

# Audit of the use of federal subsidies by the NGO Swisscontact

## Swiss Agency for Development and Cooperation State Secretariat for Economic Affairs

### Key facts

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The Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO) rely on Swiss non-governmental organisations (NGOs) to implement policies in the areas of humanitarian aid, development aid and economic cooperation. For the first time, the Swiss Federal Audit Office (SFAO) has verified the use of federal financing allocated by these offices to one of these organisations, Swisscontact (SC). This foundation ranks first among Swiss NGOs in terms of federal subsidies. It receives annual federal support of some CHF 70 million. In 2018, SC received a basic contribution of CHF 6.5 million, as well as CHF 63.6 million for the performance of SDC and SECO mandates awarded under public procurement rules. This sum represented 70% of the NGO's revenue.

The SFAO's audit examined the governance, compliance, reliability and transparency of SC's reports. The SFAO audit, which was conducted at the organisation's head office and at its representations in Colombia and Albania, also verified the NGO's application of the principle of the free market economy. The results are positive. SC's governance instruments are comprehensive and appropriate. The NGO uses federal funds in a consistent and transparent manner. It adopts an economical approach in the realisation of its projects.

### **Appropriate governance, but the partnership with the Confederation needs to be strengthened**

SC's governance functions appropriately, especially risk management, the compliance management system and the coordination of external audits on projects. Improvements are under way to ensure better consistency and integration of accounting information from SC's local representations and to consolidate control tools (cockpit). Improvements are also being made in terms of compliance with the creation of a line for whistleblowers.

The SDC's Institutional Partnerships Division (IP) allocates basic contributions to around 40 NGOs and monitors their use. The SDC makes its contribution conditional on 60% co-financing by the NGO. For the period 2021–2024, the SDC has decided to increase this share. It plans to make better use of the Swiss know-how (Swissness) of these NGOs. The SFAO has highlighted the need for a clear and harmonised definition of the concept of Swissness among the players involved in development aid and economic cooperation.

The IP Division is responsible for the management of programme contributions to Swiss NGOs. Operational issues related to SDC mandates are under the responsibility of SDC coordination offices, representations of the Federal Department of Foreign Affairs (FDFA) and the FDFA head office entities that monitor them. The IP has recently been entrusted with the strategic management of NGO relations. This should improve the quality of the partnership between the SDC and Swiss NGO partners.

### **Compliant and efficient use of resources**

SC uses federal subsidies in accordance with the contracts concluded with the SDC and SECO, and in line with Zewo standards. The contractual tendering requirements for subcontractors are met. No unjustified communication or administration costs were identified. For the projects examined, the SFAO found that the costs related to the staff at the head office and other expatriates were correctly charged.

The SFAO found no conflicts of interest in the use of subsidies for the co-financed projects examined. The principle of access to information by the SDC and SECO is guaranteed. There is a risk of unilateral communication by private partners that is potentially contrary to the interests of the Confederation. The SFAO identified the risk in connection with a multi-funded programme in the Indonesian cocoa production chain. For this type of programme/project, the SFAO recommends that SECO and the SDC define a contractual communication framework for all lenders together with the implementing partner.

### **Budgetary monitoring of projects in need of simplification and harmonisation**

In 2009, the SDC switched to a system based on the services provided by the partner in terms of project management and support (service-oriented remuneration, SOR) for its mandates. This complex system allows the SDC to control the costs of services better and ensures that offers are more readily comparable in the selection phase. However, in terms of budgetary monitoring, it involves significant administrative work without any real added value. In the event of changes in the project organisation, there is a risk of a deadlock due to possible divergences in the interpretation of the SOR implementation between the NGOs and the FDFA representations.

The SFAO recommends that the SDC simplify its SOR system for budgetary monitoring and explore with SECO the possibilities of harmonising remuneration practices in this area for development aid and economic cooperation projects, while taking into account their organisational specificities and ensuring the coherence of the system.

### **Reliability and transparency of Swisscontact's internal and external reports**

SC's approach to managing and measuring results is consistent. This was defined in internal guidelines and was followed in the projects submitted for review. Implementation of the approach is an important investment for the organisation. It requires training and capacity building measures among local partners. Given the large volume of source data related to the indicators, their number must remain limited in order to ensure that federal subsidies are used efficiently.

For the projects and sub-projects analysed, the SFAO noted the reliability of the source data both at SC project manager and local partner level. It noted the good traceability of the data used for reports throughout the information chain. The internal and external reports produced by SC with reference to projects, whether at the local, regional or global level, are consistent and transparent.

**Original text in French**