

‘See no evil, hear no evil, speak no evil’: Corruption and the NGO sector

APSACC Conference
Sydney, 15 - 16 November 2017

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How large is the NGO sector?

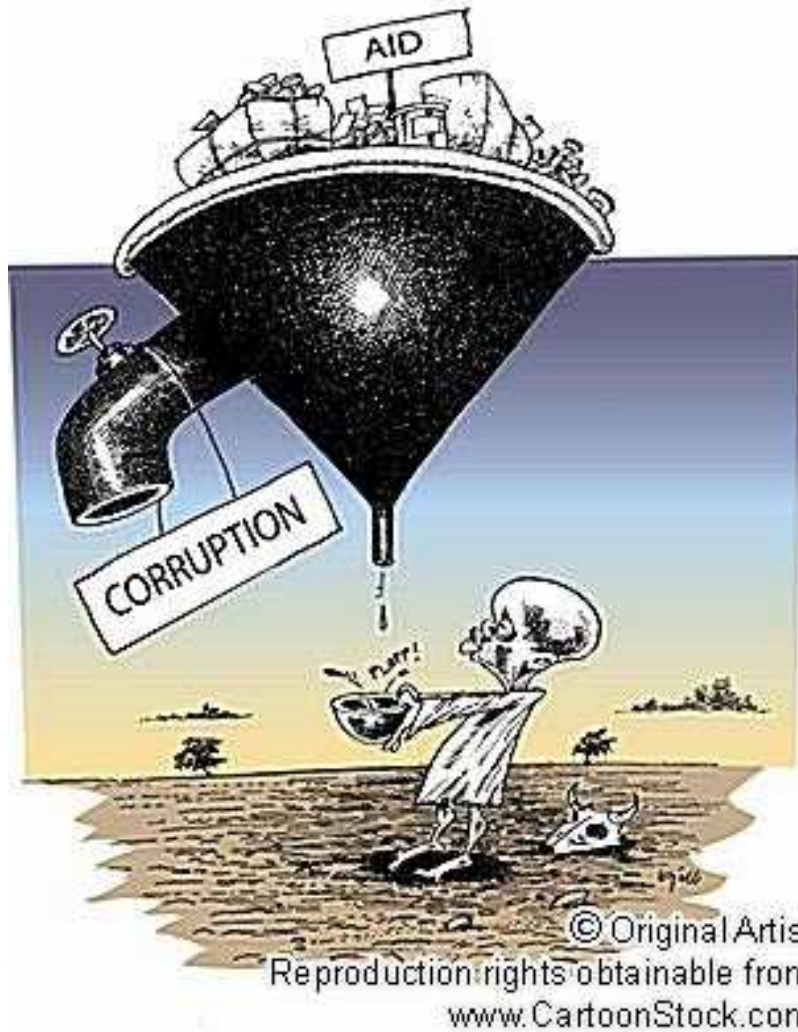
There are currently **10+ million 'registered' NGOs worldwide.**



In Australia there **600,000 NGOs** alone, who ...

- Employ 10% of the country's workforce
- Have a combined annual income of over \$A100 billion
 - Send A\$1.1 billion overseas each year
- Less than 1 in 10 are registered with the ACNC

... but what about corruption?

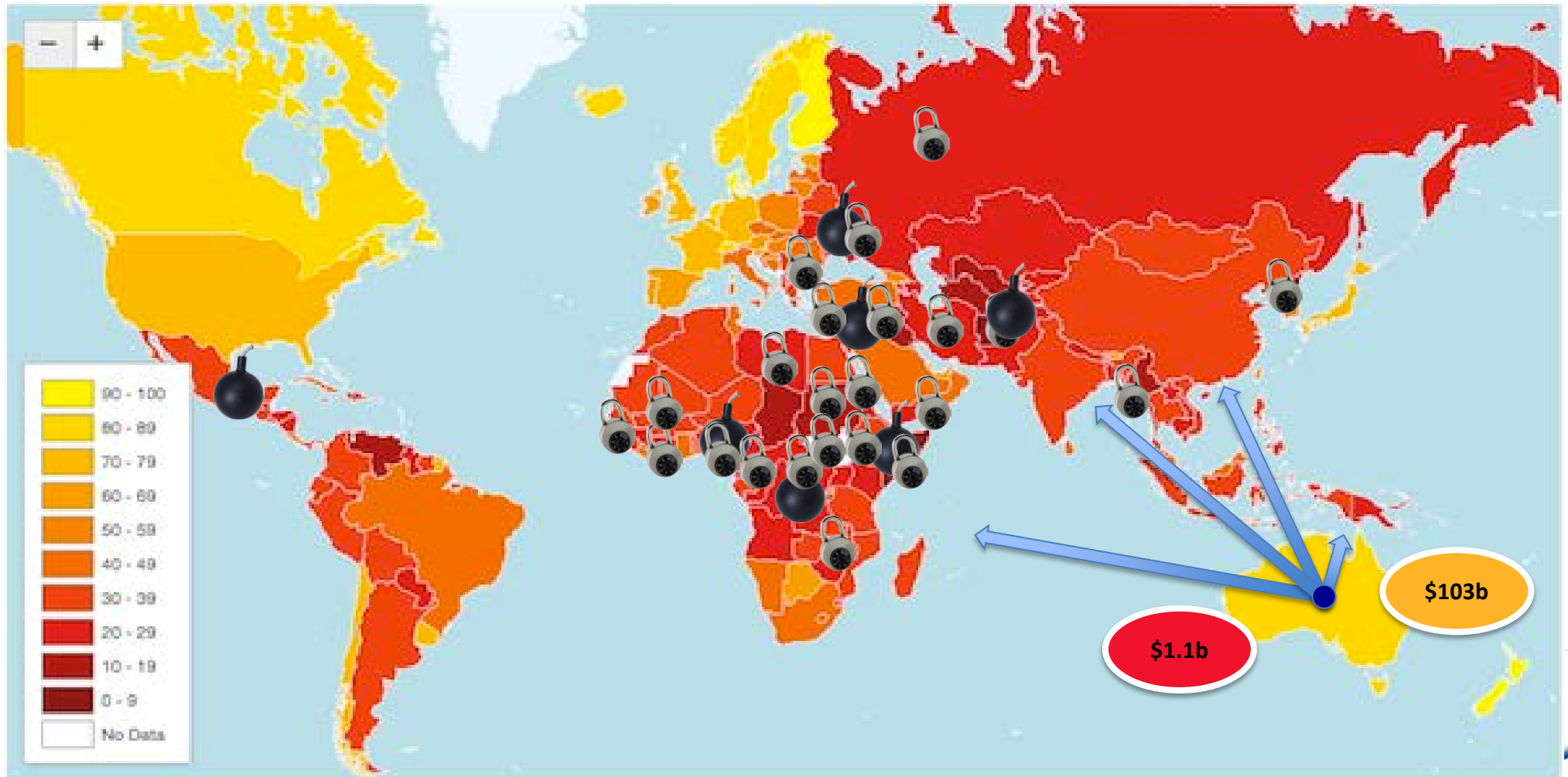


Even the largest NGOs aren't immune



US\$6m
fraud
2014/16

Corruption is now a global problem



Sources: Transparency International (2014) / DEFAT (2015), ACNC (2015), DEFAT (2015), ABS (2010/11)

Key international facts and figures

- 1) Between **US\$20 to US\$40 billion** of Overseas Development Assistance is “**stolen**” each year through **high-level corruption** and hidden overseas
- 2) For each **\$1 dollar of aid received by developing countries, \$7 is lost in illicit capital outflows** = \$2.6 billion a day / \$108 million per hour / \$2 million per minute / \$30,000 per second
- 3) Up to **US\$130 billion of funds lent by the World Bank since 1949 has been misused**, the bulk during project implementation
- 4) Corruption is so pervasive it is now **interwoven into a growing number of societies**, and is a **systematic feature of many economies**

The shadier side of NGOs

NGO Type	Description ...
BRINGO	Brief Case NGO - Owns a briefcase containing a well-written proposal
CONGO	Commercial NGO - Set up by businesses in order to participate in bids, help win contracts, and reduce taxation
GRINGO	Government Run/Initiated NGO - Set-up by government with the function of countering the actions of real NGOs; common in Africa
MANGO	MAFIA NGO - a criminal NGO providing money laundering, enforcement, and protection services; prevalent in Eastern Europe
MONGO	My Own NGO - NGOs that are the personal property of an individual, often dominated by his or her ego
PANGO	Party NGO - An aspiring, defeated, or banned political party or politician dressed up as an NGO; species from Central Asia and Indo-China
QUANGO	Quasi NGO - Parastatal body created by government, often to enable better conditions of service or to create political distance

NGO corruption is not just limited to 'poor' countries



\$2.5m
paid to
Directors



\$9k a
week for
8 years



> \$400k
over 10
years



\$3.5 of
funds
missing



Donated
just 11c in
every \$1



6 counts
of fraud



23 guilty of
financial
corruption

Key Australian facts and figures

- 1) **A Governance deficit:** 61% of concerns raised with the ACNC relate to governance breaches, fraud and private benefit.
- 2) **Over half of fraud allegations received by the ACNC relate to the conduct and activities of senior managers**, including the CEO, board directors, and financial officers/CFO.
- 3) **Corruption is not seen as a key issue** for most charities/NGOs:
 - ✓ 72% of say corruption is not a problem for their organisation; yet 90% saw it as a problem for their sector!? Where is the disconnect here?
 - ✓ 83% of believe they have low fraud risk, and that their external audit was a primary factor in reducing fraud risk
 - ✓ Only 18% have a 'fraud control plan' or whistle-blower system in place
- 1) **Out of sight, out of mind: Less than half of NGOs report corruption to the authorities**

So why are NGOs vulnerable?

- Tendency to be **'mission-driven'**, with governance seen as secondary: At times the 'cause' being above the law
- A **high level of volunteerism** mixed with an automatic **presumption of trust and moral authority**
- Propensity to be **closed to external forces** with **accountability primarily enforced through self-regulatory mechanisms** and internal rules and procedures, supplemented by an **over-reliance on external audits**
- Operate within **relatively weak regulatory framework's**, with a **lack of robust external oversight**
- Many operate in **high corruption-prone countries**, and **use local delivery partners**

..... Added complexities

- **Cultural Norms & protocols:** Who defines what is *corrupt*.
- **Neopatrimonial structures:** A system of ‘personal rule’ held together through the distribution of resources/economic rents in return for loyalty, based on an informal client-patron relationship
- **Coexistence of multiple (parallel) systems with conflicting obligations:** formal legal-bueroocratic system vs. social and social family obligations: “The only certinty in life is *family*”
- **Hybrid forms of corruption**, where *internal* corruption – involving collusive behaviour – results in a portion of the proceeds from *external* corruption, being transferred to upper levels of the organisation by subordinates in return for benefits (e.g. protection).
- **Inherent weaknesses in the Principle-Agent theory of corruption**

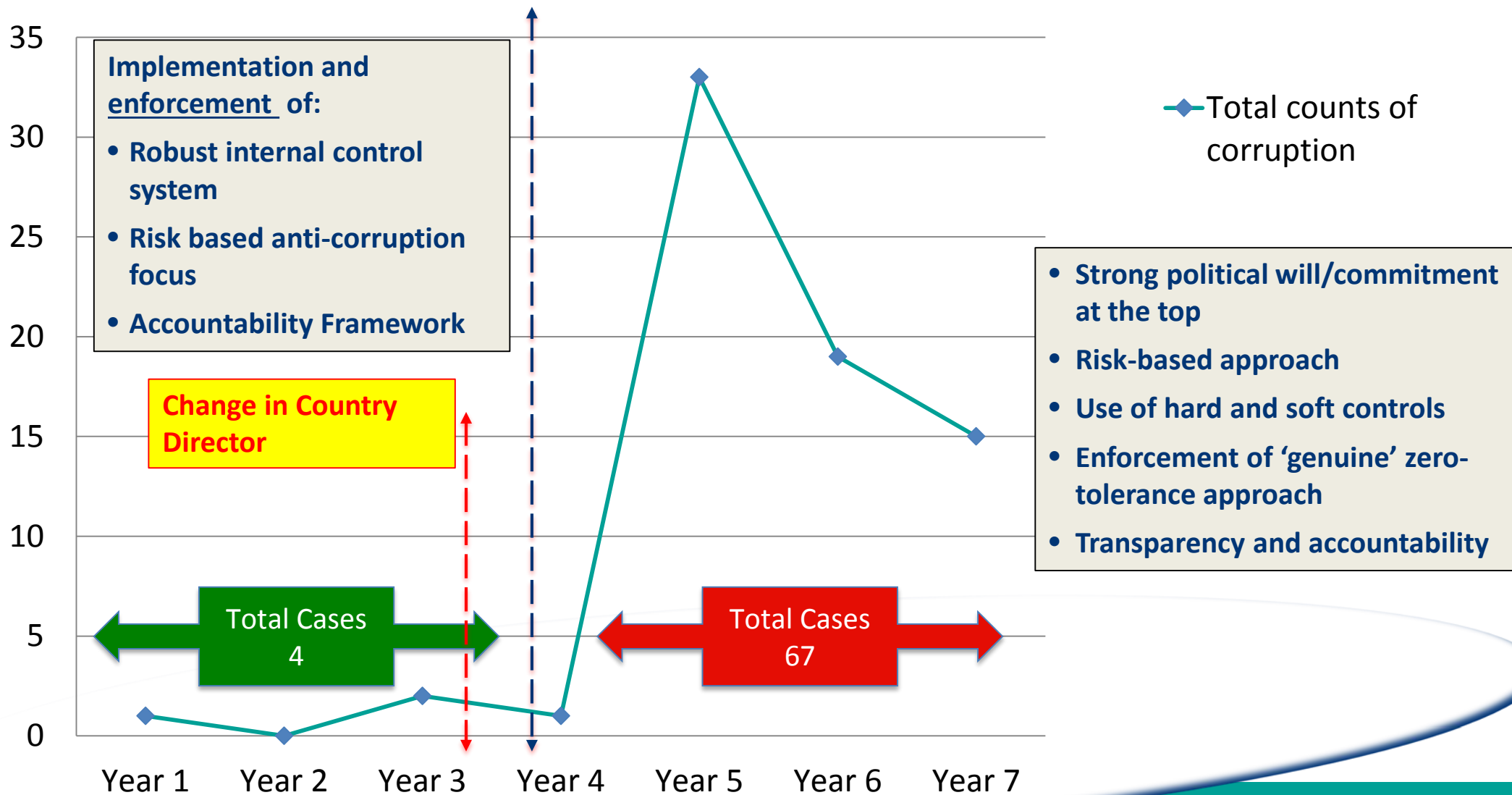
A 'Good' or 'Bad' NGO? Example 1

- Code of Ethics, Code of Conduct, Disciplinary Code
- Zero-Tolerance Anti-Corruption Policy
- Independent Governance Committee
- A two-tier Ethics Committee (with separate investigatory & adjudicatory chambers);
- Disciplinary Committee
- Audit & Compliance Committee
- Risk management system & COSO based Internal Control System
- Compliance Unit
- Extensive programmes around 'ethics'
- External Audit (by KPMG)



Which organisation is this?

A 'Good' or 'Bad' organisation? Example 2



5 Steps to Controlling Corruption in NGOs

- ✓ Set the tone at the 'top' – **Acknowledge the issue and talk about it**
- ✓ Understand the context - **Recognise the sector's fraud vulnerabilities** and the **unique corruption risk profile of NGOs** operating in it
- ✓ Adopt a **risk-based approach** to supervision and oversight
- ✓ Trust but verify - The importance of **due-diligence**
- ✓ Treat **corruption prevention costs as a programme related** and not as an overhead

To sum it all up

*Corruption “is much more prevalent in entities with poor **governance**, poor **culture** (dubious **ethical values**), a poor attitude toward **internal control**, and less than **competent people** holding key positions”*

- International Federation of Accountants (2007)

About us

Integritas360 [*Latin: in'te.gri.tas:s*] specialises in providing integrity and corruption prevention related services, training, and certification to the charity and NGO/NFP sector in Australia and overseas. It also works with various state and federal agencies and is a pre-approved supplier of probity and corruption prevention services to the NSW government.

For more information, or to start 'corruption-proofing' your organisation now, please visit our website at www.integritas360.org, or contact

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