

### **Abstract**

Water was on the agenda of the 12th International Anticorruption Conference (IACC) held in Guatemala from 15-18 November 2006. A special workshop on 16 November 2006 involving a panellist presentation and public debate focused on the problem of corruption in the water (and sanitation) sector and was partly instrumental. This water workshop was organised by the Water Integrity Network and was among the first events organised by WIN, hence this report gives a good idea of the background and early work of WIN.

## **Workshop report: Alternative Approaches to Identifying and Combating Corruption in the Water Sector**

Water was on the agenda of the 12th International Anticorruption Conference (IACC) held in Guatemala from 15-18 November 2006. A special workshop on 16 November 2006 involving a panellist presentation and public debate focused on the problem of corruption in the water (and sanitation) sector and how to tackle it.

### **Background**

The International Anticorruption Conference (IACC) is the premier global forum for networking and knowledge sharing in anti-corruption. The 12<sup>th</sup> IACC organised by Transparency International, the Government of Guatemala, Acción Ciudadana, and the IACC council focused on the question “*towards a fairer world: why is corruption still blocking the way?*”. Over a thousand delegates came together for four days of plenary sessions, workshops and anti-corruption events.

The water workshop at the IACC was organised by the Water Integrity Network and focused on how corruption impacts upon service delivery in water and sanitation and in the governance of water resources. It brought together experiences from a panel of representatives spanning global organisations in the water and sanitation sector (WSP), water resources management (the Global Water Partnership) and in the specific case of Colombia, Transparency International-Colombia, highlighting how self-regulation in the private sector was used to reduce corruption in procurement for water infrastructure projects.

Specific objectives of the workshop were to consider:

- the need to strengthen the fight against corruption in the water (and sanitation) sector
- methodologies that are being used for identifying and combating corruption in the sector
- the role of alliances and networks between the public and private sectors, civil society and the donor community to combat corruption in the sector.

This report summarises the discussion, and provides links to related resources.

### **Workshops outcomes**

Hakan Tropp's (the present chairman of WIN's steering committee) opening remarks set the scene for the workshop noting how the issue of corruption in the water sector has been largely ignored: it is only ever talked about over a beer. As a result, it is not tackled aggressively by sector agencies and is uncharted territory for most of the sector. He felt that anti-corruption work needs to be put much more strongly on the agenda and addressed by all. Consequently there is much to learn from those working in anti-corruption movement.

The panel included three speakers engaged in promoting anti-corruption activities and improved governance in the water sector: Piers Cross who manages the World Bank - Water and Sanitation Program (WSP) in Africa; Alan Hall from the Global Water Partnership (GWP) and Alma Rocio Balcazar from Transparencia por Colombia (TI-Colombia).

### ***Corruption in water and sanitation in Africa***

Piers Cross highlighted how corruption is embedded in the water sector. Countries like Malawi should have achieved the Millennium Development Goals 5 years ago given the levels of investment made, he says. But

much of this has been wasted, for example, by continually ‘drilling’ the same borehole outside a chief’s house four or five times. In some South Asia countries, it is well known that you have to buy your job. In the sector, “behind friendly faces, there are some hidden secrets”. Widespread corruption and its significant influence on the almost total failure of the public sector in many countries (especially in Africa) is one of these secrets.

Water is in deep trouble, a crisis, according to Piers. This is a crisis of access to water, a crisis of poverty, but also a crisis in management. The sanitary revolution that transformed Europe and the developed world has yet had little impact on the poor world, especially in Africa. In Nairobi where Piers lives, 70% of the population don’t get their water supply from a pipe but have to rely upon water vendors. In many other developing country cities, service provision is completely dysfunctional.

Quoting the Klitgaard Formula (Corruption = Monopoly + Discretion – Accountability), Piers highlighted the inherently high risks of corruption in the sector: water scores high on monopoly as most services are supplied by a single agency; water agencies also operate with a high level of discretion; and service providers are not very accountable or responsive to consumers so accountability is low. There are a lack of checks and balances in most systems and agencies, and consumers tend to have low voice. Although we know very little, some studies have shown that perhaps 20-40% of investment also leaks away.

Referring to some recent conceptual and empirical work (with Janelle Plummer) on the relations between corruption, sector reform and wealth in several African countries, Piers suggested that countries with advanced water sector reforms have lower levels of corruption, as do richer countries. Unfortunately the poorest and most unreformed countries see the most problems.

Piers signposted some worrying trends however linked to two key development trends in the sector: decentralisation, and the adoption of sector-wide approaches (or SWAPs) where donors fund government activities through budget rather than project-based support. In South Africa where decentralisation is a driving force in sector reform, he says that unit costs (for water and sanitation development) are rising for unknown reasons and that there have been more allegations of corruption. Similarly, in Uganda, SWAPs have led to a four-fold increase in costs for reasons which are unclear and it maybe that corruption is one of the reasons.

Because many systems are dysfunctional, poor people often drink ‘stolen’ water. Anti-corruption strategies in the sector will have to be designed very carefully, says Piers, otherwise they risk raising impacts on the poor by taking away their access to water. The sector relies in rural areas especially on the community management approach to water supply, where local communities have a role in planning, building and most importantly operating and maintaining water systems. Piers went on to say that we have not yet looked at corruption linked to this approach, and that this requires work. The level is probably high and much could be prevented.

In conclusion, Piers says that a sector that is as institutionally complex as water and sanitation, involving so many stakeholders, requires action to address corruption on many fronts. He believes that we need to create national coalitions to tackle corruption in this sector, learn how to gather data on corruption, and allow stakeholders to develop their own plans to address the problem. The Water and Sanitation Program (WSP) is piloting this type of approach in three east African countries that score high on the corruption index, and to share lessons regionally an Anti-Corruption Water Alliance is being developed.

### ***Water resources***

Alan Hall introduced water resources management as an even more fragmented and complex sector than water and sanitation. For example, there are 23 UN agencies dealing with some aspect of water. He went on to say that the business of water resources allocation is essentially political, and in these decisions which have such huge impacts there is plenty of potential for ‘bad’ decision making or corruption. Examples he cited include popular decisions to give farmers free electricity for pumping groundwater in rural India that leads to overexploitation of the resource and crippling of the energy industry, agricultural support policies in Europe and the US that distort not only trade but also water use, and the development of big dams which are needed by countries with a low storage of water. Dam construction needs lots of money, and the Lesotho highlands is a famous example of what can go wrong. In that case, changes in Swiss banking laws were the key to uncovering corruption in a water infrastructure project in Africa involving trans-national companies and illustrating a further level of complexity.

Alan explained how the Global Water Partnership uses partnerships to develop integrated water resources management (IWRM) plans that aim to balance the economic, social and environmental side of water. This is about bringing sectors together and making links between levels. The changes usually focus on governance

reforms that are linked to national development plans. Corruption is not usually addressed directly, but may be addressed indirectly in these processes. Actions focus on changing behaviour through information, education and social mobilization type activities. It takes at least two or three years to start to make these cross-sectoral platforms work through good facilitation. They are however, not a panacea and there is a danger of raising expectations, too much talk and giving governments too much advice.

To try and reach the Millennium Development Goals, water related development aid is currently being “thrown” at countries, says Alan. However their capacity to handle the money is sometimes low, and if anti-corruption and capacity building activities are neglected, as is currently the case, money may well be misused.

Turning to the issue of privatization, Alan noted that the water and sanitation sector is 95% public. Aiming to increase investment in the sector and improve performance, the World Bank led a move to privatize the sector with very mixed results. This was a rushed ‘silver bullet’ that was very unpopular. The process was wrong and the structures were wrong, he says. One limited benefit has been an increase in regulation of the sector as this was previously weak. Regulation can be used to improve both public and private sector performance. Alan concluded that if regulation is good then more private sector involvement is an option, but if it is missing this is not desirable.

### ***Self-regulation in procurement in the water industry***

Alma Rocio Balcazar explained how, in Colombia, self regulation is being promoted to reduce corruption in the procurement of pipes that are a key component of water and infrastructure projects. The procurement of pipes is vulnerable to practices like collusion in tendering processes and price-fixing that raises costs. Recognising that such practices were a threat to their own business, private sector firms in Colombia with support from TI-Colombia and the government took the initiative to regulate itself developing procedures to ensure transparent and fair procurement in the sector, developing indicators to monitor compliance, and a sanctions and ethics committee to take action against transgressors. Over the past one year or so since the scheme has been operating, Alma says that these measures have already reduced prices by 30%. This money saved was previously going to sales agents who it used to pay bribes and to influence which firms were awarded tenders. Half of the 167 distributors in the industry have now signed the agreement, and the ethics committee has started to receive its first reports. Although it is early days, the initiative is promoting cultural change within the companies who are now focusing in a very positive way on how to do clean business.

These three presentations led to a lively discussion, especially around the issues of privatization in the sector, and the following sections aim to capture some of the main points under three main headings:

1. anti-corruption actions
2. stumbling blocks in reducing corruption
3. and effective solutions and strategies.

### ***Anti-corruption actions in the water sector***

That anti-corruption activities in the water sector have been limited so far was confirmed in the discussion. Several of those present felt that there needs to be much more advocacy to reduce corruption through actions to increase transparency and accountability, based upon evidence of its impact, particularly, leakage of money which subtracts from service delivery to the poor. The discussion brought up problems from many countries: from Sierra Leone where reservoirs have been sold off under allegedly dubious circumstances and expert advisors are paid by both the world Bank and government creating conflicts of interest; from South Africa where privatisation was resisted but where there remains the problem of accountability in the public sector; from South America where until the 1980s and the debt crisis, some public utilities were doing well but then privatisation has undermined good integrated utilities (such as those that existed in some Colombian cities) which were able to cross-subsidise less attractive activities like water and sanitation. In many of these examples, strengthening civil society was mentioned as the key to starting to address the problems. There was much interest expressed in the activities of the Water Integrity Network.

### ***Stumbling blocks impeding reduction in corruption***

The fact that corruption in the sector is ignored, and its role in the scandal of poor performance in the sector is downplayed is itself a major stumbling block. The resulting poor performance, leading to lack of access to safe water and sanitation services, lack of access to water resources, pollution etc., impacts upon poor people in particular. This scandal should indeed be called a scandal. And the same passion that went into challenging privatisation should be directed against corruption.

Challenging the performance of public sector institutions (the water and sanitation sector being fundamentally a public service) including the highlighting of corruption problems, however risks being seen as support for privatization. This is unfortunate, counter-productive and a red herring. It is now widely recognised in the sector that privatisation largely failed to deliver the anticipated investment and benefits that had been talked up in the 1990s. We need to move on, and several mentioned that we should recognize anti-corruption activities as a fundamental issue in improving the delivery of public services and public sector performance, not a call for privatisation.

Recognising that the water and sanitation sector is now no longer talking about privatisation as the solution to turning around services in the developing world, understanding various forms of public-private partnerships and designing partnerships that will minimise opportunities for corruption in those partnerships is important. But even more important, because that's where the bulk of transactions — and therefore many potentially corrupt ones lie — is to focus on public-public and private-private corruption (See related articles on the WIN website for further discussion on these issues, especially the ones by Janelle Plummers and Piers Cross's or Patrik Stalgren. )

### ***Effective solutions and strategies***

A key step in moving forwards is better research to understand the extent, types and impacts of corruption in the water sector. Currently our knowledge on the extent and types of corruption in the sector is weak. As well as not really knowing levels of leakage, we don't understand well the kinds of deals that are done. For example, deals between mafias of water vendors and transporters, or the realities facing low-level utility workers. The issue of corruption linked to transboundary water problems was also raised in the discussion. Those are usually political issues between powerful and less powerful states. If politicians abuse power, is that corruption?

New alliances were called for to take forward concrete anti-corruption activities, bringing together organizations in the water sector with anti-corruption and other civil society organizations (including public sector unions). Civil society was seen to be critical, both in the overall workshop and in the water session. TI-South Africa were keen to promote the role of civil society in tackling corruption, in a similar way that organisations such as Public Services International has tracked companies activities relating to the privatisation of water services. In Colombia, the anti-corruption commission are anxious to improve things in a sector where the state will invest US\$4000 over the next 3 years and most money is going to decentralised local government agencies. They see civil society and community management as part of the answer, and want to work with water committees and civil society organisations to improve their capacity to monitor works, avoid bad quality construction and help detect corruption in addition to technical supervisors working for the central government.

### **Next steps**

The Water Integrity Network (WIN) was only recently formed (in 2006) and this workshop was the first opportunity to discuss its objectives with a grouping of anti-corruption and governance organisations. It has led to wider awareness of this initiative, and many new applications for membership of the network. Related to WIN there are many opportunities for follow-up activities:

Transparency International's Global Corruption Report 2008 will focus on water, and is a major opportunity to highlight the issues of corruption in the sector including research and documentation by sector specialists and TI country chapters who are encouraged to focus on water in their country case studies.

The formation of WIN responds to the major needs identified in the session. Implementation of the network's planned programme and crucially, the participation of all in WIN activities, are what will make the difference now in whether it is successful in helping to address corruption in water. All who share this objective are encouraged to join and actively get involved in the network.

*The workshop was moderated by Hakan Tropp, Stockholm International Water Institute, Chairperson of WIN. This report was prepared by John Butterworth from the IRC International Water and Sanitation Centre. For more information about the workshop and the WIN go to [www.waterintegritynetwork.net](http://www.waterintegritynetwork.net) where all presentations from the session and background papers can be downloaded.*

## Annex: Summaries of presentations

### 1. Tackling Corruption in the Water and Sanitation Sector in Africa (by Piers Cross, World Bank - Water and Sanitation Program)

The purpose of this presentation is (1) to review what we presently know about corruption in the water sector in Africa; (2) to outline a framework for understanding corruption transactions in water; and (3) to determine key stakeholder actions to tackle corruption in Africa.

The attainment of the WSS MDGs in Africa requires a substantial increase in sector resources. The water sector displays many characteristics (monopolistic behaviour, large flow of public money, high cost of sector assets, high level of failure, complexity, asymmetry of information) that make it vulnerable to corrupt transactions. On the basis of available evidence, an estimated 20-40% of resources are affected in some way by abuse of entrusted office, the greatest abuses most likely being in the least reformed countries, where the impact is felt most by the poor.

A model is proposed for understanding corruption in the WSS sector which distinguishes between three types of interactions: (1) Public – public (allocation distortions favouring projects with kick-backs, corruption in public service management e.g. buying jobs or transfers); (2) Public-private (contract procurement, marked up pricing, fraud in construction); and (3) Public-consumer (speed money, illegal connections, falsifying bills and meters). An analysis is presented of hot spots of corrupt sector activity, incentives for corruption and types of anti-corruption measures. Priority should be given to demand side activities (such as accountability to consumers and transparency) and supply side activities (such as ethical leadership and mainstreaming corruption in institutional reform).

Key stakeholder actions to tackle corruption are identified as follows: Lead Government Agencies (get corruption on the sector/political agenda and develop national integrity pacts and targeted national AC action plans); Service Providers (clean up of own operations, including up-billing systems, performance-related personnel management systems, establish customer liaison); Civil Society (deepen learning, codes of NGO conduct, support consumer voice, advocacy for transparency and get topics to the media); Private Sector (ensure own operations are clean and industry AC integrity pacts); Donor/IFI Actions (support information gathering and diagnosis of corruption in WSS); Regional Action (benchmarking, dissemination, appoint regional champion).

A regional strategy for tackling corruption in Africa is proposed that includes regional advocacy by AMCOW, development of national water sector integrity pacts in 3 East African countries, development of methodologies to collect further information and support to action plans lead by service providers and supported by donors, the private sector and civil society.

Read more in a background paper at [www.waterintegritynetwork.net/page/243](http://www.waterintegritynetwork.net/page/243)

## **2. Tackling corruption through better water governance and changing behaviour (by Alan Hall, Global Water Partnership)**

The aim of the presentation is to look at improving water governance and changing behaviour as a means to reduce corruption. The presentation focuses on the broader aspects of good water governance and not solely on water supply for domestic purposes which will be covered more fully by others. The presentation reflects the GWP approach that does not focus directly on anti-corruption measures, but tries to change the enabling environment so it is conducive to better practices.

Apart from domestic use, water is critical to many sector interests even though it is usually considered as one of many 'inputs' and often given minimal attention: this includes agriculture, industry, energy, navigation, tourism, etc. Water is also critical for the environment and for the sustainability of many of these economic activities. This cross-cutting nature of water makes it particularly complex to manage. Many vested interests either over-exploit or pollute water with no regard for other users or uses thus giving governments a difficult mediation task between competing forces.

Meeting all the Millennium Development Goals depends to some extent on better water resources management. Bad policy and decision making can have a profound effect on the sustainability of a nation's water resources and on who benefits from development. Water is thus prone to political interference and corruption to secure benefits for vested interest groups.

The presentation introduces the approach of the GWP and some recent activities. These focus on results from a series of governance dialogues and a participatory approach to planning for an integrated approach to water resources management based on multi-stakeholder country water partnerships.

The presentation focuses on two aspects: (i) structural changes for better governance systems and (ii) changing behaviour. Practices to improve managerial and administrative functions that reduce corruption in water utilities are not considered in detail, as this is covered by other speakers. Behavioural change is particularly important and includes better access to knowledge, communication measures and promoting partnerships for more openness and transparency in the management and development of water resources.

Some suggestions are made for follow up activities to tackle corrupt practices. These include increased research and case studies to find out what works best for different situations and targeting specific groups to tackle corruption from within authorities and at a political level. Finally, there are too many external entities that profess support and are well meaning but exacerbate the problems faced by governments. There is thus an urgent task to move to the country level and decide on a few priorities that can be addressed immediately rather than trying to solve too many problems at once.

*Read more at [www.gwpforum.org](http://www.gwpforum.org)*

### **3. Advances and challenges in the agreement against corruption by pipe manufacturers in Colombia (by Alma Rocio Balcazar, Transparencia por Colombia)**

The presentation introduces a sectoral anti-bribery agreement, an initiative that was taken by ACODAL – the Colombian Association of Environmental and Sanitary Engineers, whose affiliated waterpipe manufacturing companies accounted for 95% of the national market and 100% of the bids in public tenders for water supply and sewer systems. ACODAL approached Transparencia por Colombia (TI-Colombia), and the two organisations worked together to develop an Agreement amongst the piping companies based on TI’s Business Principles to Counteract Bribery (BPCB). Since this Agreement was signed in April 2005, there has been a significant reduction in the bid award prices for projects involving the Agreement signatories, which reduces the scope for paying bribes. A similar agreement was signed in Argentina in December 2005. Agreements are also being considered in Brazil and Mexico.

*“The impact and effect of this Agreement will be very strong, since we never before have had a code to guide us on these matters. Now we have parameters for action. Furthermore the sanctions that have been established are very important. With this Agreement we, pipe manufacturers, will act differently amongst ourselves, since the same rules and regulations apply to all”* (Testimony of a participant in the agreement)

The Agreement developed in response to the absence of transparency in the pipe business sector and in particular in public sector procurement (purchases), which gave rise to an environment of mistrust and to a credibility crisis in its entrepreneurial activity. In addition, it led to the loss of public resources caused by the unethical overpricing of products, and substandard quality of public projects and utilities. The situation eventually turned unmanageable for the companies and for the trade association itself, which not only experienced unattainable transaction costs but also a sense of moral fatigue.

The Agreement included the development of a general anti-corruption policy in each company as well as specific guidelines regarding each of the forms of bribery specified in the (BPCB). The guidelines were quite detailed and covered issues such as pricing and purchasing, distribution and sales schemes, implementation mechanisms, internal controls and audits, human resources management, communications, internal reporting and consulting, as well as protection of “whistle blowers”. In addition, the Agreement specifies the roles of an Ethics Committee and a Working Group tasked to supervise the implementation of the agreement and enforced with far-reaching legal and economic powers that could be used towards companies failing to comply.

Lessons learnt include:

- Ethical commitment and motivation can engage private sector entrepreneurs to self-regulation and common standards to reduce corruption.
- Leadership from top management of companies must be firm and enduring.
- Coordination with national governance reforms helps to mobilise political commitment, to move beyond the needs of specific individual business and to ensure that the Agreement is followed up by parallel work in the public sector to prevent corruption risks arising from the State.
- Involvement of a third-part actor, such as Transparency International, can help coordinate and facilitate an agreement.

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