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Not so petty: Corruption risks in payment and licensing systems for water

The water "business" involves large numbers of consumers using water in different ways including households, industries, and farms. Management of water at the user level, and the associated collection of charges or fees, carries a potential corruption risk. This U4 Brief focuses on the risks at the service provider-consumer interface associated with these small but numerous transactions, and how donors may help prevent so-called petty corruption. The related losses of revenue and harm to consumer confidence can seriously threaten the financial sustainability and viability of service providers.

Introduction

Gaining access to water is still a huge daily challenge in developing countries: many people still don't have proper access and there is competition for frequently scarce water resources. This lack of access hinders economic development but also blights lives and kills people. The need to develop new and maintain existing infrastructure is clear. The boreholes to tap aquifers, reservoirs to store water, treatment plants to make dirty water potable, and the pipes and pumps that deliver water, all cost money to build, operate, and maintain. Ultimately this has to be paid for from one of three sources: user charges, national taxes and donors. This U4 Brief focuses on user charges and the potential corruption risks associated with these transactions.

The link between payments and services

Managing water as an economic good has been an important element of sector reforms intended to help improve coverage and performance since the Dublin Statement from the United Nations Conference on Environment and Development in Rio de Janeiro in 1992. Although many water systems are heavily subsidised (from national taxation revenues or donors), there has been a trend towards wider collection of payments from users to both help pay for service provision and encourage efficiency in water use (as an element of demand management). One basic idea is that those that use more water should pay more.

User payments include fees related to water rights or licences to secure bulk water access or permission to pollute (e.g. payments made by agricultural or large industrial users to a river basin authority). It also includes the much larger number of payments for basic water services by individual consumers. These range from utility bill payments in urban areas to contributions (in cash or kind) to community-managed systems in rural areas. In many urban areas, water tariffs are being extended or increased, albeit from generally very low levels compared to the cost of providing the service. Tackling the low levels of user payment and the high levels of unaccounted for water are important steps in most efforts to turn around failing utilities. In rural areas, contributions in cash or kind towards the cost of new water systems is now the norm (for example a contribution of 10 percent of costs), and frequently rural communities are expected to collect contributions to cover all operation and maintenance costs. There are, of course, exceptions in paying for access: South Africa has a free basic water policy to ensure access to some free water for all. Nevertheless, establishing reliable registration of users and payment mechanisms is a basic element of water management and is one vital source of revenue.

As well as charges for water access and use, fees for sanitation (often bundled into the water bill) and storm water management (often linked to municipal or other taxes) may be paid by citizens. Fees to pollute (i.e. release discharges of contaminated water at a certain level) may also be paid by industries. All these charges provide an important revenue stream that can be impacted upon by corruption and other (non-) payment problems.

Why petty corruption proliferates and its impact

Collecting money for water use and handing out (and controlling) licences to share this often scarce resource is of course just one corruption hotspot in the water sector. Whether it is the most important depends on context, but everywhere opportunities for petty corruption will need to be tackled on some level. Conditions of monopoly (there is usually only one provider or source of water), scarcity of an essential resource for households, farms, and enterprises,

Anti-Corruption Resource Centre
www.U4.no

by John Butterworth and Jean de la Harpe
Senior Programme Officers
International Water and Sanitation Centre
http://www.irc.nl

measurement problems (where it is hard to accurately measure water use and methods may be open to discretion), low-paid frontline staff and large numbers of small (often cash) payments are all ingredients that can set the scene for petty corruption. Problems may be exacerbated by low levels of consumer awareness about charges, and limited administrative capacity to collect and process payments (billing systems, issuing of receipts etc). Because of limited capacities to directly collect payments for bills, in some countries these charges might even be paid through another utility such as an electricity company.

If corruption becomes significant at the provider-consumer interface it ultimately threatens both the economic viability of service providers and the sustainability of water resources management in general: "Corrupt practices exacerbate ... gaps, removing investment that might be used to extend services to the poor, diverting finance from the maintenance of deteriorating infrastructure and taking cash from the pockets of the poor to pay escalated costs and bribes for drinking water." (Plummer 2008).

Table 1 highlights corruption risks in different areas of the water sector, and how these types of corruption can be identified and prevented:

Type of system/ water use	Types of corruption at the public-consumer interface	Early warning indicators	Preventative actions
Water resources licensing (bulk abstraction) for industrial, agricultural and urban water supply (also pollution permits)	• Collusion or bribery to obtain licence or water right (in allocation process) • Bribery to influence content or conditions of a licence e.g. volume of water • Bribery to avoid enforcement e.g. when conditions associated with a licence are infringed	• Many steps in the licensing process • Failure to publish register of water users or provide access to information	• Publication of registers of water rights • Simplification of application procedures for water rights • Strengthening capacities or river basin agencies including human resources management • Complaint and appeal mechanisms
Urban utilities (formal)	• Corruption in relation to access (getting a connection, overlooking unauthorised connections, avoiding disconnection, illicit supply) • Corruption in relation to regular payments: fraudulent meter reading, avoidance or partial payment, overcharging • Corruption in relation to speed/ preferential treatment in getting connected and in case of breakdowns and complaints, repairs to broken pipes etc	• High levels of unaccounted for water • Failure to publish regular annual reports with accounts including revenues (and analysis of complaints)	• Professionalization of utilities and improved human resources management • Better complaints systems • Strengthening of performance assessment and financial reporting
Peri-urban informal operators	• Bribery to access bulk water for re-sale or avoid regulations • Collusion to corner the market and charge for water at high rates	• High levels of illegal connections and unaccounted for water in related urban systems • Conflicts-of-interest between staff engaged in formal sector and informal operators	• Licences, "light touch" regulations, and formal recognition as alternative suppliers
Community–managed systems in rural areas and small settlements	• Embezzlement or diversion of funds collected (e.g. for repairs) by treasurer or committee members • Siting of new water points skewed by improper vested interests ("in my backyard")	• Lack of rotation, or complaints expressed about selection of committees • Clusters of water points close to already served areas	• Regular support to communities managing their own systems • Mapping studies to compare locations of water points and communities without access

Unpacking petty corruption in water

Corruption types

Corrupt practices between public officials or service providers and users, citizens or consumers are known as administrative, bureaucratic or petty corruption. Types of corruption at this level include (González de Asís et al 2009):

- **Bribery**: Giving of some form of benefit to unduly influence some action or decision on the part of the recipient or beneficiary
- **Embezzlement and theft**: Taking and conversion of money, property or other valuables for personal benefit, e.g. diverting funds to one's own bank account
- **Abuse of discretion**: Abuse by an official (albeit in a limited sense) for private gain but without external inducement or extortion, e.g. giving preferential treatment to one neighbourhood over another in a situation of water scarcity.

Such practices enable "poor and non-poor households, farmers and other users to get water, get it more quickly or get it more cheaply" (Plummer 2008). Petty corruption typically involves small payments to secure or expedite the performance of routine, legal or necessary actions such as getting a water connection or having a repair attended to (González de Asís et al 2009). Bribes (sometimes known as speed payments) or other inducements can indeed be a vital coping mechanism for poor families that would otherwise have even worse access to water. An inducement may be required, or be perceived to be required, to secure a connection (formal or clandestine) to a water system or to get repairs attended to in a timely fashion: "When bureaucratic or petty corruption occurs, a hierarchy of public servants abuse their power to extract small bribes and favours. A water meter reader offers to reduce a customer's bill in return for payment or a utility official only responds to water service complaints when favours are traded" (Plummer 2008).

These payments may only be for small amounts but everything counts for poor families and their high frequency means that, in total, such payments may represent very large sums

and ultimately impact severely on the provider. Payments can help richer households or farmers get a step ahead and gain advantageous access rights. Getting irrigation water at the right time – where days and even hours matter – can make a huge difference to ultimate crop yields, for example. Staff might also supplement their salaries by providing services informally, for example by selling water to vendors or tanker operators or helping install illegal connections in peri-urban areas.

The extent of petty corruption

Petty corruption is apparently widespread and has been noted in numerous studies of the water sector. It is somewhat easier to identify and measure than other forms of corruption in the sector, although, like all forms of corruption, getting a reliable measure of an illegal transaction requires special methods and caution in interpretation. There is generally a paucity of such research and limited funding is available for corruption diagnosis. What is clear is that this is a type of corruption that pervades developing countries with weak governance systems. This does not mean that richer countries are free of corruption – merely that there it tends to be of more sophisticated types at higher levels. Some recent studies on corruption at the public-consumer interface include:

- In **Honduras**, it was reported that 5 percent of both enterprises and consumers surveyed were made to feel that a bribe was necessary to access water (World Bank Institute 2002).
- In **Bangladesh**, a survey showed that 60 percent of urban households either paid money or exerted influence to get water connections and "correct" their water bills (TI Bangladesh 1997). One third of households paid to get their water bills reduced through an arrangement made with meter readers.
- In **India and Pakistan**, Davis (2004) reported that 41 percent of respondents had made payments for falsification of meter readings in a six month period (with an average amount of 45 US cents per transaction). 30 percent had paid for repairs to be expedited (median payment US$ 1.90). It was reported to be easier to pay a bribe than to complain. 12 percent paid bribes for getting a new connection (median US$ 22). Such payments were reported to harm trust and the image of providers.
- In **Kenya**, 66 percent of respondents said they had had a water-related corruption experience in the past year in a 2006 survey (TI Kenya 2006).
- In **Guatemala**, more than 15 percent of respondents to a national household survey said they paid a bribe when they sought a water connection or reconnection (Acción Ciudadana 2006).

Case example: Peri-urban water supply in Indonesia

An example from Indonesia illustrates some of the more complex interactions that are possible. In one city, a team of engineers were trying to solve water pressure problems: parts of some neighbourhoods were not getting much water due to low pressure. The managers of the water utility had given lots of reasons why the problem could not be solved, but the engineers traced the pressure shortages to some closed valves. Opening the valves quickly solved the problem, but by the next day, management had ordered the valves to be closed again. It turned out that by closing the valves, some reservoirs could be filled and that selling water from these reservoirs generated more benefits than selling water at household level. A higher price was asked for water sold at the reservoirs, and people who were not getting water at their houses were forced to buy the more expensive water. In this case, the activity (bad practice at the very best) might be just enriching the water company, but it could well be linked to embezzlement and theft of revenues by individuals and be an abuse of discretion to give preferential treatment to one neighbourhood over another. In many countries, a similar problem arises in the case of peri-urban water supplies by informal providers where staff in water companies may own an interest in the tanker business providing alternative supplies, and will therefore have an interest (and conflict of interest) in seeing poor formal services persist. (*Source: Author interview*)

Preventing petty corruption in water

Donor support to water revenue collection systems nearly always has the potential to be either negative or positive. Encouraging the introduction or extension of payment systems, which has been a donor policy in the pursuit of institutional strengthening and financial sustainability in the sector, can create a new interface where corruption might take root in countries if reforms are mishandled or local capacity is inadequate. The key needs are to "look before leaping" (i.e. recognising that corruption is a risk and thinking about how to mitigate that risk), to support preventative measures that can minimise opportunities for corruption, and to observe what works and what doesn't to continually inform implementation (Plummer 2008).

Donors can strengthen their support for preventative measures at the consumer interface. It is a wise investment to build systems of transparency and integrity that can help to prevent corruption rather than try and clean up afterwards. The Swedish International Development Cooperation Agency, for example, has supported training and awareness raising on transparency issues as part of the development of basin authorities for the Pungwe River on both sides of the Mozambican and Zimbabwean border. Dutch water companies have also been providing technical assistance to water utilities in countries like Mozambique, Yemen and Indonesia through public-public partnerships that often, at some stage or another, involve grappling with corruption issues in the reform and professionalization of utilities. A basic measure is to support strong transparency in the reporting of water sector agencies that are supported by donors. Transparency and accountability to water consumers and not just to donors should be encouraged (perhaps in the form of publishing standard consumer fees and information about user rights). Relatively few providers manage even to publish regular annual reports on their performance and finances.

Investments in strengthening capacity and regulation of the sector are also likely to be supportive, and might directly

U4 - CMI
PO Box 6033
5892 Bergen, Norway
Tel: +47 47 93 80 00
U4@U4.no

address issues of petty corruption. Regulators, often weak or missing, can play specific roles in strengthening the reporting on performance and expenditure of service providers. Within utilities and other agencies, the disclosure of assets by officials could be further promoted especially as part of the professionalization of service providers.

On the demand side (i.e. encouraging demand for accountability from the public), civil society can be strengthened through support to consumer organisations (e.g. to provide information on consumer rights and support in case of complaints), NGOs and media that are using freedom of information rules to hold providers to account in the sector (for example in India), and citizens report card and other citizens voice processes to track the performance of providers and encourage dialogue and better performance. Strengthening complaints systems is also a useful way to prevent corruption and bring abuses to light. Donors have a strong interest and portfolio in such activities, such as the UK Department for International Development's Governance and Transparency Fund which includes current support through organisations such as WaterAid and Transparency International.

In peri-urban areas, bringing informal providers into the legal fold – through licences, "light touch" regulations and their formal recognition as alternative suppliers – is a more viable strategy. This can protect both vendors and customers from corruption and exploitation. Such approaches are becoming more widely accepted: "authorities in countries as diverse as Senegal, Vietnam, Mozambique and Ghana have already licensed informal vendors (or are considering doing so) and established guidelines for tanker operators and independent entrepreneurs." (Sohail and Cavill 2008).

Some conclusions and recommendations

- Petty corruption at the provider-consumer interface is one key area of risk that water projects and programmes must consider.
- Preventing petty corruption means investing in corruption risk assessments to identify problems at an early stage and encouraging preventative measures.
- Early warning signs, which may indicate whether petty corruption is occurring, can be identified and linked to specific preventative actions.
- Suitable preventative measures are likely to include specific targeted measures such as strengthening the capacity of service providers and much broader measures such as the development of civil society to improve accountability in governance.
- Better monitoring and corruption-related research also needs to be promoted in order to learn what works best in specific contexts. ■

Further resources

A summary of the Dublin Statement and Principles can be accessed at: principles at: www.gwpforum.org/servlet/PSP?iNodeID=1345

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This U4 Brief is the first in a three part series on corruption risks and the water sector. Two further U4 Briefs address corruption risks in major water infrastructure projects and in institutional reform in the water sector. Download all U4 Briefs at www.u4.no