DAI Global Conduct *Quarterly*

Volume 2
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This is the second issue of a quarterly newsletter on important ethical issues and appropriate action for DAI employees around the world. The topic this quarter is managing our implementing partners: subcontractors, vendors, grantees, and other entities.

DAI recently received two awards for the quality of our relationships with subcontractors:

- DFID recognized DAI with its first "Fair Treatment of Subcontractors" award.
- In the United States, DAI was recognized as the "Prime Partner of the Year" by a local chamber of commerce.

"International development is always a collaborative enterprise," noted CEO Jim Boomgard, who celebrated the awards as recognizing DAI's efforts "to build working relationships based on mutual respect."

Please discuss with your staff the cases discussed in this newsletter and others regarding the constructive management of our implementing partners.

If you have any questions or concerns about behavior related to the *Code of Business Conduct and Ethics*, talk with your supervisor. You can also send an email to ethics@dai.com, call the ethics hotline at +1-503-597-4328, or visit www.dai.ethicspoint.com.

You can also reach out directly to:

Jeremy Finch, DAI Europe Head of Internal Audit and Ethics & Compliance Officer (jeremy_finch@dai.com, +44-7834-439974) or Mike Walsh, Chief Ethics & Compliance Officer (mike_walsh@dai.com, +1-301-771-7998).

This document can be found at http://dai-global-conduct.com/integrity/exercising-due-diligence/

Managing Our Partners: The Golden Rule

The point of the deal in the negotiation of subcontracts or grants is to accomplish a development objective. We award to the entity most likely to succeed at a reasonable price. We need to initiate these awards and manage them fairly, equitably, and transparently to maintain a constructive working relationship—as we would like to be treated. It's the Golden Rule. We are partners because we are in this together. Our partners' success is our success.

Case 1

A project operating in a country recently emerging from political strife had to quickly find new office space. Extensive vetting of the landlord through the donor and UN websites did not reveal any concerns. A journalist, however, discovered and published that a number of international development organizations, including DAI, were renting large houses as offices from known human rights violators. The DAI landlord was the wife of a notorious general.

Appropriate Action

While international sanctions lists provide some degree of assurance, it is important to consider other sources of information in determining the eligibility of a partner. A Google search may have helped make the connection with the known human rights violator; sometimes, simply talking to people who are familiar with an organization, a firm, or a beneficiary will provide important information and context. Casting the due diligence net more broadly would have saved us time, money, disruption, and the reputational hit.

Case 2

The donor directed DAI to award a large grant to a key entity in the agricultural sector, with the aim of strengthening this entity to the point where it could take over the project at the end of the funding period. The grantee's sense of entitlement—coupled with grant requirements beyond its administrative capacity—led to contention with DAI, distracting from the overall grant objectives and making both parties highly vulnerable to compliance-related disallowances.

Appropriate Action

The due diligence process helps to assure success and manages everyone's expectations, including the donor's. Donors, it should be remembered, may not be aware of constraints when directing awards. Organizational assessments should be conducted *with* the grantee to design appropriate award terms, identify areas for improvement, and deepen a constructive working relationship. The trust developed through this process will be important in anticipating and addressing management and compliance issues.

Partner Management Quick Tips

Pre-Selection

Vetting suppliers, subcontractors, grantees, and other partners is an important first step in assuring eligibility. In addition to international sanctions lists or other security databases, consider using Google to identify newspaper stories and other information that may indicate reputational or compliance risks. When additional scrutiny is required, the General Counsel has access to a third-party vetting service.

Due diligence can also be done through the Management Capacity and Assessment Tool (MCAT) to prioritize with the partner governance or financial management risks.

Note: Although vetting is part of the due diligence process, the terms are not interchangeable. Vetting tackles the trustworthiness and suitability of a partner or individual; due diligence concentrates on evaluating financial capabilities, governance, and ability to deliver.

Contracting & Grant-Making

The language in the contract or grant agreement sets expectations and provides a means of enforcement. Use up-to-date templates to ensure compliance with donor flow-down requirements as well as effective specifications to manage issues under the contract. Clear and complete statements of work/terms of reference are essential to hold a partner accountable. Contract managers most often point to deficiencies in contract language and work specifications as primary reasons for performance failure and cost issues. And a constructive working relationship is necessary to manage them.

Implementation

To effectively manage risk, it is essential to provide monitoring and support in areas where subs exhibit weakness. They will always need support to strengthen their capabilities and achieve our development objectives. Constructive engagement is crucial. If problems persist, and the partner is essential for project delivery, it may be necessary to share concerns with the client.

Case 3

A subcontractor employee complained through the ethics hotline that he was not being paid. An investigation revealed a number of irregularities on the subcontractor's part.

Appropriate Action

Following investigation, it was not deemed necessary to cancel the subcontract because DAI and the sub agreed to implement a reform plan that included non-negotiable milestones such as clearer procedures, formation of an ethics committee, additional training, and reconciliation of certain financial reports. The subcontractor is now back on track with more robust controls, greater transparency, and a stronger sense of business ethics, as exemplified in its recent report of travel fraud by a field worker.

Case 4

The grant agreement to establish a credit entity included accomplishment of initial milestones, listed in the award as simply "office set-up, bank account opened, and employees hired." Subsequent milestones were equally vague. By the time the fourth milestone was paid, amounting to more than $100,000, the client's finance office raised concerns about documentation. The vague terms, coupled with limited oversight and monitoring, led to the questioning of these costs in an audit and a subsequent refund to the client.

Appropriate Action

In retrospect, the milestones should have been more specific, to include documentation such as office lease, account registration documents, employment agreements, and pay stubs. Clear specifications and terms of reference are essential in holding a subcontractor or grantee accountable for performance. These work requirements must be coupled with effective oversight and monitoring to assure performance or delivery.

Vetting Tools: Some Essential Links…

- The System for Award Management (SAM)
- Office of Foreign Asset Control (OFAC)
- World Bank listing of ineligible firms and individuals
- Conduct cyber vetting checks (Google, general web research)

And if relevant:

- Collect work references; confirm individual qualifications