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 Kouassai, 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 from 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
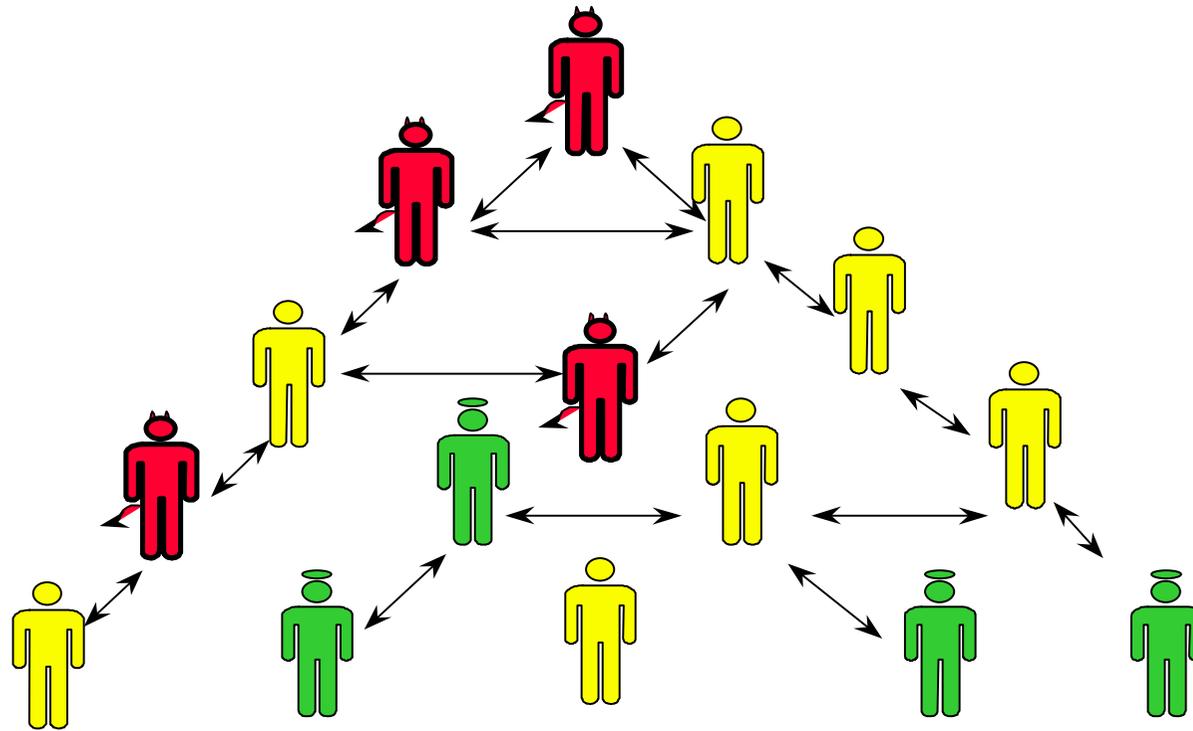
A Simple Corruption Typology

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

	Public-Public	Public-Private	Public-Consumer
Policy Making			
Regulation			
Planning and Budgeting			
Donor Financing			
Fiscal Transfers			
Management and Program Design			
Tendering and Procurement			
Construction			
Operation and Maintenance			
Payment (for services)			

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

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