The Role of Transparency International in Fighting Corruption in Infrastructure

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<th>Acronym</th>
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<tr>
<td>BPCB</td>
<td>Business Principles for Countering Bribery</td>
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<td>BPI</td>
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<td>CSO:</td>
<td>Civil Society Organization</td>
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<td>Non-revenue Water</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<tr>
<td>OSCE</td>
<td>Organisation for Security and Cooperation in Europe</td>
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<tr>
<td>PACI</td>
<td>Partnering Against Corruption Initiative</td>
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<td>TI</td>
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<td>UFW</td>
<td>Unaccounted for Water</td>
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<td>WEF</td>
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<td>WIN</td>
<td>Water Integrity Network</td>
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ABSTRACT

This paper sets out the experience of Transparency International (TI) in fighting corruption worldwide in infrastructure, particularly in the construction, electricity, telecommunications and water sectors. It focuses on identifying the sources of corruption in each sector and the available toolkits (best practice) for combating it. The paper highlights the importance of forming inclusive multistakeholder approaches to fighting corruption, including government, regulators, utilities, the private sector and civil society organizations (CSOs) and uses as an example a recent initiative to set up a network to combat corruption in the water sector.

Key Words: Infrastructure; Corruption; Transparency International (TI); Transparency; Accountability; Governance; National Integrity System (NIS); Procurement; Integrity Pacts (IPs); Business Principles for Countering Bribery (BPCB); Civil Society Organizations (CSOs); Global Corruption Report (GCR); Water Integrity Network (WIN)
A. INTRODUCTION

1.1. By their very nature, involving major roles for the state (through regulation and ownership of utilities and implementing agencies) and the private sector (through the design, operation and management of large contracts), the infrastructure sectors (particularly in the construction, electricity, transport and water sectors) provide many opportunities for corruption. According to the 2002 Bribe Payers’ Index (BPI), Transparency International (TI) reported that construction/public works are perceived to have the highest level of corruption of any sector, higher than both the arms industry and the oil and gas sector.\(^2\) In addition, TI has reported that some US$ 400 billion per year are lost due to corruption in the construction sector.\(^3\)

1.2. According to TI, ‘corruption’ is defined as ‘the abuse of entrusted power for private gain’. Corruption in infrastructure has traditionally been divided into two broad categories: large-scale or ‘grand’ corruption and small-scale or ‘petty’ corruption. Grand corruption refers to the huge bribes and commissions offered or paid by businesses in industrialized countries in their quest for government orders in the developing world and transition countries of central and eastern Europe. It is intended to influence decision-makers in favor of one company against another, or to favor one project or purchase over alternatives. Petty corruption is described as a ‘facilitation’ or ‘grease’ payment by a company or individual to obtain what they are entitled to, for example, clearance of goods by customs or issuance of a permit or a license.\(^4\) Petty corruption also includes payments related to illegal connections and false metering. Typically, in network services (such as the water sector), these ‘non-technical’ losses can account for up to 20% of the total water managed by a utility.\(^5\)

Infrastructure Fits the Definition Where Corruption Flourishes Best

1.3. Monopolies, the level of discretion of public officials and transparency and accountability are determining factors in the most famous formula explaining corruption (Klitgaard, 1988):

\[
\text{Corruption (C)} = \text{Monopoly (M)} + \text{Discretion (D)} - \text{Transparency (T)}
\]

For example, monopoly and discretion are common in water schemes, probably more so than necessary. Typically water is produced and distributed by monopolies, usually water utilities. Discretion is not reserved to management but includes the operational level of


repair, fee-collection, and control of illegal connections. Ceteris paribus, the risks do not become smaller if these roles are carried out by private sector employees. These problems are typically compounded by deficient transparency and accountability as exemplified by institutional weaknesses in water utilities as well as in regulators charged with sectoral oversight.

**Overview of the Scope of the Paper**

1.4. Section B of this paper focuses on the sources of corruption in infrastructure, including ‘grand’ corruption as well as ‘petty’ corruption in the water and electricity sectors. Section C reviews the anti-corruption instruments in public contracting, all of which have been developed or promoted by TI. These include international conventions; National Integrity Systems; Integrity Pacts; and the Business Principles for Countering Bribery (BPCB). Section D describes the Water Integrity Network (WIN), which is an example of a sectoral coalition to combat corruption. Finally, Section E covers issues relating to: addressing corruption on a sectoral basis; developing generic sectoral anti-corruption tools; and the way that the efforts of civil society fit in with other sources of reform.
B SOURCES OF CORRUPTION IN INFRASTRUCTURE

‘Grand’ Corruption

2.1. ‘Grand’ corruption is found in all stages of an infrastructure project, including planning and design; prequalification and tendering; project implementation; and operations and maintenance. Exhibit 1 sets out many of the sources of corruption.

Exhibit 1. How Does Corruption Happen in Infrastructure Projects?

- **Project Planning**
  - Unnecessary
  - Unsolicited
  - Planning approval
  - Env. licenses

- **Project Design**
  - Biased specifications
  - Over-designed,
  - Under-designed
  - Tender Documents are confusing

- **Contracting Process/Bid Evaluation**
  - Decision makers are biased
  - Selection procedures are non-transparent, or not objective
  - Clarifications are not shared with other bidders
  - Award decisions are not made public or are not justified
  - Deception and Collusion

- **Contract Implementation**
  - Concealing substandard work
  - Project delays
  - Agreeing to contract ‘variations’
  - Create artificial claims
  - Biased project supervision

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6 This section of the report is based on the article by Neill Stansbury entitled “Exposing the Foundations of Corruption in Construction” in the Global Corruption Report 2005, pps. 36-40
2.2. **Corruption in Project Planning** can lead to the selection of unnecessary projects. In a similar fashion, authorities may be persuaded to accept unsolicited project proposals, without subjecting them to a rigorous review. Corruption can also be facilitated when planning permission and other approvals (such as environmental licenses) are awarded in none transparently.

2.3. **Corruption in Project Design** is facilitated when specifications are biased towards a particular technology or contractor; the project is over designed and thereby overpriced; the project is under-designed, leading to increased operations and maintenance (O&M) costs and thereby higher ‘life-cycle’ costs; and when the tender documents are confusing and thereby leading to opaque bid evaluation.

2.4 **Corruption in Prequalification and Tendering** is facilitated when decision-makers are biased; contractor selection procedures are non-objective or non-transparent; clarifications are not shared with all the bidders; and contract award decisions are neither published nor justified. Many stratagems can be used to hide the payment of bribes, including through an agent, a joint venture partner, or a subcontractor. In addition, contractors can collude to keep the costs of contracts high as well as to manage the bidding process to assure that bids are awarded to different contractors, under different contracts.

2.5 **Corruption in Project Implementation** During project implementation, there are many corruption opportunities. These include:

- **Concealing substandard work** (including bad workmanship or substandard materials) occurs frequently in infrastructure projects, which by their nature often involve concealment of work and materials (e.g. structural steel by concrete). This can be achieved by bribing checkers responsible for certifying the work before it is concealed. It bears noting that the impacts of the substandard work may not come to light until many years after the project completion.

- **Project delays** are endemic to infrastructure schemes due to adverse weather conditions, contract variations, subcontractor underperformance or defective materials. Depending on who is adjudged responsible for the delay, the contractor may have to pay liquidated damages to the client or the contractor may be able to obtain addition payments due to delay or disruptions caused by the client. Consequently, the person or organization responsible for deciding who is responsible for the delays (including their time and cost impacts) is vulnerable to bribery.

- **Agreeing to contract ‘variations’**. Contract variations occur frequently in infrastructure projects due to changes occurring in the scope of work after contract signature (including changes in the design and/or construction methods to correct design errors; and unforeseen ground conditions), which can also be due to changes requested by the client. Since contract ‘variations’ usually involve cost increases, which have to be agreed by the stakeholders, variations provide opportunities for bribery between the contractor and the client or his representative (architect or engineer)

- **Creating artificial claims**. For example, when a client agrees to a contract variation, a contractor may take advantage of the situation to exaggerate the cost
of the variation or the delay it causes. On the other hand, a client may create artificial claims against a contractor to lay the foundation for an exaggerated or false claim to be set off against sums due to the contractor.

- **Biased project supervision** by project architects and engineers can lead to incorrect decisions and inflated costs in relation to contract variations, project delays and concealing substandard work.

2.6. **Corruption in Project Operations and Maintenance.** Once a project is completed, long term contracts may be awarded for its operation and maintenance (O&M), especially for power plants (both hydroelectric and thermal) and high technology projects. Bribery may be used to influence the award of these contracts.

2.7. The level of O&M contracts may reflect corruption in the bidding phase (overspecification of a project, which may increase O&M costs) or in the construction phase (substandard construction may lead to increased repairs and maintenance). Where private-public partnerships are concerned, for example in the power sector, there are opportunities for bribery in relation to the negotiation of the power purchase and other agreements related to independent power projects.

‘Petty’ Corruption

2.8 As indicated in para. 1.2, ‘petty’ corruption can affect a wide number of transactions in a multitude of agencies. In infrastructure, the cumulative impacts of ‘petty’ corruption can be devastating in organizations such as power and water utilities. The following paragraphs discuss the impact of ‘petty’ corruption and ancillary issues on the performance of water utilities.

2.9. A major problem in the water sector is the poor performance by many utilities. Unaccounted-for water (UFW) is an important indicator of utility performance. A World Bank review of utility performance showed that typically in excess of 45% of the water managed by utilities is unaccounted for. The reasons for this extremely poor performance are technical (e.g. leakage from water distribution systems) or non-technical such as illegal connections and false meter readings (for lower bills), probably supported by corruption. Typically, ‘non-technical’ losses (also called Non-revenue Water – NRW) account for up to 50% of the UFW, i.e. up to 20% of the total water managed by the utility.

2.10. These problems are exacerbated by incomplete or tardy billing and collection. Corrupt practices are also frequently followed in ‘expediting’ requests for repairs and new connections. Overall, this picture is topped off by chronic utility overstaffing, unduly high financial working ratios and connection charges (which can also lead to ‘unauthorized’ connections) and poor service continuity. In sum, many water utilities provide an unacceptably low quality of service to their consumers at a high price. Many utilities are also managed in such a way that their financial viability is at risk, making it more difficult for them to generate the resources to maintain the physical infrastructure and obtain the information technology to manage effectively the customer billing cycle, compounding the probability of corruption.
C INSTRUMENTS FOR ADDRESSING ‘GRAND’ CORRUPTION

3.1. The instruments for addressing ‘grand’ corruption include: international conventions; National Integrity Systems (NISs); Integrity Pacts (IPs); and Business Principles to Counter Bribery (BPCB). These instruments are described below.

International Conventions Against Corruption

3.2. The following are the most important international conventions against corruption:

- **UN Convention Against Corruption**: (UNCAC), which came into force on December 14, 2005, has been signed by 140 countries and ratified by 52. The major features of the UNCAC include: Of all existing anti-corruption Conventions, the UNCAC has the most extensive provisions on the ways, means and standards for preventive measures in the public and private sectors; UNCAC calls for criminalization of a wide range of offences and contains a broad definition of the term public official. Moreover it includes offences relating both to public sector corruption and private sector (private-to-private) corruption; one of UNCAC’s most noteworthy aspects is that it elaborates an asset recovery framework for the first time on a global basis. The Convention also provides for an Implementing Mechanism; and

- The **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions** (‘The Convention’) together with the Revised Recommendations on Combating Bribery in International Business in International Business Transactions (‘The Revised Recommendations’) were adopted in 1997 by the OECD Members and associated countries. The OECD Convention imposes criminal sanctions on those convicted of bribing foreign officials to obtain business and provides for monitoring and evaluation through country peer reviews. By focusing on deterrence and prevention of foreign bribery, the Revised Recommendations complement the Convention. Since the Convention entered into force in 1999, the 36 Party countries have been monitoring participating countries’ implementation and enforcement of both the Convention and the Revised Recommendations.

An important issue for these initiatives is that they be inclusive (i.e. involve all the concerned stakeholders) and they be consistent in their requirements, especially of Governments.

3.3 According to an article by Williamson and Peel (2006), as part of its fight against bribery, OECD has recently published guidelines requiring companies seeking guarantees

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from export credit agencies (ECAs) of member countries to declare whether any of their staff have been charged or convicted of bribing foreign officials. Export credit guarantees could be withheld from applicants that made such an admission. ECAs are now also required to check blacklists of companies accused of corruption by the World Bank and other international financial institutions. Companies on these lists could be denied export credits. The article goes on to note that prosecutions under the OECD convention are still rare or non-existent in many jurisdictions. It was noted that the United Kingdom has yet to launch a single prosecution under the 2001 Act of Parliament aimed at explicitly outlawing bribery of foreign officials. This compares with the increased focus on corporate governance and the introduction of the Sarbanes-Oxley rules on financial disclosure in the USA and the resulting increased official anti-bribery activity.

National Integrity Systems

3.4. Institutional Pillars. TI developed the NIS concept, which takes as its starting point that a society becomes resistant to corruption when a whole series of institutions are present and functioning well. (See Pope, 2000). These include an elected parliament; an executive; an independent judiciary; the civil service; the enforcement agencies (including the police; the ‘watchdog’ agencies (Public Accounts Committee, Auditor-General, Ombudsman, Anti-Corruption Agency etc.), civil society (including the professional associations); the private sector; the media; and the champions of reform (including the international agencies); they are represented as pillars in Exhibit 2. The pillars are supported by the dual foundations of society’s values, including fairness, integrity, accountability and honest dealing, as well as public awareness. Finally, as Exhibit 2 shows, the goal is not the NIS itself, but rather good governance supporting the goals of the rule of law; sustainable development and the quality of life. In support of the NIS process, TI has undertaken diagnoses of the status of NIS in 57 countries, broken down as follows: Americas (16); Europe (9); Middle East and Africa (9) and Asia (23).

3.5. TI’s Tools to Enhance National Integrity. In its ‘Toolkit’ (2003), TI has developed a suite of tools to fight corruption and facilitate NISs. These include:

- **Awareness raising** tools (such as publications, advertisements, conferences and classes) to bring the corruption issue to the public’s attention;
- **Free and fair election campaigns** are a fundamental NIS pillar. TI chapters have developed tools to monitor media coverage and political spending and encourage accountability among the political parties.
- **Access to information** tools include developing materials for citizens on what to expect of government and how to get government services; and protection of whistleblowers, TI is involved in the Extractive Industries Transparency Initiative (EITI), which encourages extractive industry companies to disclose publicly their payments to all Governments, thereby facilitating effective monitoring of public expenditures,
- **Public institutions** tools focus on providing information to the public on government including the activities of legislatures, courts and local government.
- **Diagnostics** include TI’s Corruption Perceision Index - CPI (which documents a country’s reputation for honest practice) and the Bribe Payers' Index - BPI (which ranks the propensity of private enterprises in particular countries to pay bribes).
While the TI Secretariat (TI-S) publishes the international versions of these surveys, some of TI’s national chapters have undertaken surveys to document corruption at national and local levels.

In addition, TI’s Toolkit covers public procurement and business ethics, which are covered in the following sections.

### Exhibit 2. Pillars of Integrity

<table>
<thead>
<tr>
<th>National Integrity System</th>
<th>Public Awareness/Society's Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>Champion of Reform</td>
</tr>
<tr>
<td>Civil Society</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>Sustainable development</td>
</tr>
</tbody>
</table>

### Integrity Pacts

3.6. **Integrity Pacts** (IPs) are based on a tool, developed by TI in the 1990s, to help governments, the private sector and civil society organizations (CSOs) fight corruption in public contracting. They can be described under the following headings: process; rights and obligations; monitoring; and sanctions:

- **The Process** includes an agreement between a government, government department or utility and all bidders for a public sector contract.
- **Rights and Obligations**, set out in the contract are such that neither the government nor the contactors shall pay, offer, demand or accept bribes or collude with competitors to obtain the contract or during its execution. Also, bidders are required to disclose all commissions and similar expenses paid by them to anybody in connection with the project.
- **Monitoring** could be carried out by CSOs or by independent private sector individuals or companies, hired by the government, with the obligation to inform the public of any impropriety, which the contract parties are unwilling to correct. Alternatively, the government could commit itself to provide full...

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Further information in Integrity Pacts is set out in the TI document entitled “The Integrity Pact”, dated May 5, 2003, which is available under TI’s Integrity Pact and Public Contracting Programme.
public disclosure of all relevant data regarding the evaluation of competing bids;

- **Sanctions** will apply when violations occur. They can range from loss or denial of contract, forfeiture of bid or performance bond and liability for damages, to blacklisting for future contracts on the side of bidders, and criminal or disciplinary action against government employees.

3.7. **Applicability of Integrity Pacts.** IPs can be applied in the following situations:

- Selection of (architectural, engineering or other) consultants;
- Award of construction and supply contracts;
- Selection of a buyer/recipient of state property under a government’s state asset privatization program; or
- Selection of the beneficiary of a state license or concessions (such as for oil or gas exploration or production, mining, fishing, logging or other extraction rights) or for government-regulated services (such as power, telecommunications, and water supply utilities or garbage collection services).

To be comprehensive, the IP should cover all activities, from the beginning to the end related to undertaking a project to award of licenses or concessions. For example, for an infrastructure, the IP should cover all activities from the selection of consultants, undertaking feasibility or other preparatory studies; preparation of bidding documents; award of contract; right through to project implementation and handover to the client. It bears noting that 57 IPs have been put in place worldwide since 2003 of which 4 were in the water supply and sanitation sector; 5 were in the energy sector (including the power sector); 10 were in the telecommunications sector; and 11 were in the construction sector. Box 1 at the end of this paper sets out TI’s ‘Minimum Standards for Public Contracting’.

3.8. **An Example of an Integrity Pact** is the IP agreement between the Karachi Water and Sewerage Board and Transparency International Pakistan in relation to the award of contracts for the PAKISTAN: Greater Karachi Water Supply Scheme, Phase V, Stage II, 2nd 100 MGD, K III Project. As a result of a well-managed procurement process, including an IP, the total cost of contracts awarded, over the period 2002-2003 was 18.5% less than the cost estimate prepared under the Government of Pakistan. Further details on this project are provided in Box 2 at the end of this paper.
Exhibit 3: Results of Application of an Integrity Pact to the PAKISTAN: Greater Karachi Water Supply Scheme, Phase V, Stage II, 2nd 100 MGD, KIII Project

<table>
<thead>
<tr>
<th>Nature of Assignment</th>
<th>GOP Estimated Cost</th>
<th>Approved Contract Award</th>
<th>Saving Amount</th>
<th>Saving %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design and Supervision Consultants</td>
<td>248 Million</td>
<td>62 Million</td>
<td>186 Million</td>
<td>75.00</td>
</tr>
<tr>
<td>Construction Contracts</td>
<td>5286 Million</td>
<td>4448 Million</td>
<td>838 Million</td>
<td>15.85</td>
</tr>
<tr>
<td>Total</td>
<td>5534 Million</td>
<td>4510 Million</td>
<td>1024 Million</td>
<td>18.50</td>
</tr>
</tbody>
</table>


Business Principles for Countering Bribery

3.9. The Business Principles for Countering Bribery (BPCB) state:
- The enterprise shall prohibit bribery in any form whether direct or indirect; and
- The enterprise shall commit to implementation of a Programme to counter bribery.

These principles are based on a commitment to fundamental values of integrity, transparency and accountability. Enterprises shall aim to create and maintain a trust-based and inclusive internal culture in which bribery is not tolerated. A Program is the entirety of an enterprise’s anti-bribery efforts including values, policies, processes, training and guidelines.

3.10. The BPCB have been complemented by a suite of tools produced by TI to help companies wishing to implement the Business Principles or review their existing anti-bribery processes.

- A Guidance Document provides background on each section of the Business Principles, explains how to implement each Principle, answers frequently asked questions and gives examples of corruption and of good practice.
- The TI Six-Step Implementation Process (See the next exhibit) is a how-to guide for companies who wish to introduce an anti-bribery program within their organization. This tool is also available as an interactive electronic module.
- TI is currently developing a Self-Evaluation Module to assist companies in assessing their anti-bribery performance, which can also serve as the basis for external verification.

3.11. These documents have been field-tested with several focus groups and with managers and staff in three diverse corporate environments: BP Exploration Azerbaijan (multinational corporation operating in a transition economy); Tata Iron and Steel Company India (major national corporation in a developing country) and Sika AG Switzerland (medium-sized enterprise in a developed country). Both company executives and compliance managers found them to be comprehensive and realistic.

3.12. The objective of this program is not to get individual companies to adopt the Business Principles per se, but to provide a model or benchmark against which corporate
anti-corruption programmers could be assessed. A number of international corporate reporting initiatives and indices are using the BCPB as the standard for one of the criteria they use to evaluate company performance:

- FTSE4Good Index,
- UN Global Compact,
- Global Reporting Initiative (GRI)
- World Economic Forum (WEF) Partnering Against Corruption Initiative (PACI).

Through incorporation into recognized corporate reporting standards, anti-corruption programs are increasingly accepted as a normal part of good corporate governance. These important reporting initiatives are creating a strong incentive for companies to adopt adequate anti-bribery programs and the Business Principles offer the tools to help companies comply.
3.12. **Sectoral BPCB Agreements.** In April 2006, the TI Chapter in Colombia sponsored the signature of a sectoral antibribery agreement between 11 water pipe manufacturers, which is based on the BPCB. Largely self-financed by the signatories of the agreement, it is estimated that the existence of this agreement is leading to a decrease in tender prices of approximately 30%. A similar agreement was signed by nine water pipe manufacturers in Argentina in December 2005. The TI Chapter in Argentina was very instrumental in facilitating this agreement, including organizing a high-level workshop in Buenos Aires, in June 2005, which was attended by senior representatives of the industry as well as senior management and staff from the TI Chapters in Argentina and Colombia as well as from the TI Secretariat. The next steps are to extend this process to other Latin American countries, including Mexico and possibly Brazil.
D INSTRUMENTS FOR ADDRESSING ‘PETTY’ CORRUPTION

4.1. In reviewing the instruments that can be used to address ‘petty’ corruption, it is very illuminating to discuss them in the context of improving sectoral performance. The example discussed below is taken from the water sector.

Exhibit 5: Water Utility Performance: Where We Are and Where Can We Go

<table>
<thead>
<tr>
<th>Utility performance in a majority of developing countries</th>
<th>Currently recorded</th>
<th>Attainable levels*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaccounted-for water (UFW)</td>
<td>&gt;45%</td>
<td>&lt;25%</td>
</tr>
<tr>
<td>Staff /1,000 Connections</td>
<td>&gt;20</td>
<td>&lt;6</td>
</tr>
<tr>
<td>Bill Collection Period</td>
<td>&gt;18 months</td>
<td>&lt;3 months</td>
</tr>
<tr>
<td>Working Ratio</td>
<td>&gt;1</td>
<td>&lt;0.7</td>
</tr>
<tr>
<td>Connection Charges (%GDP/capita)</td>
<td>5-60%</td>
<td>&lt;20%</td>
</tr>
<tr>
<td>Service Continuity</td>
<td>&lt; 12 hrs/day</td>
<td>24 hrs/day</td>
</tr>
</tbody>
</table>

* Based on the performance of the top 23% of utilities in the data set.
Source: Jenssens (2005)

4.2. Exhibit 5 summarizes the current performance of water utilities, based on a worldwide survey; and compares the potential for performance improvement, based on the performance of the top 23% in the data base. In the short to medium term, the easiest problems that can be addressed are related to NRW reduction because it is not necessary to deal with buried infrastructure (piping) and high investment costs. An integrated approach to reducing NRW addresses key parameters of operational/financial efficiency as well as service and institutional sustainability (including demand management, capacity increases and financial flows) and the elimination/reduction of corruption.

4.3. Frequently, NRW and other water utility management issues can be addressed by outsourcing the management of the utility through a performance-based management contract (MC) (Marino, Stein and Wulff, 1998). The management contractor will be paid through a fixed fee with bonuses against baseline targets. Given the major institutional changes involved in implementing an MC, their acceptance by all the stakeholders (customers, staff, management and the Board) is essential. An effective external and internal communications strategy is essential. The World Bank is building up experience with existing or planned MCs in Africa, Asia and South America.

4.4. There are other efforts underway to use transparency to increase the effectiveness of water operations. The case of a water cooperative in Bolivia (Cosmol) has been described in the Magazine of the Interamerican Development Bank (IADB) where after new management came into place a “total transparency” policy regarding Cosmol’s
finances was announced. Detailed information about salaries, contracts, suppliers and revenues are available on request at Cosmol’s customer service office. It is quoted that Cosmol succeeded by emphasizing transparent accounting, democratic governance, and social services for its members.9

4.5. For revenue earning organizations in the network sectors (power telecommunications and water supply), there is also scope for adapting the BPCB, through focusing more on both extortion and bribery. The key requirement is for these organizations to demonstrate that they in place a comprehensive program to combat bribery and extortion including values, policies, processes, training and guidelines (See paras 3.6-3.10).

E THE WATER INTEGRITY NETWORK (WIN): EXAMPLE OF A SECTORAL COALITION TO COMBAT CORRUPTION

Objectives

5.1. The purpose of the WIN is to initiate and support pro-poor actions to combat corruption in the water sector. Detailed objectives of the Network include to: promote awareness and understanding of corruption issues related to water; research and disseminate effective anti-corruption information, methodologies and best practices relevant for organizations working in water; support practical actions and hands-on methods to fight corruption in water; develop monitoring mechanisms relating to corruption in water; and encourage governments, civil society, the private sector and all other interested parties to coordinate and work together against corruption in water.

Scope

5.2. The Network scope is to: develop the appropriate balance between advocacy work and concrete action; cover all aspects of water supply and sanitation and water resources management; and since corruption is a worldwide phenomenon, the network will be worldwide. Because of the interests of the founding members, many of the network’s initial activities are expected to be global in focus.

Membership

5.3. The membership of the WIN will be inclusive. It will be open to representatives of Governments; utilities; regulators; the private sector; the donor community; the Water and Sanitation Program of the World Bank; policy advice organizations including relevant agencies of the UN System and regional bodies; universities and research organizations; professional organizations; and civil society organizations.

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9 Constanze, Paul, A Water Service based on Trust, IDBAMERICA, June 2005
Network Organization

5.4. The WIN Secretariat will be hosted in the Secretariat of Transparency International (TI-S) in Berlin. The Secretariat will report to a Steering Committee elected by the Members.

Exhibit 6: Governance of the Water Integrity Network (WIN)
Activities

5.5. The network activities will include:
(a) Development of *Knowledge Products* including (I) a Water Sector Corruption Barometer; (II) a Generic Water Sector Anticorruption Toolkit; (III) a Global Corruption Report of Transparency International featuring the Water Sector; and (IV) a Network ‘Home Page;
(b) Testing of *New Anticorruption Tools and Methodologies*. There exists a broad repertoire of potential anticorruption measures and tools ranging from international conventions, national public sector reforms to more localized activities such as integrity pacts, codes of conduct (including the BPCB), report cards, and budget tracking that can be applied;
(c) Supporting *Startup Activities by Network Members*, primarily Southern Non-Governmental Organizations (NGOs); and
(d) Supporting *Network Dissemination Activities* including Conferences and Workshops.

F ISSUES

6.1. Three issues related to addressing corruption in infrastructure are discussed below. They are: addressing corruption on a sector specific basis; developing sectoral specific anti-corruption tools; and fitting civil society activities with the efforts of other reformers.

Can Reformers Address Corruption on a Sector-Specific Basis?

6.2. The work of TI indicates that incremental reform can be managed on a sectoral level as well as at the countrywide level. For example, the last two Global Corruption Reports have highlighted the anticorruption reform activities in the construction and health sectors. The special characteristics of network sectors (including power, telecommunications and water supply), where both ‘petty’ and ‘grand’ corruption issues are of major importance combined with the sector initiatives already underway (See para. 3.10), indicate that there are major benefits to taking a sectoral approach to corruption in infrastructure.

Can Reformers Develop Generic Sectoral Anti-corruption Tools?

6.3. There are a number of generic tools that have already been tested successfully in infrastructure, including the Integrity Pact and the Business Principles. In addition, under the WIN a number of additional tools (including awareness raising; access to information and diagnostics) will be tested in the water sector. It is important to note that the tools need to be adapted to the local circumstances.

How do the Efforts of Civil Society Fit with the Efforts of Other Reformers?
6.4. The approach of TI has always been to foster mutually reinforcing alliances to attack corruption on a broad front. For example through strengthening public awareness and based on the NIS model, TI strengthens all the pillars of national integrity. In a similar way, TI looks to other stakeholders for support of its activities in the fight against corruption in infrastructure. He following suggestions are made to indicate where international actors can play a very supportive role in combating bribery:

- In relation to the International Conventions Against Bribery, international actors can work to assure these conventions can be used as effectively as possible in fighting bribery, particularly in projects involving overseas contractors and suppliers; and
- In relation to the Integrity Pact, TI encourages export credit agencies (ECAs) and multilateral development banks (MDBs) to adopt them as a tool to avoid bribery, particularly in large infrastructure projects as well as to catalyze financing to support their implementation by other actors;
- In relation to the BPCB, international actors can support their increased adoption, particularly by export-oriented enterprises; and
- In relation to the WIN, international actors are encouraged join and provide financial support.
G   BIBLIOGRAPHY

General


Moody-Stuart, George, 2001. The Costs of Grand Corruption. Published by the Center for International Private Enterprise (CIPE), Washington, DC, USA.


Business Principles for Countering Bribery

Ti Initiatives


Partnership Initiatives


National Integrity Systems

**Public Contracting**


**Other Transparency International Reports**


**Infrastructure Documents**


**Water Sector Documents**


**Web References**


The Organization for Security and Co-operation in Europe (OSCE), based in Austria, is a pan-European security body whose 55 participating States. The website currently shows 230 publications on corruption and 120 on “water and corruption” in transition and former eastern block countries. Hardcopies, including its interesting toolkit are sent free of charge.

Public Contracting: http://www.transparency.org/global_priorities/public_contracting


The TI Source Book: http://www.transparency.org/sourcebook/index.html

The TI Toolkit: http://www.transparency.org/toolkits/index.html

UN Convention Against Corruption: http://www.unodc.org

UN Global Compact: http://www.globalcompact.org
Box 1

Transparency International’s Minimum Standards for Public Contracting

Transparency International’s Minimum Standards for Public Contracting provide a framework for preventing and reducing corruption based on clear rules, transparency and effective control and auditing procedures throughout the contracting process. The standards focus on the public sector and cover the entire project cycle, including needs assessment, design, preparation and budgeting activities prior to the contracting process, the contracting process itself and contract implementation. The standards extend to all types of government contracts, including:

- procurement of goods and services
- supply, construction and service contracts (including engineering, financial, economic, legal and other consultancies)
- privatizations, concessions and licensing
- subcontracting processes and the involvement of agents and joint-venture partners.

Public procurement authorities should:
1. Implement a code of conduct that commits the contracting authority and its employees to a strict anti-corruption policy. The policy should take into account possible conflicts of interest, provide mechanisms for reporting corruption and protecting whistleblowers.

2. Allow a company to tender only if it has implemented a code of conduct that commits the company and its employees to a strict anti-corruption policy.

3. Maintain a blacklist of companies for which there is sufficient evidence of their involvement in corrupt activities; alternatively, adopt a blacklist prepared by an appropriate international institution. Debar blacklisted companies from tendering for the authority’s projects for a specified period of time.

4. Ensure that all contracts between the authority and its contractors, suppliers and service providers require the parties to comply with strict anti-corruption policies. This may best be achieved by requiring the use of a project integrity pact during both tender and project execution, committing the authority and bidding companies to refrain from bribery.

5. Ensure that public contracts above a low threshold are subject to open competitive
bidding. Exceptions must be limited and clear justification given.

6. Provide all bidders, and preferably also the general public, with easy access to information about:
   • activities carried out prior to initiating the contracting process
   • tender opportunities
   • selection criteria
   • the evaluation process
   • the award decision and its justification
   • the terms and conditions of the contract and any amendments
   • the implementation of the contract
   • the role of intermediaries and agents
   • dispute-settlement mechanisms and procedures.
Confidentiality should be limited to legally protected information.
Equivalent information on direct contracting or limited bidding processes should also be made available to the public.

7. Ensure that no bidder is given access to privileged information at any stage of the contracting process, especially information relating to the selection process.

8. Allow bidders sufficient time for bid preparation and for pre-qualification requirements when these apply. Allow a reasonable amount of time between publication of the contract award decision and the signing of the contract, in order to give an aggrieved competitor the opportunity to challenge the award decision.

9. Ensure that contract ‘change’ orders that alter the price or description of work beyond a cumulative threshold (for example, 15 per cent of contract value) are monitored at a high level, preferably by the decision-making body that awarded the contract.

10. Ensure that internal and external control and auditing bodies are independent and functioning effectively, and that their reports are accessible to the public. Any unreasonable delays in project execution should trigger additional control activities.

11. Separate key functions to ensure that responsibility for demand assessment, preparation, selection, contracting, supervision and control of a project is assigned to separate bodies.

12. Apply standard office safeguards, such as the use of committees at decision-making points and rotation of staff in sensitive positions. Staff responsible for procurement processes should be well trained and adequately remunerated.

13. Promote the participation of civil society organizations as independent monitors of both the tender and execution of projects.
Box 2

Application of an Integrity Pact to the PAKISTAN: Greater Karachi Water Supply Scheme, Phase V, Stage II, 2nd 100 MGD, KIII Project

The Process

Following an invitation, dated April 13, 2001, by the Managing Director of the Karachi Water and Sewerage Board (KW&SB) to Transparency International Pakistan (TI – Pakistan) ‘to establish procedures which should be built to include the Integrity Pact (IP) for Transparency in Public Procedures with in the KW&SB’ , the Board and TI-Pakistan agreed to implement the IP in the Greater Karachi Water Supply Scheme (the K-III Project), with an estimated cost of Pak Rupees (PRs) of more than six billion.

The KW&SB implemented a multi-phased approach in close consultation with TI-Pakistan:
(a) An IP, developed by TI-Pakistan, was signed between the KW&SB and all the participating consultants and contractors in the K-III Project;
(b) Based on the IP, in July 2002, KW&SB awarded the consultancy contract of PRs 62 Million. This compares with the estimated cost of PRs 248 Million, thereby providing net savings of about PRs 186 Million or 75%;
(c) The selected consultants agreed to work with the KW&SB in following transparent procedures in the award of the construction contracts to undertake the K-III project and the consultant contract included the TI-Pakistan Integrity Pact; and
(d) Tendering for the K-III construction contracts was concluded in September 2003 and all major construction contracts were awarded at a total cost of PRs 4448 Million compared with the estimated cost of 5286 Million. The awarded contracts varied between 31.5% and 8% below the estimated costs. Total savings in the construction contracts were 15.85% of the estimated cost.

Lessons Learned

Among the lessons learned included:
(a) In the process of tendering for the engineering services and works, the KW&SB, with the support of TI-Pakistan, fully implemented the procurement standards developed by the Pakistan Engineering Council;
(b) The project tendering was reorganized by reducing the number of packages from 18 to 8. This arrangement facilitated the work load of the bidders; speeded up the process of tender awards and enhanced the ability of the KW&SB to monitor the awarded contracts; and
(c) The role of the MD of the KW&SB was critical in assuring that the contract awards were followed transparent and merit-based tendering. During the entire process, including prebid meetings, bid evaluation and contract award, no negotiations were held to change the contract stipulations, scope of work, or reduction of contract prices.