports have been submitted to MFA. Bellona had received all of the funding in November 2017, while the final report was submitted to MFA in February 2018.

UKR-12/0013 Ukraine-Norway Innovation Networking Initiative (UNINI)

According to Norwegian Aid Statistics, SIVA received NOK 1.7 million between 2012 and 2013. NOK 900,000 was reimbursed to MFA in 2014. SIVA's project manager refers to MFA as project owner and state that SIVA cannot release documents related to the project. MFA have not been able to provide me with any documents regarding the project, despite repeated requests. The project is of particular interest due to reimbursements. The former project manager, Geir Reiersen, stated in an interview that the reimbursement was due to the decision to close SIVA International's operation, and that the project was completed as agreed within the agreed upon costs. SIVA submitted reports according to instructions from MFA.

Reiersen has has 21 years' experience working in international projects. In his opinion, the ministry could and should take a more prominent role in the corruption risk assessment for development aid.

"MFA have access to superior information in the country. They are in the best position to assess the country corruption risk."

– Geir Reiersen

Reiersen said in the interview that they have the same expectations of integrity in Ukraine as in Norway. SIVA International were responsible for the project accounting, ensuring that all procedures were followed. Payments were made from SIVA International to a person/organization, meaning a legal person had access to money in a bank account in Ukraine, which Reiersen emphasizes is necessary to do business in the country. When assessing corruption risk in the project, SIVA staff were aware of challenges of que corruption, where it may be possible to pay to access permits earlier, but stated that this did not apply to their project, as it's more of a problem higher up in the system.

"Corruption is where nothing happens, and you ask why the process has stopped. That's when they tell you it can move faster if you pay. We have renovated a factory to create a business incubator. That's too small scale to have trouble with corruption."

– Geir Reiersen, project manager and managing director SIVA International

Kickback payments may be a problem when operating in Ukraine, and is difficult to deter, as it is random and not possible to have control of all subcontractors, according to Reiersen. SIVA did not control or monitor subcontractors used by local partners in Ukraine.

“What we can control is what payments we have made, how these show up in the project accounting, and if we have received the agreed upon and expected products and services.”

– Geir Reiersen

Corruption is an abstract word and a grey-zone issue which is difficult to measure and compare, according to Reiersen, stating that they had not assessed country risk in Ukraine vs. e.g. Russia.

“Such an assessment would be an unqualified guess. Russians think that the risk is very high in Ukraine and say, ‘in Russia they only steal 20%, in Ukraine they steal everything’.”

– Geir Reiersen

SIVA did not use a risk matrix or other quantitative methods to assess corruption risk. Their strategy is to develop good systems and be present on the ground. Reiersen said a quantitative risk matrix simply would be a tabletop exercise. The project accounting was audited, but auditors were not used in the corruption risk assessment process. Reiersen asserted that such a risk assessment was outside of an auditor’s area of expertise. He does not believe that digital auditing will uncover illicit costs.

“You have to check that a house that was supposed to be built actually ended up being built. Presence is the best audit!”

– Geir Reiersen

UKR-14/0023, UKR-13/0001, UKR-15/0002, UKR-10/0038, UKR-14/0011, UKR-16/0005, Norwegian - Ukrainian Chamber of Commerce (NUCC)

NUCC have managed several MFA-funded projects in Ukraine with the objective of facilitating cooperation between Norwegian and Ukrainian businesses. According to Norwegian Aid Statistics, NUCC received NOK 13.5 million between 2010 and 2016.

NUCC adopted a code of conduct including an anticorruption program in 2016 developed by the Norwegian-based international law firm Wikborg Rein³¹. This includes guidelines for what actions to take if issues regarding corruption, such as bribery, occur. NUCC employees and board members are required to read and sign the code of conduct.

The majority of MFA and membership funds are administered by NUCC. Corruption and fraud risk could arise when purchasing products and services in Ukraine, such as to host an event. When purchasing products and services in Ukraine, they are offered three options: cash, private entrepreneur contract and general taxation, according to NUCC Managing Director Kjartan Pedersen. The type of contract is associated with the quality of receipts and tax level. Private entrepreneur contract has a simplified tax regime with a 5 percent flat tax rate. The general taxation contract is used for enterprise contracts and includes a tax rate of 20 percent. Private entrepreneur and general taxation are both entirely legal contracts. The cash contracts involve no or low-quality receipts and a higher risk of misappropriation of assets and tax fraud. Pedersen states that NUCC push to receive legal contracts and receipts due to their obligation to MFA and member organizations. They review contracts, reports and market research and have zero tolerance for corruption. NUCC employees have not been asked to pay bribes. Pedersen has heard descriptions of que-corruption, where public officials imply that a process to secure a permit can be expedited given informal payments, but states that it is possible to get the same permits without paying a bribe, it just might require more patience.

“If you start to pay bribes, you won’t be able to stop. If you say no the first time, they stop asking. It is possible to stay clean of corruption while doing business in Ukraine, but you can’t be naïve. Cash is a no go, everyone knows that.” – Kjartan Pedersen

The commitment to legal contracts is important for NUCC’s work in Ukraine. A prerequisite for increased trade between the two countries, is that Ukraine systems and institutions develop in line with European standards, according to Pedersen.

“The corruption problem in Ukraine won’t disappear overnight, but there is increased emphasis on anticorruption, and our members perceive that the development is moving in the

³¹ Wikborg Rein represented Naftogaz, the national oil and gas company of Ukraine, in a gas sale arbitration dispute with Russian Gazprom. <https://www.wr.no/aktuelt/nyheter/2018/wikborg-rein-assists-naftogaz/>

right direction. In my own experience, there is heightened focus on having the paperwork in order. I have to bring original documents with me everywhere I go, copies are not sufficient.”

– Kjartan Pedersen

07-3070119 / UKR-09/004 / UKR-08/004 / UKR-08/005 NEPAS AS

The privately-owned limited liability company NEPAS AS (New Energy Performance AS) received a total of NOK 3.8 million for energy planning projects in 2007 through 2009. NEPAS reimbursed approx. NOK 139,000, according to general manager Hans Jacob Mydske, due to a health-related leave of absence by the project manager. MFA have not been able to provide me with any documents regarding this project. Mydske replies in an email that he does not have access to the documents anymore, due to changes of computers and the retirement of the project manager. He refers to MFA, stating that they should have copies of grant applications and project reports.

“The documents are probably in a barn somewhere.”

– Hans Jacob Mydske, General Manager and equity owner, NEPAS AS

UKR-13/0005 Establishment of an Energy Farm in Ukraine

According to Norwegian Aid Statistics, Energigården/Energy Farm International received NOK 11.8 million from 2014 to 2016. MFA have not been able to provide me with documents regarding the project. Energigården / Energy Farm International Foundation have been unavailable for interview. They have received invitation to the survey but have not replied.

UKR-14/0037 NEFCO - Nordic Energy Efficiency and Humanitarian Support Initiative

The Nordic Environment Finance Corporation is an international finance institution established in 1990 by the five Nordic countries Denmark, Finland, Sweden, Iceland and Norway. The primary objective is to improve energy and resource efficiency in Eastern Europe. According to Norwegian Aid Statistics, NEFCO received NOK 51.6 million in MFA grants from 2007-2016. The funding is multi-bilateral, as the corporation is cofounded by other Nordic countries.

NEFCO has several projects involving construction and repairs of buildings, replacing insulation and improving energy efficiency in buildings. This implies they could have more cash disbursements and procurement processes that could have increased corruption risk, compared to the partner organizations that primarily administered payments for lower amounts upon receiving receipts approved by Norwegian partner representative and/or accountant. As an example, NEFCO³² and the Ukrainian company Energopark Yavoriv LLC have signed an equity agreement to construct a 36 MWp solar plant in Lviv region in Western Ukraine, where NEFCO will provide EUR 2.5 million of the total EUR 34.7 million investment. Energopark Yavoriv is majority held by one person, Zinoviy Kozitskiy..

MFA has not been able to provide me with any documents regarding this project, nor have NEFCO responded to the request for interview. NEFCO issues financial statements in accordance with IFRS and has compliance systems including board resolution on anticorruption and an anticorruption committee. There is no mention of corruption risk in the financial statements, nor evidence of systematic corruption risk assessment, or concern related to procurement and services in energy and renovation in Ukraine.

Questionnaire

8 project partners responded to the online questionnaire. Their answers supported the findings in the interviews and document review: There is no structured methodology for corruption risk assessment or quantified corruption risk analysis, it is primarily based on experience and talking to people.

6. ANALYSIS OF FINDINGS

Section 6 contains my analysis of findings. First, I give an overview of identified corruption risk factors. Then I provide an assessment of the implied consequences of the current methodology for risk assessment and monitoring. Finally, I provide a summary of my findings.

³² Other investment partners are the Danish Investment Fund for Developing countries (IFU) and Energopark Yavoriv, while the European Bank for Reconstruction and Development (EBRD) is providing debt financing. Source: <http://www.nefco.org/news-media/news/first-solar-energy-investment-ukraine>

EBRD has previously provided financing for two wind parks owned by entities controlled by Kozitskiy. Source: <http://www.ebrd.com/news/2018/ebd-finances-36-mw-solar-plant-near-lviv.html>

Identified corruption risk factors and risk mitigation

The primary risk factor is fraud through misappropriation of funds. MFA have two main risk mitigating strategies: (1) Partner due diligence and (2) monitoring of internal control.

The primary risk mitigating strategy is to minimize cash disbursements and to monitor budgets and financial reports closely, with strong focus on internal control of receipts. The quality of receipts in Ukraine poses a weakness and challenge, as both MFA and project partners have indicated in interviews and documents. What is the reliability of the receipts if the project partners are asked “what do you want the receipt to say”? This weakness requires a reliance on a trust-based system with the project partners. MFA have emphasized increased partner due diligence and reducing the number of partners as an important measure to increase control with development aid to Ukraine. While verifying an organization’s credibility with other donors and previous experience in Norwegian development aid may be a significant risk mitigating factor, it does not change the fact that MFA still relies on a trust-based system.

The due diligence is primarily a qualitative assessment. When questioned about how they conduct corruption risk assessment, the first response from all parties have been a version of “gut feeling”. This first response has then been elaborated with “talking to people”. MFA representatives stated that a qualitative risk assessment is sufficient when done properly. What constitutes a sufficient qualitative risk assessment? How can it be determined that it is adequate? Is a vague one-paragraph qualitative description in a grant application sufficient? What questions need to be answered? Which processes need to be examined? Is there a checklist? Is it the same for every project? Is the threshold for sufficient also best described by a gut feeling approach? The data collected in this thesis suggests that the assessment of what constitutes a sufficient qualitative risk assessment, is also qualitative, and may vary across individual projects, project partners and project members.

I have not found evidence to support that these trust-based systems can be trusted. Weak monitoring and control increase the incentives to waste funds and take part in corruption, and reduces the risk of corruption being detected. An example is the ILPI-case, where several former MFA-employees were rewarded with projects without following guidelines and procedures for grant allocation. If partner due diligence and former experience were good enough indicators, then former MFA and Norad employees should certainly be expected to pass the test. Since the uncovering of the ILPI-case, project partners were asked to submit documentation for travel expenses, as stated by NUCC. The ILPI-case did lead to changes in

grant management, according to Torgeir Fyhri, Deputy Director, Section for Grant Management at MFA. An even more recent example from the Storting, though not related to development aid, still illustrate the trouble with trust-based systems. Member of Storting Mazyar Keshvari (Progress Party) has admitted to filing false claims for travel compensation. The matter is under police investigation (Ekroll, 2018). Even democratically elected representatives cannot be trusted with a trust-based system.

The Paris Declaration (2005) principle of ownership recommends that developing countries set their own development strategies, improve their institutions and tackle corruption. MFA policy and experience from development aid projects entail extended monitoring and control of cash disbursements and internal control. Although this on a short-term basis contradicts the Paris Declaration giving the responsibility to the local organizations, a long-term result of the development aid is the aspired capacity building through institutions. Examples of such results include local project management and project accounting in the continued NGU-projects, and the development of a COSO-training project by Nord University.

Monitoring and Results-Based Management

The development project results are not what primary determines whether they receive further funding, according to the 2018-evaluation of Norad's practice RBM (Balogun et al., 2018)³³. Learning and accountability are two of the main purposes of RBM, but, the practice by Norad has been reduced to demonstrating and reporting results, and does not balance these two main purposes, according to the evaluation. Efforts were made to bring results evidence into funding decisions, but other factors such as political priorities or an organization being a long-term partner seemingly had more significance to the allocation decision. My findings support that this is evident also for Norwegian development aid to Ukraine. The Nord University project in retraining military officers is a valid example. The project has received funding for 15 years, yet the effects on employment cannot be verified. Participants may report experience improvements on a microlevel, but there is no data available to for instance evaluate the effect on employment after one or five years against a control group. The challenge in demonstrating effects of aid on a macrolevel are well-known and hard to overcome, and the results on a microlevel can be valuable. However, I expect that a project funded over a decade and a half where the primary objective is to increase employment, would gather data to verify the effect of the program. The lack of data and ability to measure

³³ See Chapter 2D for more on this evaluation report.

results was a key finding in the 2011-evaluation report of the retraining program. Based on that evaluation report, it was one of the earlier objectives of my master thesis to analyze effect of this training program on employment, yet six years later, no such data has been collected, and no such analysis can be conducted.

Change in Anticorruption Initiatives

A 2013-review by the Norwegian Storting Standing Committee on Scrutiny and Constitutional Affairs found that MFA had improved grant routines by implementing three main changes. Firstly, the development of more uniform internal control systems, practices and guidelines. Secondly, a separate unit for grant administration was established. Thirdly, a specialized control unit was established to oversee grant monitoring and control. However, MFA had failed to review grant allocation as specified by the committee, resulting in a request that the Auditor General would review grant allocation by MFA with scrutiny.

An internal MFA memorandum dated February 2015 stated a need for increased monitoring of Norwegian Foreign Aid to Ukraine, due to increased aid. The document emphasized the importance of monitoring, risk mitigation and donor coordination on location, in addition to increased demands for reporting and control. Donor coordination is essential to avoid overlap, maximize resource utilization and minimize the administrative burden of development aid for Ukrainian government, according to the document. Ukraine is described as a country with challenging framework that poses a significant risk to the Norwegian development effort, requiring close monitoring of projects and partners to ensure cost efficient implementation and evidence-based results. The document describes a substantial corruption level in the country, posing a considerable risk of corruption and misappropriation of funds, which requires sufficient resources. The document concludes with a request of one additional employee at the embassy in Kyiv (Section for Russia Eurasia and Regional Cooperation, 2015). Petter Bauck joined the embassy as Counsellor for Development Cooperation in the summer of 2016. Bauck stated in the interview that one of his primary tasks has been to reduce the number of partner organizations and to assess whether the projects are delivering sufficient results.

Documents and interviews with partner organizations indicate that MFA placed an increased emphasis on anticorruption and internal control from medio 2016. MFA requested Nord University to report on their internal control systems, resulting in the developing of an

internal controls program by the university. NUCC developed a Code of Conduct-program and were requested by MFA to document travel expenses.

The increased efforts in anticorruption described above imply that there was a need to improve anticorruption efforts, which is also supported by reports by the Auditor General, Storting and the Norad evaluation department.

The most frequent characterization given of the risk assessment process has been “gut feeling”. To quote investor Johan Sköld: “If you trust your gut feeling, you are either lucky or wrong”. To quote Kåre Rødssæteren at EY about digitalization in auditing: “We have moved from analyzing what can go wrong to finding what has gone wrong”. In the age of big data and digitalization, it is possible to base risk assessment on data and evidence, rather than gut feeling and conversation. It is possible to have all the project applications, reports, and accounting records digitally available for analysis. It is possible to implement Robotic Process Automation (RPA) to analyze documents and project accounting, that could offer aid agency advisors an improved basis for decision making on which projects to fund and how to evaluate and mitigate corruption risk factors.

Insufficient Processes for Corruption Risk Assessment and Monitoring

MFA has a zero-tolerance policy for financial irregularities, corruption and misappropriation of assets. A 2010-memorandum on the zero-tolerance policy defines financial irregularities to also include negligence according to the Norwegian Penal Code, and further defines negligence to include passivity, failure to act, or lack of judgement.

MFA had substantial documentation to expect corruption to present a significant risk to Norwegian development aid to Ukraine. Furthermore, corruption is described as a pervasive problem in development cooperation countries by the Auditor General in their 2011-report, and repeatedly by the budget proposal for the Norwegian National budget (2011, 2018) (Norwegian Ministry of Finance, 2017). The Auditor General found MFA anticorruption strategies to be inadequate (Office of the Auditor General, 2011). MFA were repeatedly warned of a lack of governance and compliance to their own guidelines and regulation, including in the 2018 national budget proposal. The Norwegian Storting Standing Committee on Scrutiny and Constitutional Affairs reviewed MFA grant allocations in 2012-2013, and requested the Auditor General to investigate the grant allocations with scrutiny two years after their previous investigation (The Norwegian Parliament Standing Committee on Scrutiny and

Constitutional Affairs, 2013). The significant increase in Norwegian development aid to Ukraine started in 2013-2015, at a time when MFA had access to solid documentation regarding the corruption risk, their own anticorruption guidelines, and the weaknesses in complying with guidelines as indicated by the Auditor General and the Parliament. Yet, MFA as late as 2015 recognizes that there is a need for increased and improved efforts in anticorruption and governance in the development assistance to Ukraine (Section for Russia Eurasia and Regional Cooperation, 2015).

MFA did not require thorough corruption risk assessment from project partners in grant applications, nor did they monitor how project partners follow through on corruption risk mitigation in reporting, aside from the general one paragraph mention of corruption risk in the application and reporting form.

“A department employee, who was head of Geological Surveys Ukraine shortly before our project started, decided to leave the country during the Maidan. When searching his apartment, they discovered 5 million dollars in cash and 41 kg of gold.”

– Tom Heldal. NGU

“MFA have access to superior information in the country. They are in the best position to assess the country corruption risk.”

– Geir Reiersen

“Corruption risk in Ukraine has not been a concern raised by MFA.”

– Nils Böhmer, Bellona

MFA increased risk mitigation and control in 2016, following a memorandum raising concern in February 2015. The efforts to increase and improve anticorruption and governance are implemented as late as mid-2016, when Petter Bauck is appointed as Counselor of Development at the Norwegian Embassy in Kyiv. Internal control systems were requested from project partners in the same time frame. The reduction in grant agreements is implemented first through 2017 and 2018.

Systematic Risk Assessment

As discussed in chapter 2D, a systematic approach is necessary to conduct a thorough risk assessment and can be implemented based on available international best practice

guidelines³⁴. Such a systematic approach would include identifying what the specific factors and risks are, how they may impact the specific project, an assessment of likelihood of impact, and how these risks may be mitigated. Several tools to aid in such an assessment exist, such as the risk assessment table published by Hjelmeng & Søreide in 2016, see appendix 5. An alternative approach to developing such a table is to use the methodology described in section 2D, based on the UN Global Compact Guide for Anticorruption risk assessment. Based on the findings in this thesis, I have developed an example of such a risk assessment table below. This example uses the simplest approach to quantifying specific corruption risks, by rating them as either high (3), medium (2), or low (1). It can easily be adapted to a broader scale, such as 1-5, or 1-10³⁵. A qualitative scale, such as high, medium, and low, can also be used, as described in section 2D.

Table 9: Risk Assessment Table

Risk scale (1-3): 3: High, 2: Medium, 1: Low	Relevance (yes/no)	Risk estimation (1-3)	Source/comments
Risk factors			
<i>Inherent risks</i>			
Country			
Industry-specific			
License for operations			
Government contracting			
Previous red flags (reported misconduct)			
Per-diems and travel expenses			
Procurement			
Project specific risk			
<i>Aggregated inherent risk</i>			
Control risk			
Internal control systems project partner			
Internal control systems local partner			
Accounting			
<i>Aggregated control risk</i>			
Detection risk			
External monitoring auditor			

³⁴ See DOJ/SEC 2012, UN Global Compact 2013, Hjelmeng & Søreide 2016

³⁵ See appendix 6 for more examples

External monitoring MFA			
Aggregated detection risk			
Estimated Corruption Risk			
= Average of Inherent risk, Control risk and Detection risk			

As mentioned by project partners, MFA may be in the best position to assess country corruption risk, and possibly industry corruption risk. They may also have valuable input in assessing internal control systems for local partners based on previous experience and communication with other donors. Using table 9, the project partners and MFA would assess the underlying risk of the project, as an auditor does when assessing inherent risk of fraudulent financial reporting. Furthermore, they would assess the likelihood that corruption would *not* be prevented or detected by internal control systems by local partners, project partners and accounting principles and systems in place. The detection risk reflects the likelihood that external control by either auditors or MFA would *fail* to detect corruption in the aid project.

Based on the UN Global Compact Guide for Anti-Corruption Risk Assessment (2013) described in chapter 2D, MFA could develop a Country Analysis Tool (see Appendix 2 in the guide). A sample table is reproduced below, adapted to use in development aid. The examples are fictive and just for illustration.

Table 10: Sample Sensitivity Country Analysis Tool

Country	CPI-score ³⁶	Total grants (NOK mn)	% grants to local partners	% grants to government or state-owned companies	Compliance training provided to third parties	History of corruption cases
A	95	100	20%	50%	No	No
B	94	500	50%	50%	No	No
C	88	300	100%	100%	No	No
D	78	6,000	10%	50%	No	Yes
E	71	3,000	0%	75%	No	No

³⁶ The Transparency International Corruption Perception Index has been used as a proxy for country corruption risk in the UN Global Compact guide table above. An alternative approach could be to do a weighted average of a selection of corruption indexes, such as including data from the World Bank Governance Indicators. Appendix 6 in the Global Compact guide lists other sources for analyzing risk of corruption by country. MFA may have access to additional data that could be useful to include in such a sensitivity country analysis tool.

F	43	500	60%	100%	Yes	Yes
G	39	1,200	60%	50%	No	Yes
H	36	900	100%	100%	Yes	Yes
I	24	2,500	90%	80%	No	Yes
J	19	300	80%	50%	Yes	Yes

When evaluating the overall exposure to corruption risk by country based on the Sensitivity Country Analysis Tool, Country I may face higher corruption risk than the others, based on the low CPI-score, high percentage of grants to local partners, high percentage grants to government or state-owned companies, lack of compliance training offered to local partners, and the history of corruption cases. It is then possible to further analyze the risk by project and/or partner. For MFA, this analysis would typically fall under the responsibility of the embassies, as they oversee the development projects in each country. Table 11 below illustrates such an assessment, based on examples in the UN Global Compact Guide.

Table 11: Country Risk Analysis by Partner

Top 5 partners (% grants)	Total grants by partner (NOK 1000)	% of grants to government agencies	Grants paid to third parties (NOK 1000)	Third parties' due diligence	Compliance training program third parties	Overall risk (H/M/L)
A	50,000	80%	3000	No	No	H
B	30,000	60%	1000	No	No	M
C	16,000	20%	500	Yes	No	L
D	6,000	100%	1000	Yes	No	H
F	1,500	10%	300	Yes	No	L

Based on this schematic analysis, project partners A and D are the most critical regarding corruption risk for country I, based on governments agreements, grants paid to third parties, lack of third-party due diligence, and lack of compliance training programs for third parties. These projects and project partners may then be considered for a more qualitative assessment and monitoring, such as external auditing and monitoring of implementation in the field by program officers at the embassy.

Summary of findings

The corruption risk assessment prior to the large increase in funds flowing from Norway to Ukraine, with new partner organizations, appear to have been limited to writing a paragraph to check a box on the grant applications. The primary risk mitigating strategy is to minimize

cash disbursements and to monitor reports closely. I have not found evidence to state that funds were misappropriated, nor evidence to say that it was not.

MFA increased the emphasis on anticorruption and internal control in Ukraine in 2016-2017. Increased partner due diligence and reducing the number of partners have been an important measure to increase monitoring with Norwegian development aid to Ukraine. This process is primarily a qualitative assessment.

The zero-tolerance policy for financial irregularities, corruption and misappropriation of assets include negligence, as defined by the Norwegian Penal Code, such as passivity, failure to act, or lack of judgement.

- MFA had solid information from several sources about the risk of corruption, including the fact that Norwegian development aid to Ukraine could be exposed to the problem.
- MFA did not request a systematic or detailed corruption risk assessment from grant recipients.
- MFA were repeatedly warned of lack of governance and compliance to their own regulations, including by the Storting and the Auditor General.
- Lack of performance indicators and data availability reduce the ability to evaluate project progress.
- The corruption risk assessment practices are inadequate and insufficient given the strict requirements of The Norwegian Penal Code and MFA's own anticorruption guidelines.

7. RECOMMENDATIONS

Based on the findings in my analysis, I below provide a set of recommendations based on an evaluation of the consequences of the current procedures for corruption risk assessment and monitoring.

Recommendations

- Evaluate the possible introduction of a risk matrix, such as exemplified in Hjelmeng & Søreide (2016) or based on the UN Global Compact Guide for Anti-corruption Risk Assessment.

- Collect and distribute best-practice principles based on the experience of long-term project partners.
- Digitalize the application and reporting process. Aid is funded by tax payer money; its use should be transparent and include public access to information.

Further research

- How can RPA be implemented in the grant process for Norwegian foreign aid?
- If the retraining of military officers project is to continue, it should collect data so that it is possible to analyze the effect of training on employment against a control group.
- Processes in automated fraud detection has existed since the start of the millennium (Bell & Carcello, 2000)³⁷. Can these predictions be applicable to fraud and corruption detection in aid?

8. CONCLUSION

Aid is often measured by how much countries donate as a percentage of GNI, which has also been the primary focus in Norwegian development assistance, as demonstrated through grant allocations in the Norwegian National Budget 2006-2019. Despite research in the past two decades centered on the importance of governance and measuring the effect of aid, countries are still compared by how much they donate in development aid as a percentage of GNI. Results measured on amount donated rather than effect and efficiency of aid, is a central underlying problem in aid, as it makes governance a less prioritized task. If the objective is to reduce global poverty by transferring economic resources from richer to poorer countries, it is imperative that the development aid is allocated effectively and efficiently, maximizing poverty relief per kroner and dollar spent. Conflicting goals, such as national security, poverty reduction, enhancing bilateral economic relations, and governance, lead to adverse effects and

³⁷ Using a sample of 77 fraud engagements and 305 non-fraud engagements, Bell & Carello Bell, T. & Carcello, J. 2000. A decision aid for assessing the likelihood of fraudulent financial reporting. *Auditing*, 19(1): 169-184. developed and tested a logistic regression model that estimates the likelihood of fraudulent financial reporting for an audit client, conditioned on the presence or absence of several fraud-risk factors. Bell & Carello used 77 cases of fraud from a long time period and 305 non-fraud cases from one year to identify factors for assessing likelihood of fraudulent financial reporting. The risk factors were included as dummy variables: Auditors responded whether or not the given risk factor was present in the company prior to and during the financial reporting period.

an initiative vacuum, where efforts towards obtaining one of the goals, may reduce the results for another goal.

This thesis has addressed the challenges of governance and evidence-based results in development aid, why corruption may pose a risk, and how Norway's Ministry of Foreign Affairs has navigated these challenges. There is clearly an increased effort to improve governance, results-based management and anticorruption in MFA between 2014 and 2018. These efforts are first noticeable in Ukraine projects in 2016-2017. Even with all the described efforts to increase monitoring, it seems to be too little too late. The most frequent response to how MFA and project partners have analyzed and navigated corruption risk is some version of gut-feeling: Experience, talking to people, "something fishy". This process is inadequate and insufficient given the strict requirements of The Norwegian Penal Code and MFA's own anticorruption guidelines.

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APPENDICES

Appendix 1: Interview guide semi-structured interviews

1. Do you have grant applications, progress reports and/or other documents related to the project in Ukraine that I may have access to?
2. Please briefly describe the content and objective of the project.
3. How have you assessed corruption risk in Ukraine?
4. Did you quantify the corruption risk (was it expressed in numeric values)?
5. How did you assess corruption risk in Ukraine compared to other countries where you have previous experience?
6. Sector: How did you perceive the corruption risk in different sectors in Ukraine?
7. Did you report of challenges with, or suspicion of, corruption?
8. Were you solicited to pay bribes?
9. Were you offered bribes?
10. Did you witness, or were you solicited to engage in, collusion?
11. What is your perception of how MFA required corruption risk assessment prior to, during, and in the final project reporting?
12. MFA has a zero-tolerance policy for corruption. How did you notice that during the project period?
13. What were the results of the project?
14. When did you receive the final disbursement from MFA?
15. Were any of the grants reimbursed?
16. Why was the project terminated?
17. Did you use an auditor to assess corruption risk? If so, how was corruption risk assessed?
18. Digitalization is changing the audit procedures from sampling receipts and documents to reviewing all transactions and journal entries with Robotic Process Automization (RPA). This process will uncover any deviations. Digital auditing will be standard procedure within the next 5 to 10 years and will include the entire transaction process, from order to payment. How do you think this change will affect anticorruption?

Appendix 2: List of interviews

Geir Reiersen, Project Manager and Managing Director SIVA International
Hilde Austad, Section for Russia, Eurasia and Regional Cooperation, MFA

Kjartan Pedersen, Managing Director, NUCC
Nils Bøhmer, Manager, Bellona
Petter Bauck, Counselor for Development, Norwegian Embassy in Kyiv
Tom Heldal, NGU Division Director
Torgeir Fyrhi, Deputy Director, Section for Grant Management, MFA

Appendix 3: List of Survey Questions

Q1 The survey's objective is mapping of how grant recipients have worked with anticorruption in aid projects in Ukraine, and your perception of requirements and monitoring by the Norwegian Ministry of Foreign Affairs (MFA) related to anticorruption.

Q2 Project name and number

Q3 In what timeframe has the project received grants from MFA?

Q4 Do you have grant applications, progress reports and/or other documents related to the project in Ukraine that I may have access to?

Q5 Please briefly describe the content and objective of the project.

Q6 How have you assessed corruption risk in Ukraine?

Q7 Did you quantify the corruption risk (was it expressed in numeric values)? (Yes/No)

Q8 How did you assess corruption risk in Ukraine compared to other countries where you have previous experience?

Q9 Did you report of challenges or suspected corruption? (Yes/No/No, but we should have)

Q10 Did you report of challenges or suspicion related to fraud or misappropriation of assets? (Yes/No/No but we should have)

Q11 What is your experience using MFA or Norad whistleblower channels?

Q12 What is your perception of how MFA required corruption risk assessment prior to, during, and in the final project reporting?

Q13 Have you noticed a change in how MFA assesses corruption? (Yes, anticorruption has increased priority/Yes anticorruption has decreased priority/No change)

Q14 If you have noticed a change in MFA's assessment of corruption, when and how was the change noticeable?

Q15 Did you receive guidance or advice from MFA regarding corruption risk and how this issue can be mitigated? (Yes/No/We received guidance upon request to MFA)

Q16 Would it be useful with clearer guidelines and guidance from MDA regarding corruption risk factors and risk mitigation? (Yes, risk matrix with probability, impact, and risk mitigation for each risk factor/Yes, best practice guide based on other projects' experiences/No, we can handle it better on our own/Other)

Q17 Were you offered bribes? (Yes/No)

Q18 Were you solicited to pay bribes? (Yes/No)

Q19 Did you witness, or were you solicited to engage in, collusion? (Yes/No)

Q20 Did money disappear, or are there undocumented expenses in the project? (Yes/No)

Q21 MFA has a zero-tolerance policy for corruption. How did you notice that during the project period?

Q22 What were the results of the project?

Q23 Were any of the grants reimbursed? (Yes/No)

Q24 If any of the grant was reimbursed, why?

Q25 Do you have any other comments?

Appendix 4: List of Recipients Questionnaire

Agderforskning

Ahus

Aice Hydro AS

Allegro AS

Carbon Limits AS

De Frie Evangeliske Forsamlinger

Deloitte

Den norske Helsingforskomité

Det norske bibelselskap

DSB

Energigården

Flyktninghjelpen

Forsvarets forskningsinstitutt FFI

Fredslaget

Hovedredningsentralen Nord-Norge

ISFIT - International Student Festival Trondheim

Kartverket

Kirkens Nødhjelp

KPU Ukraina

KS

Maidan Norge

Naturvernforbundet

NEPAS AS

NIBR

Norges Geotekniske Institutt

Norges Røde Kors

Norsk energi

Norsk Enøk og Energi AS

Norsk ukrainsk handelskammer

Norske PEN

Norwegian Forestry Group

NUPI
NVE
Redd Barna Norge
Rein Energy / Reinertsen
Reinertsen AS
Riksantikvaren
Røde Kors
RVTS Øst
Seed Forum Norway
SINTEF
SIU
SiU CPEA-2010/10050 sustainable energy development
SiU CPEA-2010/10117 educ sustainable management
SiU CPEA-2011/10002 Water management
SiU CPEA-2011/10053 curricula higher music training
SiU CPEA-2012/10078 economics dynamic modeling
SiU CPEA-2015/10061 Logistic analytics
SiU CPEA-2015/10108 environmental radioactivity
SiU CPEA-LT-2016/10003 Quantitive risk
SiU CPEA-LT-2016/10044 educ energy efficiency
SiU CPEA-LT-2016/10094 Dark Matter
SiU CPEA-LT-2016/10137 Peace studies exchange
SiU CPEA-LT-2016/10140 DNA-based molecular methods
SiU CPEA-PD-2016/10006 teaching better future
SiU CPEA-ST-2016/10002 infrastructure post-soviet
SiU CPEA-ST-2016/10031 Geoscience cooperation
SiU CPEA-ST-2016/10079 law educ. cooperation
SiU CPEA-ST-2016/10082 democracy teacher educ
SiU CPEA-ST/10081 economy organic farming
SiU CPEA-ST/10092 Economics dynamic modeling
SiU CPEALA-2012/10006 ecology
SiU CPEALA-2014/10001 Geospace research
SiU CPEALA-2014/10118 Educ. cooperation geology
SiU CPEASM-2012/10035 Sloyd
SiU CPEASM-2015/10001 student start ups
SiU CPEASM-2015/10005 Wellbeing Technology
SiU CPEASM-2015/10011 Energy Security
SiU CPEASM-2015/10013 Workplace Innovation
SiU CPEASM-2015/10028 cooperation maths. educ.
SiU CPEASMS-2011/10009 sustainable manufacturing
SiU CPEASMS-2011/10047 Atmospheric space weather
SiU CPEASTIP-H2011/10193 KPI
SiU CPEASTIP-H2011/10484 HiT 2012
SiU CPEASTIP-H2011/10492 stipendprogram
SiU CPEASTIP-H2011/10534 studentstipend
SiU CPEASTIP-H2011/10584 stipendprogram UiN
SiU CPEASTIP-H2011/10655 studentstipender
SIVA
Strand videregående skole
SYSLAB AS
Tekna
The European Wergeland Centre

UiO - Senter for menneskerettigheter

UiO NORDEM

UKR-14/0030 Local government reform in Ukraine - programme 2

UKR-14/0030 Local government reform in Ukraine - programme 2

Ukrainagrappa

Wikborg Rein

WWF Norge

Appendix 5: Risk Assessment Table Hjelmeng & Søreide (2016)

<i>STUDENT NUMBER:</i>		SECTOR:		COUNTRY:		
RISK ASSESSMENT TABLE		MARKET RISK		COMPANY RISK MITIGATION		
RISK FACTOR OR CIRCUMSTANCE	Relevance operations weight	Risk estimate scale 0-10	Risk contribution	Sources abbreviations	Mitigated risk estimate scale 0-10	Comments mitigation strategy
		0	0	0,00		0
License for operations	0	0	0,00		0	0,00
Government contracting	0	0	0,00		0	0,00
Sector regulation and control	0	0	0,00		0	0,00
Construction permits	0	0	0,00		0	0,00
Acquisitions (upstreams)	0	0	0,00		0	0,00
Customs/Imports	0	0	0,00		0	0,00
<your choice>	0	0	0,00		0	0,00
<your choice>	0	0	0,00		0	0,00
<your choice>	0	0	0,00		0	0,00
<your choice>	0	0	0,00		0	0,00
<your choice>	0	0	0,00		0	0,00
Summary	0		0,00			0,00
<i>Description</i>	<i>Total weight</i>		<i>Risk level</i>			<i>Mitigated risk level</i>

Appendix 6: Examples of Risk Assessment Table Using Scale 1-5 and Average Risk

Table 12: Example of Risk Assessment Table Medium Risk

Risk scale (1-5): 4-5: High, 3: Medium, 1-2: Low	Relevance (yes/no)	Risk estimation (1-5)	Source/comments
Risk factors			
<i>Inherent risks</i>			
Country		5	High
Industry-specific		2	Low
License for operations		2	Low
Government contracting		5	High
Previous red flags (reported misconduct)		2	Low
Per-diems and travel expenses		2	Low
Procurement		2	Low
Project specific risk		4	High
<i>Aggregated inherent risk</i>		3.0	Medium
<i>Control risk</i>			
Internal control systems project partner		2	Low
Internal control systems local partner		4	High
Accounting		3	Medium
<i>Aggregated control risk</i>		3.0	Medium
<i>Detection risk</i>			
External monitoring auditor		3	Medium
External monitoring MFA		3	Medium
<i>Aggregated detection risk</i>		3	Medium
Estimated Corruption Risk			
Average estimate		3.00	Medium

Table 13: Example of Risk Assessment Table High Risk

Risk scale (1-5): 4-5: High, 3: Medium, 1-2: Low	Relevance (yes/no)	Risk estimation (1-5)	Source/comments
Risk factors			
<i>Inherent risks</i>			
Country		5	High
Industry-specific		4	High
License for operations		5	High
Government contracting		4	High
Previous red flags (reported misconduct)		5	High
Per-diems and travel expenses		4	High
Procurement		5	High
Project specific risk		4	High
<i>Aggregated inherent risk</i>		4.5	High
<i>Control risk</i>			
Internal control systems project partner		5	High
Internal control systems local partner		4	High
Accounting		5	High
<i>Aggregated control risk</i>		4.7	High
<i>Detection risk</i>			
External monitoring auditor		5	High
External monitoring MFA		4	High
<i>Aggregated detection risk</i>		4.5	High
Estimated Corruption Risk			
Average estimate		4.56	High