The Nature of Corruption in the Water Supply and Sanitation Sector

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Combating Corruption in Municipal Water Supply and Sanitation (WSS) Services
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Outline of the Presentation

- The many faces of corruption in the water supply and sanitation sector
- Diagnostic tools and impact indicators
- Quick summing-up
What Is Corruption?

The World Bank:  
*Corruption is the abuse of public office for personal gain*

Transparency International:  
*Corruption is the abuse of entrusted power for private gain*
Why Do We Care?

**General:**
- Systemic corruption slows down overall economic growth, reduces local and foreign investments and increases income inequalities.

**In the water and sanitation sector:**
- Water agencies in South Asia spend 20-35% too much on construction contracts (Davis, 2004)
- Nearly 2/3 of the operating costs for 21 water companies in Africa were due to corruption (Estache and Kouassi, 2002)
- The poor pay more in bribes and are discouraged to seek service (Kaufman et al, 2005)
- 2 million people die each year because of diarrhoeal diseases each year—mostly due to inadequate water supply and poor sanitation (WHO 2004)
Forms of “Corruption”? 

- Bribery 
- Collusion 
- Embezzlement and theft 
- Fraud 
- Extortion 
- Abuse of discretion 
- Favoritism, nepotism and clientelism
A Simple Corruption Typology

Magnitude:
- Grand Corruption
- Petty Corruption

Depth:
- Individual
- Systemic
Systemic Corruption
What Breeds Corruption?

*Klitgaard’s “Corruption Formula”*

\[ C = M + D - A \]

Corruption equals
Monopoly power plus
Discretion by officials minus
Accountability.

(Klitgaard, MacLean-Abaroa and Parris, 2000)
Framework for Analyzing Corruption

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Mapping Corruption

- Warning signals or “red flags”
- Quick Analysis
- Detailed Analysis:
  - External diagnostic tools
  - Internal diagnostic tools
Examples of Warning Signals

- Unaccounted for water
- Number of staff per 1,000 connections
- Long waiting lists for service
- Newspaper articles, letters to the editor, complaints from community groups
Quick Analysis

- When to use:
  - Limited budget
  - Small and medium sized utilities

- How:
  - Participatory workshops with civil society and utility staff
  - Well prepared agenda but flexible process

- Complement with:
  - Review of internal documents, procedures
  - Development of action program
External Diagnostic Tools

- Corruption Survey
- Citizen Report Card
- Participatory Corruption Assessment
Corruption Survey: Objectives

- To identify the organizations, institutions or sections within institutions, where corruption is prevalent,
- To quantify the costs of corruption to the average citizen,
- To increase public interest in the issues surrounding corruption, and
- To provide a basis for actions to be taken in the light of the findings of the survey.
- To provide an objective yardstick against progress can be measured.
Issues Covered in a Corruption Survey

- Frequency of Interaction
- Purpose of Interaction
- Bribery Incidence
- Bribery Transaction
- Corruption Trend
Citizen Report Card (Community Score Card)

- Aimed addressing broader governance problems
  - limited access to water
  - poor quality of the water
  - unreliable supplies;
  - many billing errors
  - slow response times to service problems
  - long waiting lists for new connections
  - poor esteem for the utility staff
- Main objective: Increase Accountability
Citizen Report Card Methodology

- Identification of issues through focus group discussions
- Designing the instruments and testing them
- Identifying the scientific sample for the survey
- Survey by an independent (and credible) agency
- Collection and analysis of the data
- Placing the results in the public domain
- Advocacy & partnerships
Participatory Corruption Appraisal

Objectives:
- To understand the harmful effects of corruption on the lives of poor people
- To communicate such information widely to policymakers and the general public
- To help the concerned communities to plan and act to reduce corruption

Methodology
- Managed by a “trusted” NGO
- Focus groups
- In-depth individual interviews
- Review conclusions with community
- Present results to a wider audience (local government officials, local NGOs, local traditional leaders, local journalists)
- Action planning
Internal diagnostic tools

- Utility Checklist
- Vulnerability Assessment
- Performance Benchmarking
- PROOF: Public Record of Operation and Finance
Topics Covered in a Utilities Checklist
(A tool for participatory self-assessment)

- Ethical Framework, e.g.
  - Is there a code of conduct for the senior managers?
  - Is it used and thought to be effective?
  - Are the assets and incomes of senior managers disclosed annually to the public?

- Public Complaints
- Leadership
- Human Resources
- Service Levels & Targets
- Budgeting
- Procurement
- Audit Procedures
Vulnerability Assessment

A. Is the general control environment permissive of corruption?

- To what degree is management committed to a strong system of internal control?
- Are appropriate reporting relationships in place among the organizational units?
- To what degree is the organization staffed by people of competence and integrity?
- Is authority properly delegated and limited?
- Are policies and procedures clear to employees?
- Are budgeting and reporting procedures well specified and effectively implemented?
- Are financial and management controls – including the use of computers – well established and safeguarded?

B. To what extent does the activity carry the inherent risk of corruption?

- To what extent is the program vague or complex in its aims; heavily involved with third-party beneficiaries; dealing in cash; or in the business of applications; licenses, permits, and certificates?
- What is the size of the budget? (The bigger the budget, the greater the possible loss).
- How large is the financial impact outside the agency? (The greater the “rents”, the greater the incentives for corruption.)
- Is the program new? It is working under a tight time constraint or immediate expiration date? (If so, corruption is more likely.)
- Is the level of centralization appropriate for activity?
- Has there been prior evidence of illicit activities here?

C. After preliminary evaluation, to what extent do existing safeguards and controls seem adequate to prevent corruption?

Comment: Private Sector has more elaborate vulnerability assessments (eg. http://www.coso.org/)
Utility Benchmarking: Service & Performance Indicators

- Service Coverage
- Production and Consumption
- Water Production
- Water Consumption
- Non-Revenue Water
- Metering Practices
- Network Performance
- Quality of Service
- Continuity of Service
Utility Benchmarking: Efficiency & Financial Indicators

- Cost and Staffing
- Tariffs, Billing & Collection
- Financial Performance, Assets & Investments
- Affordability

For detailed indicators, see for example:
The International Benchmarking Network for Water and Sanitation Utilities (IBNET) that also has comparison data
Website: http://www.ib-net.org/
Utility Benchmarking: Process Indicators

- What best describes the utility's planning process?
- The management of your utility undertakes the following
- Who has general oversight of the utility's services and prices?
- What are the main sources of finance for investment?
- Does the utility offer service and payment choices for its customers?
- How does the utility find out the views of its customers?
Public Record of Operation and Finance (PROOF)

- Objective: Transparency & Accountability
- Make public:
  - Quarterly revenue and expenditure statements compared to original budget figures;
  - Indicative balance sheet, with detailed information about current and long term assets in addition to short and long term liabilities;
  - Key performance indicators
- Forms the basis for an informed and open discussion among public officials, NGOs, community groups and interested citizens
Key References


Klitgaard, Robert. Controlling Corruption.


UN-HABITAT and Transparency International: “Tools to Support Transparency in Local Governance”