

# Audit of subsidies to Swiss NGO partners in the humanitarian field

Swiss Agency for Development and Cooperation

Swiss Red Cross – Caritas Switzerland

## Key facts

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The Swiss Agency for Development and Cooperation (SDC) relies on Swiss non-governmental organisations (NGOs) to deliver humanitarian and development aid. Each year, about 30 partners receive more than CHF 130 million in programme contributions, which represents 20% of the financial volume of the SDC's cooperation funds. The SDC's operational units, the representations of the Federal Department of Foreign Affairs (FDFA) abroad and its cooperation offices also finance projects of partner NGOs through subsidies (targeted contributions) and service mandates. In 2020, half a dozen partner NGOs were involved in humanitarian aid. They received CHF 53.9 million (through programme contributions), CHF 11.2 million (through targeted contributions) and CHF 5 million (through service mandates). These include the Swiss Red Cross (SRC) and Caritas Switzerland (CACH), both of which have extensive national and international networks. The Confederation finances one third of their international cooperation, providing around CHF 15 million to each.

The Swiss Federal Audit Office (SFAO) examined the subsidies granted to the SRC and CACH by the SDC and its supervision of these organisations. It also assessed the use of subsidies by these NGOs. The SFAO focused on the effectiveness of these subsidies and supervision, taking into account the context of the COVID-19 pandemic. The legality of the ban on using programme contributions to fund any education and awareness-raising activities of partner NGOs in Switzerland, which has been in force since 2021, was also assessed.

The results were favourable. The ban issued by the FDFA on using programme contributions to fund any education and awareness-raising activities of partner NGOs in Switzerland is legal. This ban has had an impact on the quality of the relationship between certain NGOs and the SDC. Subsidies to NGO partners and the SDC's supervision are generally effective, although weaknesses exist in the DFA representations. Finally, the SRC and CACH comply with the requirements on governance and transparency and do not use subsidies for political purposes.

### **Clarification on the financing of political campaigns with cooperation funds**

Solidar is an NGO partner of the SDC. As part of the campaign for the popular initiative "For responsible businesses" in 2020, this NGO used the published results of a study funded by an SDC programme contribution to make a political appeal in favour of this initiative. The FDFA Compliance Office dealt with a complaint on this matter. It concluded that Solidar's actions were not intentional. In addition, an external auditor confirmed the proper use of the subsidies received by this NGO between 2015 and 2019. The FDFA closed the case.

In order to avoid this type of risk in the future, the FDFA banned all SDC funding of education and awareness-raising activities in Switzerland by partner NGOs from 2021. This decision is legal. The FDFA has discretionary power in the granting of programme contributions

and this change in practice respects the principle of good faith. The SFAO did not identify any cases of non-compliance in its audit. The SDC must continue its efforts to clarify and communicate with partner NGOs to avoid any undesirable effects from the FDFA's decision.

### **Subsidy instruments to be developed and consolidated**

The programme contributions are based on certification by Zewo (Zentralstelle für Wohlfahrtsunternehmen) and on the admission criteria for the partner NGOs. Irregularities in some activities were reported to the FDFA, including cases at the CRS and CACH. Where appropriate, these irregularities led to reimbursements. These NGOs are explicitly required to inform the SDC of such cases and to take the necessary measures to limit any damage to the interests of the FDFA. The SRC and CACH have recently strengthened their evaluation and early warning mechanisms for local partners. The SDC requires the reimbursement of all financial losses due to irregularities attributable to partner NGOs or their subcontractors and indirect recipients. Cooperation should be conducted in a spirit of partnership. The SFAO recommends that an incentive system for dealing with irregularities be implemented to ensure that risks are shared.

The programme contributions reflect the uncertainties and challenges of fragile contexts. They allowed the SDC to respond quickly and cost-effectively to the pandemic by providing additional funds. The SFAO recommends that the instrument of additional funds for programme contributions also be used in the case of natural disasters. The SFAO also noted that the SDC's controls on the activities of partner NGOs financed by targeted contributions were too detailed or even duplicated. The SFAO recommends defining this subsidy instrument more precisely and adapting the principles and conditions to be more results-oriented.

### **Improving coordination and strengthening supervision**

Coordination of NGO partner supervision within the SDC is adequate. However, in the field, the cooperation offices are still insufficiently aware of the details and activities relating to the programme contributions. This results in a loss of synergies in the implementation of strategies in the countries that receive Swiss aid. The SFAO recommends that the cooperation offices and other FDFA representations be given an overview of the activities of partner NGOs in the countries where they are active.

Moreover, the SDC's supervision does not take into account significant factors at the SRC and CACH. The SFAO observed, for example, a lack of adequate and proactive disclosure of the interests of CACH's governing body. The SDC does not require NGOs to disclose all expenditure on the projects it finances. Finally, the two NGOs do not perform any internal audit of their international cooperation activities.

The SFAO recommends that the SDC formalise its supervision concept and include an individualised analysis of partner NGOs that takes into account the main risk factors. The financial transparency of these partner NGOs is ensured by a system of consolidated and local audits. The SFAO acknowledged the current revision of the audit requirements. It is of the opinion that the current system is generally suited to the needs of the SDC's financial supervision of partner NGOs. However, the efficiency of local audits in the countries of implementation needs to be improved.

**Original text in French**