

Good Governance and Anti-corruption policy and guide

**The EEA Financial Mechanism
&
The Norwegian Financial Mechanism
2004-2009**

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1. Good Governance Policy

1.1 Policy Statement

The donor states of the EEA Financial Mechanism and the Norwegian Financial Mechanism – Iceland, Liechtenstein and Norway – believe that good governance is fundamental to the economic and social development process of all countries, and hence is inherently linked to the objectives of the financial mechanisms.

The existence of a good regulatory framework provides a sound structure for the management of a country's resources. A good governance approach usually encompasses the following elements:

- accountability;
- transparency;
- participation;
- equality;
- rule of law;
- capacity and competence;
- responsiveness to people's needs.

The donor states are committed to upholding the principles of good governance in the implementation of the financial mechanisms. The principles of good governance support the overall goals of the financial mechanisms, which are to:

- reduce economic and social inequalities;
- help the countries that joined the EU and EEA area in May 2004 become fully integrated in the Internal Market;
- foster stronger political and economic ties between old and new EEA members.

1.2 Scope of the policy

The Good governance and anti-corruption policy has been developed in order to give a clear signal as to the donor states' position regarding the issue of good governance.

The Good governance policy complements regular grant application appraisal and project monitoring procedures applied by the FMO, the Focal Point, the donors, as well as appraisal and monitoring agents. The Good governance policy should further be seen in conjunction with the Irregularities Guideline, the FMO code of conduct, the FMO register of gifts, the EFTA/FMO public access to information policy, as well as in legal and administrative requirements that apply in the donor states, the beneficiary states and to the FMO.

The financial mechanisms concern the provision of grant assistance and will involve large volumes of grant-making and public procurement. The Good governance policy

seeks to ensure that the implementation of the mechanisms is characterized by transparency and of openness. The purpose of the policy is to:

- establish and maintain procedures for preventing, identifying, and managing cases of corruption and mismanagement;
- ensure the Focal Points understand and apply the Good governance policy for the financial mechanisms and the expectations of the donor states regarding its application;
- contribute to members of the public having the information and means necessary to make complaints and report irregularities regarding the mechanisms;
- make members of the public and those more closely involved with the mechanisms aware of how information on irregularities will be handled, as well as of the related means of redress.

2. Anti-corruption policy

Of the elements that threaten good governance, corruption is seen by the donor states as among the most destructive. Corruption and mismanagement cripple economic growth and development. The donor states adhere to a strict zero-tolerance policy on corruption. Coordination of actions serving to ensure good governance and prevent corruption and mismanagement form an integral part of the FMO's responsibilities. Specifically, the FMO will:

- tackle all instances of both high-level and low-level mismanagement and corruption with equal conviction;
- deploy specialist resources to fight corruption in a targeted and efficient manner;
- respond quickly and professionally to indications of mismanagement and corruption;
- ensure the FMO's anti-corruption capabilities by drawing on international expertise and cooperation in addition to the close relationship already established with each of the 13 beneficiary states.

The FMO acknowledges that for the goal of good governance to be achieved, continuous determination and dedication at all levels of the implementation of the financial mechanisms is required.

2.1 Barriers to good governance

Corruption – the abuse of entrusted authority for private gain – represents a major hurdle on the road to social and economic development. The donor states of the Financial Mechanisms are strongly opposed to all forms of corruption including bribery, embezzlement, fraud, extortion, favouritism, and nepotism. These elements run counter to the core values of the donor states, which have established the financial mechanisms as a sign of solidarity, to create new opportunities, and to strengthen ties with the 13 beneficiary states.

The financial mechanisms provide financial support across a wide range of priority sectors, to a large pool of potential applicants and using a variety of means. This plurality

in implementation increases the chances of the financial mechanisms to achieve their goals, however at the same time it also increases the risk of their mismanagement. The donor states acknowledge this dilemma, but the inherent risk will not prevent them from creating as many opportunities as possible for as many as possible.

The refusal to allow the risks to dictate the conditions of the financial mechanisms does not indicate any leniency from the side of the donors towards mismanagement. Incidents of corruption or mismanagement will be tackled head-on as they are seen as a threat to the support of the best possible projects and hence the achievement of the best possible results.

The donors consider all those involved in the financial mechanisms as having a responsibility to do their part with regards to the prevention and identification of cases of mismanagement, and the imposition of sanctions on those that are behind them. They include the efforts of national agencies in the donor and beneficiary states, of the Financial Mechanism Office (FMO), of independent monitoring agents, of applicants and project promoters, as well as of members of the public. The FMO will support the beneficiary states in safeguarding their interests as the parties responsible for the funding. These efforts will span the entire project cycle of the activities supported by the financial mechanisms, from high-level monitoring and audits to local, on-the-spot checks.

2.2 Elements of the policy

The Good governance policy consists of three elements – prevention, identification and sanctions. The policy document outlines the procedures the donors expect to be implemented in the beneficiary states and at the FMO so that members of the public can voice concerns over possible cases of mismanagement and corruption of the financial mechanisms.

Prevention

The FMO acknowledges that the best way to tackle corruption is to prevent its occurrence. The FMO will continue to seek advice from state and non-governmental experts on this issue. The Financial Mechanisms seek to prevent corruption by having the following elements in place:

- access to information, including financial figures and other key project information;
- the involvement of civil society organizations (social partners and NGOs) in the project selection and/or the national monitoring processes;
- open selection of projects for grant support and procurement of services financed under the financial mechanisms;
- the use of external, independent appraisal agents in evaluating project applications;
- requiring the adherence to national and European Commission procurement rules;
- the use of external, independent monitoring agents in monitoring of projects and payment claims;

- the reimbursement of eligible project expenses by paid invoices, as opposed to upfront grant payments;
- ensuring individuals and institutions involved in the administration, appraisal, recommendation, and monitoring of the funds avoid both the appearance and actual instances of conflict of interest.

Identification

The FMO makes use of a number of procedures and tools to verify information that may uncover potential mismanagement and corruption. Nevertheless, it acknowledges that some of the best information regarding irregularities comes from members of the public. The FMO promotes access to information as a means to expose cases of irregularities in the use of the financial mechanisms. The following components are promoted to enable the identification of irregularities:

- access to information regarding key project information, financial figures and grant-making processes;
- recourse to independent appraisal and monitoring agents;
- use of external project monitoring, including site visits and unannounced monitoring by national, donor state and FMO agents.

Sanctions

The FMO will work closely with the respective Focal Points in pursuing the Good governance policy. The FMO is subject to control by EBoA and the Norwegian Office of the Auditor General, while the Focal Points are subject to control by the respective national audit authorities. The FMO and the Focal Points will cooperate with these institutions in any review. The FMO will work with other structures operating within the European Union working to prevent irregularities, such as OLAF. The donor states of the Financial Mechanisms:

- will demand cessation of instances where there is an appearance or actual conflict of interest;
- may suspend part or all of a grant scheme while the nature of the allegations of mismanagement and corruption are forwarded by the FMO for further investigation;
- will require the recovery of the financial mechanisms that have – subsequent to investigation – been determined to be subject to mismanagement or corruption ;
- may seek the temporary suspension of public officials or agents of auxiliary and intermediary bodies while the allegations of irregularities are being investigated;
- may seek the removal of public officials or agents of auxiliary and intermediary bodies in proven cases of irregularities;
- will black-list companies involved in proven mismanagement and/or corruption of the financial mechanisms, and black-listing of companies already debarred by other donors.

Specific actions relating to the beneficiary state reporting of irregularities are detailed in the Irregularities Guideline.

3. Complaints procedure

3.1 Scope of the procedure

The purpose of the complaints procedure is to ensure that members of the public wishing to complain or report irregularities regarding the implementation of the financial mechanisms have a simple means of doing so, that their complaint is handled with an open mind and in confidentiality, and that incidents of mismanagement and corruption are uncovered and corrected.

The complaints procedure applies where the nature of the complaint indicates threat to the proper use of the financial mechanisms, or where mismanagement or corruption by those charged with managing the funds is alleged. When the complaint concerns a project selection or public procurement process, the recourse mechanisms (i.e. appeal) available in such cases under separate regulations should in all cases be used.

3.2 Members of the public

Members of the public wishing to address their concerns regarding possible mismanagement or corruption of the financial mechanisms will be granted confidentiality. There will be no reprisal of members of the public who give information in good faith. Members of the public who suspect mismanagement or corruption, but are unsure of their case, are encouraged to share their concerns with the FMO, Focal Point or other agent responsible for the management of the financial mechanisms.

3.3 Advertising the procedure

The complaints procedure is public. Both policy and contact information on where complaints can be addressed are made available by the FMO and the Focal Points on their respective websites, advertised during events related to the mechanisms or provided on request. The information is available in English on www.eeagrants.org and in the language(s) of every beneficiary state on their specific websites.

The FMO and each Focal Point are required to make prominently available the following:

- the Good governance policy and the complaints procedure;
- the name, postal address, direct telephone number and direct e-mail address of the FMO Director and the Head of the relevant Focal Point;
- contact information to audit and control institutions supervising the FMO (EBoA, the Norwegian Office of the Auditor General) and the respective national audit institutions or ombudsmen where members of the public can, if they prefer, address their complaint or report an irregularity.

3.4 Complaints handling

Any complaints or information regarding possible mismanagement or corruption of the financial mechanisms received by the FMO or the Focal Point will, as appropriate, be shared between the institutions of the donor and beneficiary states. The Focal Point, the external monitoring agent and any other institution linked to the case will provide the FMO with any information necessary to review the complaint.

The procedure for complaints handling followed by the FMO will be determined by the FMO Director in agreement with the donor states, and includes the points listed below. The procedure of the Focal Point follows national practice and conforms to the principles set out in this policy. The Focal Point informs the FMO of its procedure and makes it public.

The FMO complaints handling procedure will consist of, but is not limited to:

- designation by the FMO Director of a person or persons assigned to review issues raised by members of the public;
- written acknowledgement of the complaint or report of irregularities, including information on the actions that will be undertaken, together with a tentative timeline;
- involvement, as warranted and appropriate, of FMO staff, donor or beneficiary state representatives, or external monitoring agents to review cases of mismanagement of the financial mechanisms;
- action with all possible speed by all institutions involved in the review to provide an initial assessment of the issue and stop cases of mismanagement or corruption, or dismiss unsubstantiated allegations;
- application of the Guideline on irregularities in cases where information on corruption or mismanagement of the financial mechanisms seems substantiated;
- written information to the member of the public on the results of the review, the actions that will be taken as a result of the review, and information on redress mechanisms should the result of the review not be satisfactory to the member of the public;
- the FMO is under an obligation to inform those bodies who investigate and prosecute instances of mismanagement or corruption.

4. Good governance in the EEA Grants

4.1 As a cross-cutting issue

The EEA Grants assume adherence of supported projects to four cross-cutting issues:

- Sustainable development
- Good governance
- Gender equality
- Bilateral relations

Good governance is closely related to the social dimension of sustainable development, as is gender equality, both of which are covered in separate policy statements.

Good governance as a cross-cutting issue of the financial mechanisms relates to the inclusion of the key principles of good governance in the project promoter's overall management of the project. These principles include accountability, transparency, participation, and responsiveness to people's needs. Requiring the inclusion of the

principles of good governance within all project implementation and management activities contributes to the overall strength of a project and its purpose. Therefore, good governance has been defined as a cross-cutting issue that is evaluated in all project applications of the financial mechanisms.

However, the notion of good governance may also exist as the key focus of a project; an element without which the project would not exist. In such cases, it will naturally be appraised on a full set of project indicators.

4.2 In projects

In the financial mechanisms the principles of good governance should be incorporated into projects and the project cycle, starting at the project development and application stage, through the appraisal and decision processes, and followed up during a project's implementation and its evaluation. This has been an important requirement for the creation of the following documents:

- Application Form
- Application form user guide
- FMO - Appraisal Manual
- Grant Decision Document
- FMO-External project Monitoring Manual

These documents guide project promoters, appraisal agents, decision makers and monitoring agents through the elements of creating, selecting and implementing quality projects which adhere to the principles of good governance.

When developing the good governance framework of a project, a number of elements should be considered in order to give an indication of its adherence to these principles. In particular, the applicant should explain how the project addresses the following issues.

- How does the project contribute to better public access to information and/or improved transparency?
- How does the project improve participation of civil society in decision making processes?
- In what way does the project deal with the issue of accountability vis-à-vis those affected by the project?
- In what way does the project take a proactive approach to preventing and dealing with corruption?
- How has it been determined that the project fulfils a real need?

There will be an absolute requirement that no projects are in any way contradictory to good governance. The assessment on the cross-cutting issues will be combined with other appraisal results such as suitability of the applicant, relevance of the operation, methodology, risk and economic feasibility.

In assessing whether a project has taken the appropriate steps to secure the inclusion of the principles of good governance, a checklist has been developed which is a part of both the appraisal and monitoring manuals. The checklist is meant as a tool to be used

throughout the process of project development, appraisal, monitoring, and result evaluation. In this respect, it is only one of a number of tools, including discussions with appraisal agents and project monitoring activities, which will be used to ensure that the principles of good governance are taken into account.

The success of any good governance policy depends on thorough monitoring of the implementation of its underlying principles within the project. The checklist will also be included in the external monitoring manual, meaning that monitoring activities will be based on the same criteria.

5. Implementing the good governance and anti-corruption policy and guide

The implementation of the principles of good governance has to address the entire project cycle:

1. when projects ideas are developed by the potential project promoters
2. when beneficiary state authorities make their project prioritisation
3. when projects are appraised by the FMO
4. when grant decisions are made
5. when projects are implemented
6. when post implementation operation and/or maintenance is carried out

This good governance and anti-corruption policy must therefore be implemented in all parts of the project cycle based on the following principles and activities:

- This policy is an integrated part of the grant policy adopted by the donors. Consequently, they will be committed to include the adherence to the principles of good governance assessment as an important decision criterion.
- The cross-cutting checklist is a part of the *appraisal manual* which is used in each appraisal. Consequently, the recommendation for grant decision will take the inclusion of the principles of good governance into account.
- The checklist is a part of the *external project monitoring manual*. Consequently, project implementation will also be checked against the same good governance criteria.
- The *Good governance and anti-corruption policy and guide* and the associated checklist will be presented and thoroughly discussed with all the Focal Points in order for them also to consider the same criteria in their future assessments.
- The *Good governance and anti-corruption policy and guide* will be referred to in the next revision of the application form and its user guide.

Other measures to make the *Good governance and anti-corruption policy and guide* public in the beneficiary states will be considered.