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**DAC Network on Governance**

**Addressing the under-reporting of suspected incidents of corruption in development co-operation**

**Policy Brief on Managing the Risk of Corruption Series**

This brief builds upon the first monitoring report of the 2016 Council Recommendation for Development Co-operation Actors on Managing the Risk of Corruption, which was completed in December 2022 (see OECD, 2022). It is the first brief in a policy series designed to support Adherents to further implement the Recommendation.

The objective of this series is to take stock of the insights emerging from the 2017-2022 monitoring of the 2016 Recommendation and to distil learning for members to better understand and address ongoing challenges.

Other finalised policy briefs in this series include '[corruption as a development obstacle](#)' and '[unpacking the zero tolerance to corruption principle: practical implications for development co-operation](#)'.

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## *Addressing the Under-reporting of Suspected Incidents of Corruption in Development Co-operation*

### Understanding the problem

1. In recent years, the development of reporting mechanisms<sup>1</sup> as tools for enhancing the detection and reporting of suspected incidents of corruption has received greater attention. As underlined in the 2022 Report on Implementation of the [OECD Council Recommendation for Development Co-operation Actors on Managing the Risk of Corruption](#) (hereafter ‘the Recommendation’) there is a growing trend for development actors to adopt reporting mechanisms.
2. The exact form and scope that reporting channels adopt can vary widely. Some members have adopted a general reporting mechanism for suspected fraud or corruption, which is accessible to internal staff, external partners and stakeholders, as well as the wider public alike; others have developed distinct mechanisms that run in parallel for different target groups. The fact that most corruption reports come from implementing partners might also point to internal barriers within aid agencies that prevent effectively reporting of allegations of corruption.
3. Documented cases of corruption emerging from reporting mechanisms signal the importance of these instruments and their relevance for risk management. Between 2016 and 2020, for example, SIDA Sweden annually reported between 225 and 326 cases of suspected corruption or other misconduct, totalling 1339 cases, all of which related to external parties (SIDA, 2019<sub>[1]</sub>). As a result, Sweden has sought to recover MSEK 224 (approx. 20 MEUR) resulting from non-compliance and misuse of funds. In the same vein, NORAD has received 741 reports between 2011 and 2021, and succeeded in closing 400 of those cases and claiming a total of NOK 51.632.411 (approx. 5 MEUR) in repayments (NORAD, 2021<sub>[2]</sub>; NORAD, 2019<sub>[3]</sub>).
4. According to recent OECD analysis (OECD, 2022), however, there is a low level of reporting of suspected incidents of corruption among adherents to the OECD Council Recommendation on Managing the Risk of Corruption. Almost half of them have not yet had any reported suspicions of corruption or fraud, and only one has reported an allegation of foreign bribery. Given the country contexts in which ODA operates and the known corruption risks, no or low levels of reporting raise concerns about the rigour of corruption risk management systems, the efficacy of reporting mechanisms, and the nature and scope of any disincentives that may be acting to constrain reports.
5. Better understanding and addressing factors that may act as a disincentive to reporting is an important first step towards strengthening reporting mechanisms. The following sections unpack some of these disincentives and, based on identified good practice examples, enumerate a series of potential steps to address the issue of under-reporting.

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<sup>1</sup> The terminology used to refer to those individuals filing reports varies across members. Some refer to “informants”, others to “complainants” or “whistleblowers”, etc. For ease of reference, this note will use instead the terms “reporting systems” and “internal vs. external reports”.

## Factors contributing to the under-reporting of suspected incidents of corruption

6. A diverse set of factors can act as disincentives to reporting suspected incidents of corruption along the development co-operation delivery chain. These factors range from a general lack of positive recognition for exposing and reporting corruption, fear of retaliation (including physical threats and consequences in terms of career setbacks), lack of confidence in anonymity, fear of reputational risks and potential loss of ODA.

### Absence of a positive culture of recognition for uncovering corruption

7. In many cases the uncovering of an episode of corruption is regarded, within development agencies and partners, as a failure of management and presenting a disruption to efficient programme implementation. This “negative” perception of the utility of reporting allegations of corruption can discourage staff from reporting.

8. Mechanisms for reporting vary but are commonly outsourced to the first-tier contractor or a third-party provider. This can disincentivise reporting if these actors do not feel they will be supported by their initial partners and funders in recovering lost funds. In addition, third line counter-fraud resources tend to focus on risks further down the delivery chain rather than at the top contract level where some of the biggest risks lie.

9. Detection and reporting are signs that the systems in place to capture and manage corruption risks are effective – not failing- and donors should reconsider the ways in which they approach and share risks with their partners to fulfil their development objectives.

### Fear of retaliation as a disincentive to reporting suspected incidents of corruption

10. Not all reporting mechanisms are “anonymous, free-to-call and confidential”, for example, and the lack of anonymity can discourage individuals from actively reporting suspected incidents of corruption. In some instances, mechanisms are email-based, which can raise or accentuate concerns around the confidential nature of a report or lack of anonymity.

11. Another important factor contributing to the hesitancy of reporting is the lack of adequate protections from retaliation for reporting individuals, which can produce very real fears that an individual or organisation can come under threat. Systems vary across countries, but many members have insufficient protections for individuals reporting. In some contexts, for example, protection is only guaranteed to internal staff, while external actors – or locally-employed staff - are not guaranteed any protection. At the same time, a number of countries simply have not yet developed secure reporting channels.

12. Staff may also be concerned that reporting suspicious activities could result in career setbacks, and limit opportunities for career progression within the organisation in which they are working. Similarly, for internal staff or implementing partners, the fear of professional reprisal may contribute to their reluctance, at times, to report fraud.

### Risk of harm to development co-operation programmes and outcomes

13. Another reason why fraud and corruption might be under-reported is that people involved in development work (i.e. staff, partners or donors) are concerned it might damage

the reputation of aid or result in budget cuts.<sup>2</sup> This is a particular concern in times of heightened stress or crisis where the demand for and scrutiny of development co-operation is heightened, and where support for development co-operation might be questioned in some countries. In such contexts, the desire to safeguard development outcomes might partly explain under-reporting of suspected incidents of corruption.

14. The under-reporting of suspected incidents of corruption can also be partly explained by the desire to protect suppliers and beneficiaries of aid. In this regard, strict zero-tolerance policies may present a disincentive to reporting rather than facilitating discussions and learning, as reported suspected incidents of corruption will potentially lead to sanctions, partial or complete programme or project suspension, which bears the risk of hurting vulnerable groups in need of assistance and weakens the “do no harm” principle.

### **Context specific challenges – including fragile contexts – and reporting thresholds**

15. Humanitarian work by development agencies is particularly susceptible to corruption risks when operating in fragile contexts (i.e. Democratic Republic of Congo, (Adam Smith International, 2020<sub>[4]</sub>)). In conflict or fragile contexts, for example, one or several dynamics can materialise, blurring the lines or impeding reporting. These include local drivers of corruption, such as the operation of illicit networks based on family, ethnic or community ties, and social and situational obstacles to reporting corruption practices; as well as facilitation payments to public officials as a common socio-political practice to enable project implementation and success, etc. In the absence of clear reporting guidelines, it can also be difficult for staff to assess, which thresholds need to be fulfilled for reporting.

### **Failure to identify corruption and shortcomings emerging from audits and analytical tools**

16. Under-reporting can also partially be explained by weaknesses in the identification and awareness of risks and incidents of corruption by some of the actors involved in the delivery of development co-operation. If not identified early on in programme discussion and design, incidents of corruption may not be identified, understood or reported. In some instances, members have reported not including local staff in their anti-corruption training on a systemic training, for example, while others fail to provide country specific counter-fraud training to country staff prior to their deployment.

17. There may also be an overreliance on financial audits in striving to identify the risks of corruption, where specific political and power-related dynamics can serve as powerful drivers and incentives for corruption. Indeed, in many instances financial audits fail to identify corruption vulnerabilities or persistent irregularities. In addition, programme officers sometimes lack adequate training to interpret audit results and local auditors may not have the capability or support to conduct effective audits. In other cases, domestic audit bodies may lack independence or neglect to follow-up on audit findings.

18. Finally, and despite having developed adequate reporting and investigation structures, some donors do not communicate, either internally or externally, on audit and/or investigation findings. This is a missed opportunity to raise awareness on the existence and potential use of these mechanisms to detect and address suspected incidents of corruption,

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<sup>2</sup> This view stems from an anonymous survey that ICAI undertook to seek perspectives on fraud risk management in UK aid from stakeholders throughout the delivery chain. It provided an opportunity for stakeholders to raise concerns.

and to learn from past corruption cases to better understand patterns of corruption and ways to address these.

### **Inadequate access to or communication on the reporting channels**

19. In some cases, under-reporting can stem from problems of accessibility to reporting channels. In several instances, reporting mechanisms require potentially costly phone calls; are considered complex and confusing, with overlaps among different reporting mechanisms, which results in inaction; and lack accompanying communication measures. In some cases, neither the staff in country offices nor partners or potential beneficiaries are aware of the reporting mechanisms put in place by headquarters (HQ).

### **How to address under-reporting to strengthen CRM?**

#### **Changing the perception on the detection and reporting of corruption**

20. Detected and reported cases of corruption should not be perceived as negative *per se*, but rather as proof of effective risk management and reporting. In Denmark, for example, corruption cases relating to development co-operation are published on the MFA website, with information on penalties and consequences. Danida's transparency policy is well received by staff, parliament, media, and citizens and considered to be an important element of increasing confidence and trust in Danish development co-operation.

21. The concern for protection and fear of retaliation underlined previously would not be as significant as it currently is if reporting of allegations of corruption was seen as a management "success" and praised, rather than as disruptive and negative.

22. Further, donors need to balance the pressure created by a zero-tolerance to corruption approach with clear incentives and messaging on the merits and importance of reporting, as well as assurances of anonymity and, where appropriate, follow-up. In keeping with the provisions of the Recommendation, donors fully commit to systematically investigating suspected incidents of corruption and to pursuing law enforcement action where feasible. Keeping this dimension distinct from judgements about how programming operations might need to change in the light of the episode will give donors flexibility in their programming response. This will enable donors to reflect the local context, including broader development objectives. It could also help to encourage more staff to report suspicions, by focusing sanctions on the wrongdoer(s) as distinct from the programme as a whole.

23. Another avenue to explore relates to the need to improve the knowledge and understanding of the consequences of corruption and its costs. ODA counter-fraud specialists are invited to further explore and invest in collecting and analysing data, including on who bears the cost of fraud, and trends in whistleblowing and procurement (ICAI, 2021<sup>[5]</sup>). Recent efforts have been taken to explore this question further (see forthcoming report on the cost of fraud). This could help donors to (i) share risk management responsibilities more effectively along the delivery chain, taking into consideration the capacity of implementing partners to manage corruption risks; (ii) make reporting channels more accessible to in- and external individuals; and (iii) safeguard the "do no harm principle" in development co-operation.

24. Addressing the disincentives that currently exist to reporting suspected incidents of corruption in development co-operation is essential to enhancing the impact of reporting mechanisms on corruption risk management. As underlined above, several elements

contribute to weakening the potential of donors' corruption risk management systems, with a number of members experiencing an overall under-reporting of incidents and a sense that most reports relate to petty theft as opposed to more substantial and severe cases of corruption. Efforts to address these shortcomings and create incentives are needed to enhance the likelihood of reporting. Sharing information and learning from prior corruption investigations would also contribute to a more informed understanding of risks and enhanced management of corruption vulnerabilities.

### **Safeguarding reporting channels for internal and external use**

25. Providing secure, accessible and anonymous reporting channels to both internal and external actors is important. Although many members guarantee this for internal staff, enabling external reporting is an equally important aspect of enabling integrity. This is particularly the case given that (i) most reports come from implementing partners; (ii) the volume of ODA disbursed through partners represents well over half of total bilateral development assistance; and (iii) only a minority of investigated suspected incidents of corruption result from reports filed by internal staff.

26. A good example of a secure and anonymous reporting mechanism is that of the Swiss Federal Audit Office's (SFAO). It includes an encrypted reporting web platform launched in 2017 that can be used to anonymously report suspected incidents of corruption both by federal employees and external parties involved in Swiss development co-operation activities. In 2020, more than nine out of ten reports reached the SFAO through this secure channel.

27. Another good practice example is provided by Sweden. SIDA offers two reporting channels: (i) an internal reporting channel via its intranet, and (ii) an external email-based one that is handled by the investigation team. Staff can decide which to use based on how they feel about revealing the suspected incident(s) of corruption.

28. As underlined by Bartsiotas and Achamkulangare, good practices for whistleblower mechanisms include: accessibility to third parties (i.e. contractors, vendors, beneficiaries, etc.); availability 24/7; toll-free phone calls; multilingual service with availability in those languages spoken by the major stakeholder groups; anonymous reporting; multi-channel accessibility (i.e. via phone, email, website or in person); and encrypted webpages and email communications (U4, 2022[6]).

### **Enhancing knowledge of and access to reporting channels for all those involved in the development co-operation delivery chain**

29. Donors should review and streamline external whistleblowing and complaints reporting systems to ensure their coherence, accessibility and effectiveness. As important is that ODA-spending departments provide more training to delivery partners down the delivery chain on how to report safely.

30. An ethics advisor, situated outside line management advisory services, can both help to raise awareness of integrity issues among staff and help staff in solving ethical dilemmas and navigating grey areas. A fraud liaison officer can also serve as a focal and first contact point for frontline staff to discuss grey areas on an informal level prior to reporting. In addition, it is important to provide such services in a manner that is safe, confidential, independent, and timely.

31. A good practice example in terms of communicating more widely on the existence of a reporting function includes the prominent use of agency websites; the requirement for

suppliers to inform staff and partners about reporting mechanisms and to share contact details throughout the delivery chain; and a broad dissemination of the reporting function, including with business cards, leaflets, etc., with a view to ensure increased communication to remote areas and beneficiaries. In addition, actively raising the importance or value that a donor places on the registration of credible concerns around suspected incidents of corruption, and emboldening staff and partners to do so, is likely to support reporting.

32. Further, and to better manage corruption risks, it is also important to ensure audits go beyond the identification and assessment of fiduciary risks. Financial audits can usefully be complemented by other tools to enhance the prevention and identification of corruption. The follow-up of audit findings and recommendations based on analytical tools is also helpful to ensure institutional learning and the adoption of improved corruption risk management strategies.

### **Enhancing information sharing and strengthening the focus of training on corruption risks**

33. Shortcomings in the understanding and identification of incidents of corruption can be overcome by dedicated trainings of staff, and by enhanced visibility. Signalling and clear messaging on the importance, value and anonymity attributed to corruption reporting by top-level management plays are important incentives.

34. Discussions around potential red flags, and incidents or patterns of corruption identified in previous projects can also serve as useful guides for staff and assist to destigmatise reporting. Tailoring training and outreach to decentralised development structures to ensure that partner organisations endorse and work with similar integrity principles and are aware of existing possibilities to report fraud and corruption, might also be of value. In the same vein, raising awareness on the cost of corruption and its impact on development and on who bears this cost would be important to inform discussions.

35. Several donors reported that specific training of staff resulted in a greater level of recognition of corruption risks as well as higher levels of reporting. In Sweden, for example, SIDA's anti-corruption work entails training staff at SIDA's HQ, and at foreign missions. It also involves discussions and agreement with partners on how suspicions of corruption are identified, reported, and investigated as well as what if any sanctions should be adopted in the event of a confirmed case or malfeasance or irregularity.

36. Improved guidance for staff, including clear thresholds for reporting fraud and corruption, should be formulated to support operations in specific country contexts to avoid saturating the risk management system through large volumes of alleged low-level frauds, or an over-concentration on petty corruption at the expense of the more damaging cases. Several bodies of the United Nations, as well as other major donors such as the FCDO and USAID have experienced this phenomenon (ICAI, 2021<sup>[5]</sup>).

37. Analysing, using, sharing information, and communicating on reports and incidents of corruption can play an important role in destigmatising reporting and in strengthening the design of projects through tailored corruption risk management strategies. Identified incidents of corruption can result in new learning on specific or systemic weaknesses, and thus raise awareness on given corruption risks and potential mitigation measures. The UK, for example, communicates internally on reports and works with case closure forms that must be completed once an investigation is over. These include a section on lessons learned to share information and ideas for improving programme management practices.

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