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Deterring Corruption and Improving Governance in the Urban Water & Sanitation Sector

Governments typically provide the water and sanitation sector with substantial amounts of public money. Monopoly power, public funds, and discretionary decisions, coupled with poor accountability, breed corruption. The best hope for reducing corruption in the water and sanitation sector is to incentivize water sector officials and managers to be responsive to citizens' demands.

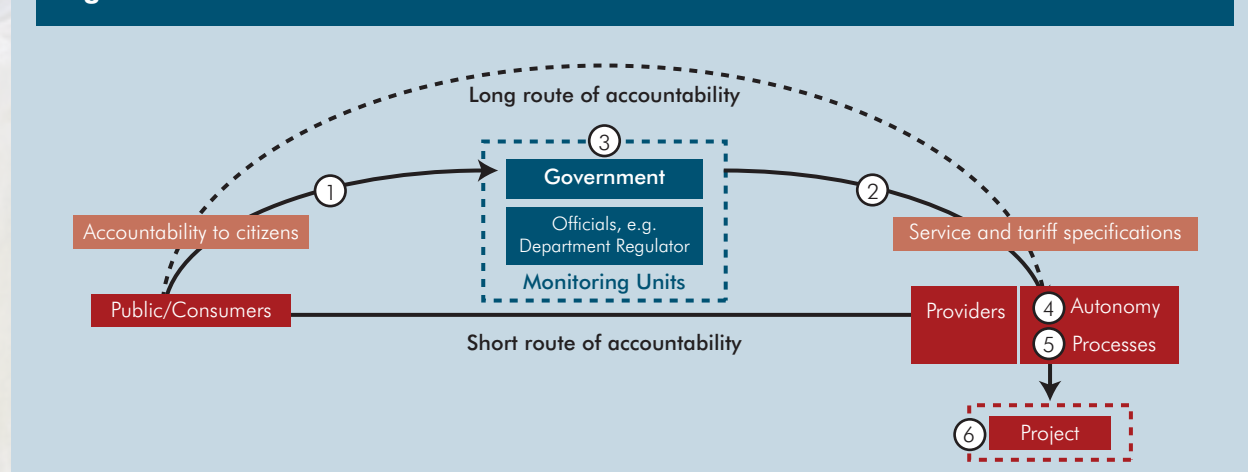
Accountability in the water and sanitation sector is complicated, as Figure 1 illustrates. Effective sector governance requires an effective "long route of accountability". Through the 'long route', citizens hold government accountable for water sector performance. ① The government's objective is to ensure good service at reasonable tariffs. ② It may do this by owning the provider, regulating it, or both.

To be effective, government may mandate a specific official body—such as a water department or a regulator—to monitor the provider. ③ In addition, good governance usually requires a provider with strong incentives and a high degree of autonomy, ④ good financial management and business processes, ⑤ and sound arrangements for planning, procuring, and supervising capital works. ⑥ Improving governance to reduce corruption therefore may require action to strengthen weak points in the governance system illustrated in Figure 1.

Accountability to citizens ①

Citizens can only hold government and providers accountable if they have good information on ac-

Figure 1. Governance in the Water and Sanitation Sector



This note reports key messages and findings from "Deterring Corruption and Improving Governance in the Water Supply & Sanitation Sector: A Sourcebook," by Jonathan Halpern, Charles Kenny, Eric Dickson, David Erhardt and Chloe Oliver, published by the World Bank in September 2008 (Water Supply and Sanitation Working Note 18). Readers may download the complete paper from www.worldbank.org/water.

tual performance, and on what performance they should reasonably expect. Report cards, benchmarking, and reporting performance against agreed targets, can inform citizens on reasonable and actual performance. Public participation could be introduced in planning and regulatory hearings, and through community supervision of capital works.

Service and tariff specifications ②

For government and citizens to hold the water and sanitation provider accountable, there needs to be a clear and public agreement on the service levels to be provided. This agreement should generally specify targets for coverage, hours, pressure and water quality, and effluent treatment standards. To be realistic and coherent, the agreement also needs to provide adequate resources—from a mix of tariffs and subsidies—to cover the cost of meeting those targets. The service and tariff specifications can be complete and legally binding contracts. Other performance agreements can be useful and made public without being legally binding—for example municipal development plans that set out service targets and resource requirements. What may matter most is that the performance agreement is realistic and clear, and that the government checks and publishes progress against the agreement.

Monitoring unit ③

Governments should establish a unit to monitor the provider's performance and to apply penalties and sanctions. The monitoring unit may be a water department monitoring a government-owned provider (or managing a contract with a private firm), or it may be an autonomous regulator. Such a monitoring unit needs adequate skills, resources, and focus. Ways to make the monitoring unit more accountable might include: giving citizens more information and opportunities to participate in sector decisions, using democratic selection processes for the members of the monitoring unit (or those who appoint them), and moving the monitoring unit closer to the people it serves, for example through decentralization.

Provider incentives and autonomy ④

To deliver the required services within the agreed resources, managers need the freedom to manage, and incentives to manage well. Yet many water and

sanitation providers are micro-managed by their monitoring bodies, be these regulators, mayors or ministers. While perhaps an understandable response to sluggish management at the utility level, micro-management can in some cases allow powerful decision-makers to benefit from the corruption and patronage opportunities that a utility offers. Furthermore, a micro-managed provider cannot be held accountable for failure. Finally, if the monitoring unit is managing service provision, the monitoring role is by default left vacant. Ways to strengthen provider autonomy and incentives may include corporatization, cooperative ownership of utilities or, where feasible, private participation.

Provider processes and systems ⑤

In many public water and sanitation providers, waste and corruption flourish in “hot-spots” such as commercial systems (connections, billing, and collection), human resources (where ghost workers collect pay-checks, and positions are bought and sold), and procurement of supplies and capital works. In contrast, well run providers have good financial management systems and business processes that prevent misuse of company funds and property. The spine of these systems is an accrual accounting and auditing process. A utility's accounting system keeps track of the utility's income, expenditure, and assets. This system should be linked to various aspects of the utility's operation, including revenue and receivables, inventories, payroll, and capital projects. Accounting systems should be complemented by clear delegations of authority to incur costs and approve payments, as well as processes governing human resources, procurement, and the like.

Project planning, procurement, and supervision ⑥

Finally, at the project level, bribes and kickbacks to influence contract specifications, award, and supervision, can result in projects that are low quality, high-cost, and of dubious sustainability. Bribe-seeking officials may bias project choice toward excessively costly or technically complex projects. Well designed fiduciary safeguards can reduce these risks in Bank projects. Sound governance arrangements, coupled with good procurement and supervision processes, can achieve the more important job of reducing corruption in capital works across the sector as a whole.

World Bank Engagement in the Water and Sanitation Sector

Water and sanitation sector governance is complex, and strengthening governance even more so. To be effective, the Bank increasingly uses a comprehensive, multi-year partnership approach with clients. Such partnerships will typically start with analytic and advisory work that contributes to the Country Assistance Strategy (CAS). Country teams help clients develop and implement sector strategies with a good governance focus. Governance and corruption monitoring and evaluation should be designed into the Bank's engagements early on, and the lessons learned applied as the engagement continues. Simplistic solutions to detect and deter corruption at particular points bolted onto single investment loans will not, by themselves, be sufficient to improve sectoral outcomes. The following sections discuss promising approaches to addressing governance issues at distinct phases of the Bank's engagement.

Country Assistance Strategy

Where the Bank foresees significant engagement in the water and sanitation sector, the CAS should include:

- A high level mapping of corruption risks in water and sanitation sector.
- Diagnosis of strengths and weaknesses in sector governance, against the framework described in Section 2 of this Note.
- Guiding principles and instruments for improving governance in the sector.

Water and sanitation sector strategy

It is useful for the Bank and a client government to agree on a multi-year sector assistance program that includes approaches to strengthening sector governance. Preparation of the sector strategy will generally require analytical work to evaluate corruption risks and governance weaknesses and develop specific actions. This includes understanding the political economy of corruption and poor governance in the sector by mapping winners and losers, identifying individual and institutional "good governance champions", and defining actions to build political and popular support. Depending on the strategy's level of detail, it should include indicators to mea-

sure improvements and establish a baseline and a monitoring framework.

Investment loans

The Bank's major engagement with its clients will continue to be financing physical infrastructure. To ensure that this money is well spent, and supports development, lending operations should:

- Include well thought-out and context-specific fiduciary safeguards to reduce the risk that loan proceeds will be misused.
- Ensure that the physical works financed are least cost. Master-planning and economic analysis of projects should be used as a key decision tool. This may require the dedication of more specialized resources.
- Include capacity building measures intended to promote probity in the water and sanitation providers and their financiers.
- Clearly identify the goals for improvements in governance and reductions in corruption including indicators and monitoring mechanisms.
- Address governance weaknesses identified in the sector strategy, by supporting information provision, public participation, specification of service standards and tariff, creating effective and accountable monitoring bodies, and giving utility managers autonomy and incentives to perform.

Loans to support physical investment could be conditioned on implementation of governance strengthening measures. Sector-wide approaches agreed with other donors or development policy lending can help to move towards an integrated governance approach.

Engagements already underway

Bank staff may find themselves managing engagements in environments of weak governance begun without the benefit of fully developed governance and anti-corruption strategies. The incremental budget set aside for the governance and anti-corruption agenda can help task managers in these circumstances. Task managers may find it beneficial to:

- Develop high-level scans of corruption risks and governance weaknesses in the parts of the sector in which the Bank is engaged.

- Determine which incremental steps may be incorporated into the existing engagement. While major changes may not be possible, initiatives worth considering may include:
 - increasing clarity on the results expected of the provider, through better specification of expected service standards and clearer definition of the resources required to achieve those standards.
 - providing the fiscal authorities and public with more timely, relevant, and accurate information on sector performance.
 - increasing public disclosure of information on capital works, and involving the community or knowledgeable third parties in project supervision.
- Assess fiduciary risk to the project, and, in the event of red-flags, increase the level of Bank supervision of the project.

Where Government is not yet committed

Powerful forces are often arrayed against efforts to strengthen governance. While lip service may be paid, real commitment can be lacking. In some cases, commitments made by reformers will be undermined by those who benefit from the status quo.

This creates a dilemma for the Bank. Engagement that does not seriously attempt to strengthen governance would be contrary to the Bank's commitment to improving governance. Yet trying to strengthen governance in the face of tacit opposition from those with power over the sector will generally fail. The overall principle of the Bank's Governance and Anticorruption Strategy is "don't make the poor pay twice"—once in terms of suffering under weak governance and again through the withdrawal of donor support. In this situation, a number of approaches may be appropriate:

- In a decentralized sector, some providers may be vested in the existing system, while others

would champion change. Working with champions can give immediate results, while setting an example of what is possible.

- The Bank may engage in the sector through technical assistance to set the groundwork for improved governance while reserving major capital investments for other sectors that are more ready to embrace the good governance necessary to ensure that loan proceeds benefit the citizens of the country.

In addition, in these circumstances the Bank should strengthen fiduciary oversight of projects, but an approach based solely on "ring-fencing" Bank financed investments will have limited development impact.

Conclusion

Improving governance in the water and sanitation sector is a complex task, with no single right answer. Our knowledge in this area is not yet well developed. Approaches that work in one place fail elsewhere, for reasons that we are not yet sure of. If even measuring corruption is fraught with difficulties, how much harder must it be to convincingly reduce corruption and improve governance? The intention of the *"Deterring Corruption and Improving Governance in the Water Supply & Sanitation Sector: A Sourcebook,"* is to assist World Bank staff to provide a set of practical suggestions. The Sourcebook is a starting point, not an end point, for the development of good practice in strengthening governance through Bank operations in the water and sanitation sector.

What can be said definitively, however, is that promoting good governance is not primarily about safeguarding Bank-derived funds, ring-fencing Bank-supported projects, or detecting and punishing corruption. Rather, the governance agenda is a continuation of the Bank's efforts over decades to help its member countries find ways of effectively delivering water and sanitation services.

The Water Sector Board Practitioner Notes (P-Notes) series is published by the Water Sector Board of the Sustainable Development Network of the World Bank Group. P-Notes are available online at www.worldbank.org/water. P-Notes are a synopsis of larger World Bank documents in the water sector.

