



Annual GIZ Compliance Report

2019

Compliance and Integrity Unit July 2020

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1. Summary of key results

Following the start-up phase of the Compliance Management System (CMS), the key focus since 2019 has been on its consolidation as an overall system.

The risk-based CMS approach has proven successful in practical implementation, particularly in the field structure.

GIZ has a comprehensive risk management system via which compliance and integrity risks are regularly reported from across the entire company before being assessed and systematically dealt with.

The relevant risks are addressed as part of the annual compliance programme. For this, GIZ can draw on a large number of established and proven principles and measures, which are refined in line with requirements.

The effectiveness of the CMS is ensured through a continuous improvement process and is monitored on an ongoing basis by the Compliance and Integrity Unit. Needed adjustments are regularly documented in operational plans and their implementation is reviewed on the basis of monitoring plans. The Compliance and Integrity Unit reports the findings annually to the Management Board and every two years to the Supervisory Board to support their monitoring function.

As the CMS is also part of GIZ's comprehensive internal control system, the work of the Compliance and Integrity Unit is reviewed by the Auditing Unit.

2. GIZ's Compliance Management System (CMS): implementation status

Ensuring compliance is an increasingly important factor in the activities of German and international companies and institutions, a fact also reflected in the business environment and trends monitoring process. In particular, GIZ is facing growing challenges in terms of the correct implementation of commissions due to ever-greater complexity, new commissioning parties and working under severe time pressure in increasingly difficult locations.

The CMS is intended to help GIZ staff address these challenges in a professional manner, give them more certainty in their actions and avoid potential breaches of compliance rules at organisational level. In this spirit, GIZ works continuously to expand its CMS in a targeted manner based on the standard issued by the German Institute of Public Auditors (IDW PS 980) and the international management standard ISO 19600. This ensures that the CMS is comprehensively updated taking into account all relevant factors. GIZ's CMS also incorporates internal anti-corruption and integrity management.

During the period covered by this report, further important milestones were reached in the following **core CMS elements**:

- **Compliance culture:** orientation towards values is essential for GIZ's compliance management and therefore also the personal integrity of its employees. A raft of preventive measures are thus geared towards a compliance culture that fosters the alignment of everyone's behaviour with the corporate values and compliance requirements. Particularly in the field structure, a focus on compliance among GIZ

employees was also promoted in the period covered by this report through the establishment of a systematic compliance management system.

- **Compliance objectives:** compliance features prominently in the Corporate Strategy as a governance element. Accordingly, the compliance objectives are based on GIZ's objectives. Achieving them was made an integral part of GIZ's annual and Management Board objectives for 2015 to 2018, thus securing the development of a well-functioning CMS. An important milestone was reached in 2018 when the Auditing Unit examined the effectiveness of the CMS: the results demonstrate that the system as a whole is functioning well and is effectively set up (see also Section 5).
- **Compliance risks** (see Section 3): GIZ's CMS takes a risk-based approach. From 2018 to 2019, a particular focus was placed on a global compliance risk analysis of GIZ's work in the field structure and the resulting measures.
- **Compliance programme** (see Section 4): the compliance programme covers all the principles and all the preventive, explanatory and reactive measures implemented by GIZ to ensure compliance and limit its exposure to compliance risks. Appropriate mechanisms are in place to ensure that breaches of the compliance rules are brought to light and dealt with effectively.
- **Organisation of compliance management:** the focus here is on ensuring that compliance management is firmly embedded within the company. At GIZ, this is achieved by making sure that the CMS has the resources needed to perform its designated function: the roles and responsibilities of those units involved in operating the CMS as well as the associated procedural structures are in place and a well-functioning governance structure with specialist bodies (Compliance Commission and Compliance Committee) has been established. The Compliance and Integrity Unit has coordination and controlling functions within the company-wide CMS that include identifying the need for action and demanding the necessary measures. As the present organisation of compliance management has also proven successful in the field structure, there is no need for adjustments at this time.
- **Compliance communication:** analysing and communicating compliance-related information and experiences has a positive impact on the compliance culture, facilitates transparent reporting, gives staff greater certainty in their day-to-day work and enables compliance risks and incidents to be dealt with more easily (see Section 4 for information on the compliance communication measures implemented, including compliance training and reporting).
- **Monitoring and improving compliance** (see Section 5): compliance management systems can only be effective if they are capable of 'learning'. The suitability and effectiveness of the CMS is thus assessed on an ongoing basis and experiences are evaluated in order to highlight necessary adjustments.

3. Evaluating and dealing with compliance risks

3.1. The risk-based CMS approach and key risk-related issues identified following the implementation of this approach

An effective compliance management system is intended to prevent sanctions, financial damage and damage to GIZ's reputation. However, perfection is not a reasonable expectation – there is no way to completely eliminate the possibility of breaches. Rather, the aim is to exercise due caution. In order to identify the key fields of action and measures for this, the **analysis of the main compliance risks is the starting point** for the compliance programme (risk-based approach).

At GIZ, the **CMS is part of the comprehensive internal control system**. The aim of the internal control system is to avoid risks (prevention), identify problematic issues at an early stage (detection) and respond appropriately to non-compliance and unavoidable risks (response). It is based on the 'three lines of defence' model in line with international standards:

- The first line of defence includes the application of the cross-check principle and the separation of functions, monitoring by line management and the mechanism of internal controls.
- In the second line of defence, in-process monitoring of the first line of defence and the further development of the system is ensured through tools such as compliance management, risk management and financial control.
- As the third line of defence, the Auditing Unit monitors the correct functioning and effectiveness of the internal control system and identifies possible weaknesses and potential for improvement as part of its routine audits in Germany and abroad and during process audits.

Moreover, GIZ is subject to a large number of external audits in which it has to regularly prove proper use of the funds entrusted to it.

With its internal control system, GIZ also has a **comprehensive risk identification system** via which current compliance and integrity risks from across the entire company are regularly reported.

The most problematic areas at the level of the company as a whole are also identified annually by **analysing the compliance risks** and are assessed in the form of a **risk control matrix**. In order to keep compliance risks to a minimum, the **priority fields of action and need for action** are derived from the risk control matrix and gathered in an **operational plan**. These are dealt with as part of the compliance programme through specific measures that are agreed with the relevant (specialist) units and mainly implemented by these.

The analysis of compliance risks is a continuous improvement process. It aims to deal with all relevant compliance and integrity risks according to their priority and ensure continuous updates and adjustments based on changing requirements.

3.2. Risk-based compliance management in the field structure

Compliance management was implemented across the board in GIZ's field structure from 2018 and was closely linked with the roll-out of the new risk management system, including the new project risk management procedures.

As a result, the compliance risks of the GIZ portfolios were analysed worldwide and addressed based on the differentiated risks depending on the local compliance risk status. The countries of assignment were allocated to one of four **compliance risk categories** – low, medium, high or very high – using a uniform list of criteria.

The higher the risk, the more comprehensive the compliance measures to be taken. Accordingly, the requirements for implementing measures are very comprehensive for **countries exposed to high to very high compliance risks**. For example, a core team must be set up to organise the compliance management process on the ground. This team analyses and assesses the compliance risks in more depth at country level, prioritises the identified fields of action and defines risk-reduction measures.

Since then, the compliance risks identified have been regularly incorporated into the risk management process and reported as part of risk assessment, meaning that they are continuously fed into the company-wide process for tackling risks.

The list of criteria is reviewed annually and updated if applicable. This first took place in late 2019. Countries will be reallocated according to the compliance risk categories in early 2020.

The risk-based approach and the differentiated response to risks have proved their worth. Given the wide-ranging implementation of the compliance management requirements in the countries exposed to high compliance risks, appropriate compliance structures have been established there.

4. Compliance programme (including integrity management)

4.1. GIZ regulations and measures

The compliance programme includes those regulations and measures designed to prevent corruption and promote integrity that are already firmly established at GIZ. Further compliance-related measures have been implemented and the compliance programme has been systematically enhanced since September 2015 with the setting up of the Compliance and Integrity Unit.

The following **regulations and measures** have been **established** at GIZ:

- Code of Conduct
- Contractual obligation requiring all those working for GIZ to observe the Code of Conduct
- Compulsory training on the Code of Conduct
- Whistleblower system
- Integrity advisor
- External ombudsperson
- Specific measures to prevent corruption
- Transparency of procurement processes in Germany and in the field structure

- Prevention of corruption through staff rotation

The Compliance and Integrity Unit also implemented the following measures in the period covered by this report:

- GIZ's proven whistleblower system (integrity advisor, compliance officer, external ombudsperson) was extended in April 2019 to include a **new online whistleblower portal** which can be used to get in touch if there is reason to suspect breaches. It is available worldwide, around the clock and in four languages. The portal can be used to anonymously report any suspected infringements and communicate with the case manager, without being required to provide an email address or telephone number in accordance with the highest security standards.
- All GIZ employees are now required to **repeat** the compulsory **web-based compliance training every three years**.
- **Two new compulsory web-based compliance training courses** have been developed for all employees and managers and are set to go online in 2020.
- GIZ's **anti-corruption management system** has been further strengthened with the aid of the new Anti-corruption Policy. The anti-corruption management system was analysed in respect of the need for action. The aim of the resulting package of measures is to meet the external requirements (German Government's planned new anti-corruption directive, BMZ guidelines on corruption risks in module proposals, OECD recommendations from the 2018 Anti-Bribery Convention) and international standards.
- It is becoming increasingly important for businesses with international operations to carefully select and monitor business partners; **business partner audits** are therefore part of ensuring a suitable CMS. All relevant interactions with GIZ's business partners were compiled and analysed in 2019. One result of this survey was the transfer of responsibility for compliance issues for the respective audit processes to the relevant GIZ units. In 2020, the Compliance and Integrity Unit will assess whether the identified audit processes demonstrate a reasonable level of care and ensure the necessary improvements where required.

4.2. Overview of compliance cases handled in 2019 (in relation to GIZ's core regulatory framework 'Orientation and Rules' and 'Processes and Rules')

Thirty-five **requests for advice** were received during the period covered by this report. Most of these were about avoiding structural conflicts of interest (e.g. with commissioning parties) or about GIZ's regulations and procedures.

Altogether, 36 **reports** were received from internal and external sources drawing attention to possible breaches and irregularities. Most of the whistleblowing reports related to corruption involving business partners, irregularities in contract award procedures, (suspected) internal fraud and other non-compliance.

In seven cases there was **evidence of compliance breaches**. Appropriate consequences were administered and remedial action was taken, for example disciplinary measures, write-offs, terminating business relationships, tightening up control processes and raising awareness among internal and external personnel involved in those processes.

4.3. Overview of integrity cases handled in 2019 (in relation to GIZ's Code of Conduct)

The number of **requests for advice** grew from 201 in 2018 to 244 in 2019. The main areas in which employees sought help from the integrity advisor were: 'Employing or awarding contracts to closely connected or related persons', 'Gifts and other advantages' and 'Personal and financial connections'.

Overall, by preventing or at least limiting the scope for potential misconduct and compliance breaches and by increasing awareness of GIZ's corporate principles, this channel for submitting requests and receiving advice on integrity matters plays a crucial role in the wider effort to prevent corruption while strengthening GIZ's orientation towards values. We therefore consider the continuously **growing trend to make use of the services offered by the integrity advisor** as a thoroughly **positive** development.

At 113, the number of new **misconduct reports** was almost unchanged in 2019 compared with 2018 (107). For 54 out of a total of 113 reports, it was **not possible to identify any misconduct** by GIZ personnel.

Out of all cases of **proven misconduct** by GIZ staff, the most frequently occurring categories were 'Fraud/embezzlement' (12) and 'Contractual and legal compliance' (9). **Appropriate corrective action** (e.g. stopping payments; modifying responsibilities; procedural changes; additional inspections and analyses) was taken in all cases of proven misconduct in order to bring about a solution (e.g. rectify any incomplete documentation or arrange repayments). Disciplinary, civil and criminal action was also taken and various penalties were imposed (written warnings, termination of employment, termination of contract and claims for recovery).

The reports received in 2019 concerning **breaches of the principles underlying the Code of Conduct** again related primarily to contractual and legal compliance and cooperation in partnership.

In 2019, the **ombudsperson** was contacted in 19 cases (previous year: 8). These reports mainly related to the incorrect settlement of project funds and manipulation in contract award processes.

4.4. Training and information events held in 2019 on measures to combat and prevent corruption

During the roll-out of compliance management in the field structure, the Compliance and Integrity Unit provided **advice on implementing** compliance management to several countries exposed to very high compliance risks. The core compliance teams comprising office-holders with compliance responsibilities worked together with key personnel from the offices and projects to conduct a compliance risk analysis at the local workshops and used the results to help them draw up a country compliance risk profile as the main compliance management tool for their respective countries. In turn, this risk profile was used as the basis for drafting a compliance programme (incorporating essential measures to prevent or reduce local compliance risks) and an operational plan (required measures, responsibilities, milestones and monitoring of implementation).

Finance and administration managers have a great deal of responsibility for implementing compliance management in GIZ's field structure. In the first half of 2019, the Compliance and Integrity Unit took concerted action with the Procurement and Contracting Division and the Financial Management Advisory Services Division, holding two virtual advisory meetings to help finance and administration managers in the countries with high risk exposure by

discussing their acute questions regarding compliance management implementation and the measures they have initiated.

Starting back in 2016, all the groups that make up GIZ's overall workforce have been obliged to complete a 1.5-hour **module entitled 'Compliance and Integrity – the compass for responsible conduct at GIZ'**. This module is held to coincide with the **onboarding course for new employees, development workers and CIM integrated experts**, and was completed by around 1,400 people in the period covered by this report.

In addition to these classroom-based courses, all those working for GIZ have been required to take part in **web-based training on ethical conduct** since August 2015. From 2019, this must be repeated every three years.

The **responsibility of managers to lead and set an example in the areas of compliance and integrity** is also one element of the self-learning module 'Digital HR module for managers'.

4.5. Other Compliance and Integrity Unit activities in 2019

Under the aegis of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Compliance and Integrity Unit holds regular meetings with the anti-corruption officers, integrity advisors and compliance officers of other development cooperation organisations (Kreditanstalt für Wiederaufbau (KfW), Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), German Institute for Development Evaluation (DEval) and Engagement Global) to exchange views and information.

It also represents GIZ at Transparency International's annual forum of corporate members and at events held by the German federal authorities' anti-corruption network to share information and experience.

5. Monitoring and improving compliance

The appropriateness and effectiveness of the elements of the CMS are reviewed on an ongoing basis. The digital CMS handbook serves as the basis for monitoring the CMS and is used to document information about the CMS in a verifiable manner. Moreover, necessary adjustments to the CMS are derived from a number of sources, in particular the internal control system, risk control matrix and appraisal of reporting across the company.

The Compliance and Integrity Unit produces a monitoring plan each year on this basis. The measures planned there are implemented in the current compliance programme and the results are regularly monitored by the Compliance and Integrity Unit and documented in the CMS handbook.

In order to support the Management Board and Supervisory Board in their task of monitoring the CMS, the Compliance and Integrity Unit provides an update on the CMS to the Management Board each year and to the Supervisory Board every two years. An abridged version of the Management Board report is also published on the intranet and internet.

GIZ's Auditing Unit examined the concept, appropriateness and effectiveness of its CMS annually in the years 2016 to 2018. The three-year objective of mainstreaming and

institutionalising compliance was achieved, thus ensuring that the system as a whole is functioning well and effectively set up.

Among other action taken to enhance the CMS, the Compliance and Integrity Unit also included the measures proposed by the Auditing Unit in the report on the CMS effectiveness audit in the compliance programme for 2019. As a result, almost all of these measures were implemented in 2019 and those still outstanding are to be completed in 2020.

The current need for adjustments is set out in the 2020 operational plans and will be addressed through specific measures as part of the compliance programme. The Compliance and Integrity Unit will coordinate these measures with the relevant (specialist) units that are mainly responsible for their implementation.



Impressum

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