

5 Detecting Corruption at the Provider Level

Corruption at the provider level can take a number of forms. The most obvious form is public utility staff simply taking company property or other things of value. This form of corruption does occur, but is also generally more obvious, and so perhaps easier to detect and deter, particularly where substantial value is misappropriated. Thus it is generally easier for staff or officials to capture the utility's resources at the point where those resources have been transferred into private hands outside the utility, than it is to steal them from the utility directly. Sector practitioners therefore need to look for various forms of provider level corruption other than direct theft.

This section of the Sourcebook discusses corruption risk in electricity sector operations. By operations we mean:

- Operations proper—generating, transmitting and distributing electricity
- Maintenance—whether of generation, transmission, or distribution assets
- Commercial functions (sometimes referred to as “retail”, or “supply” functions). These include new connections, metering, billing, and collecting money from customers.

Corruption hot spots in these areas include:

- Fuel procurement
- Procurement of other suppliers and contractors
- Commercial operations.

5.1 Fuel Procurement

Fuel procurement is a corruption risk in any sector with a state-owned generator or vertically integrated utility. Fuel costs typically account for around 50 percent of the total cost of generation, and over 25 percent of the final delivered cost of electricity. Thus any cost inflation from corruption in fuel procurement can have a large impact on the cost of electricity to end users, with flow on effects for businesses and the wider economy. On the other hand, if the costs of corruption in fuel procurement are not fully passed on to consumers, the electricity utility's financial performance may deteriorate substantially leading to poor services for consumers, as in Sierra Leone (see Box 11.2 on page 148).

Other situations in which fuel costs may be passed through to consumers—such as in IPP contracts with fuel-pass-through—may also be vulnerable to this type of corruption, since under these contracts a government agency remains responsible for procuring the fuel for the privately operated power plant.

There are broadly two mechanisms for corruption in fuel supply:

- Manipulation of the award of fuel supply contracts
- Theft of fuel for resale.

5.1.1 Corruption in the award of fuel supply contracts

Officials or managers who can influence the award of a fuel supply contract may obtain a kickback of the percentage of the contract value from the successful supplier (see Box 5.1

for a definition of “kickback”) in exchange for awarding the contract. To fund the kickback, the fuel supplier provides fuel that is worth less than the price it charges the utility, by

- Inflating the price of the fuel
- Supplying fuel that does not meet quality specifications
- Supply a lower volume than the utility paid for.

Figure 5.1 in the next section illustrates this mechanism.

Box 5.1: Defining Bribes, Kickbacks, and Bid Rigging

For the purpose of the discussion in this section, we use the following definitions:

- “Bribes” are payments to an official or utility staff member, paid in advance in return for a promise to act in a certain way. (For example, award a supply contract to a particular firm, or install a connection within a particular timeframe)
- “Kickbacks” are similar to bribes, but are paid after the fact, for example once the supply contract has been awarded to a particular firm
- “Bid rigging” occurs where officials or managers rig or interfere with the contract award to favor a particular bidder, or bidders (usually in return for a bribe or kickback payment).

Alternatively, officials who work in the sector may own a fuel supplier, and may use their influence and relationship to ensure the utility awards the contract to their company. The supplier then uses the above strategies to misappropriate value from the utility, which the official who owns the supplier pockets. (Under this scenario, the supplier may still need to pay a bribe or kickback to other officials or utility staff, to keep them from reporting the corruption.)

This form of corruption is similar to corruption in relationships with suppliers and contractors more generally (see Section 5.2 below) and to corruption in capital projects (see Section 6).

5.1.2 Misappropriation of fuel

An alternative form of corruption involves direct theft of fuel from a public utility, typically for resale. This can involve either theft by utility staff, or theft by a third party who bribes staff members to fail to report the theft (see Box 5.2).

Box 5.2: Stealing Fuel from State-Owned Power Companies in India

In India state-owned coal companies supply coal to state-owned power companies. The coal is transported by government-owned railways. The fuel is stolen at various points along the way. For example, people climb on the train when it is going up an incline and shovel out the coal, for later collection by hand from the side of the line. There are allegations that railway staff are paid to turn a blind eye to this. At other points--whether at the mine, or in transit, coal may be taken by employees of the government companies in quite an organized way. Because the coal is weighed at various points to protect against theft, the thieves will replace the stolen coal with an equivalent amount of rock. This is much worse for the utility than if they simply took the coal. The reason for this is that on

arrival at the plant the coal is generally crushed so it is easier to handle and burns more evenly. However, when the rocks go through the crushing machine, they tend to break it. Lessons of this story include:

- Where the power plant is an integrated part of a government-owned energy industry, corruption in the upstream organizations can affect the power sector just as badly as corruption in the power sector itself
- People's ingenuity in stealing even a relatively low value fuel like coal knows no bounds. It can be hard for outsiders to conceive of the way in which this takes place
- Simple attempts to detect--and so deter--such corruption can be counterproductive, simply diverting the corrupt behaviour into other, possibly more harmful channels.

Source: Personal communication from a manager at an Indian State Electricity Board

5.1.3 Indicators of corruption in fuel procurement

In general, it is good practice for a power utility is to award fuel supply contracts through competitive tenders, and to retender these contracts at relatively frequent intervals—for example, on a quarterly, six-monthly or annual basis, depending on the quantity of fuel to be provided. The term of the supply contract, and whether it is fixed or indexed (against the price at a hub like Singapore or Rotterdam, for example), is generally determined in line with the regulatory regime for passing fuel costs through to consumers. The degree of competition for provision is also an important factor—for example, in some small countries such as Tonga, fuel storage facilities are limited so a single oil company has an effective monopoly on fuel provision.

In principle competitive tender processes should reveal the lowest cost supplier, and make instances of corruption easier to detect. In practice, corrupt officials may seek to manipulate the tender process.

Indicators or “red flags” of corruption in fuel procurement include the following:

- Fuel costs which are high compared to costs achieved by other purchasers of the same fuel in the same country, or in nearby countries
- Reluctance on the part of utility manager to retender the supply contract, or repeated extensions of the contract
- Utility managers insisting on the use of a particular supplier
- Unusual or unexplained delays in the procurement process (these delays may be to allow utility managers to canvas bidders to attempt to extract bribes or kickbacks)
- Utility managers responsible for fuel procurement living beyond their means
- Reports of close association or socializing between utility managers and fuel supplier staff, or reports of gifts or gratuities to utility managers
- Disqualification of firms bidding for the fuel supply contract for dubious reasons
- Unjustifiable disqualification of the bidder offering the most responsive proposal, or a recommendation to award the supply contract to a firm other than the lowest priced firm, without adequate justification

- Unreasonable pre-qualification requirements for the tender, that appear to exclude legitimate suppliers
- Bid prices drop when new bidders begin to participate in tenders
- Selection of a low priced bidder, followed by a change order increasing the price or reducing the volume of fuel to be supplied.

5.2 Suppliers and Contractors

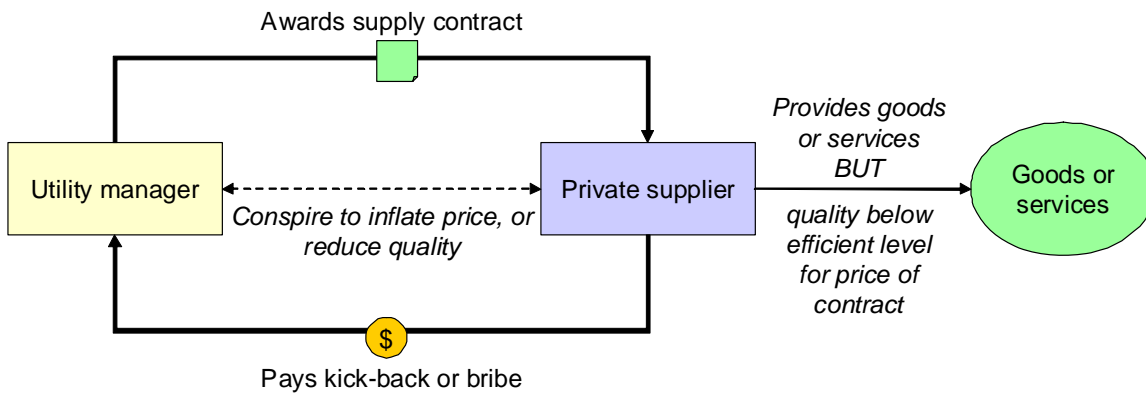
Similar corruption mechanism to those described above in relation to the award of fuel supply contracts may apply in the supply of *any* goods or services to a publicly-owned utility. A recent survey of corruption in the electricity sector summed up the problems of corruption in supply and contracting as follows

Despite elaborate rules and procedures in most utilities, procurement of equipment, spare parts, and consumables is vulnerable to corruption for many reasons. The technology is growing more complex, and utility managers making decisions about a tender are generally one step behind private contractors and suppliers who are able to access better technical expertise. Procurement managers may deliberately keep the technical specifications and the bidding documents ambiguous, impose unrealistic schedules on the bidding process and contract execution, and use subjective or nontransparent qualification and evaluation criteria for the bidders. During contract execution, the certification of quality, delivery, and stage payments also offer opportunities for corruption.¹¹

Figure 5.1 illustrates this mode of corruption. A utility manager with influence over the procurement process awards the supply contract to a particular supplier, in return for a kickback. This arrangement results in inflated prices for the goods or services supplied, given the quality or volume actually provided. The utility manager may capture the resources for personal gain, or may divert the resources to benefit his or her political party.

¹¹ Gulati, M. and Rao M.Y. “Corruption in the Electricity Sector: A Pervasive Scourge” in Campos, J. and Pradhan, S. (2007) *The Many Faces of Corruption: Tackling Vulnerabilities at the Sector Level*, Washington, DC: The World Bank, page 130

Figure 5.1: Corruption in Procuring Suppliers and Contractors



Box 6.4 on page 79 describes a range of practices that can indicate corruption in procurement processes. While the focus of those examples is on procuring capital works, similar problems can arise in procurement more generally.

5.2.1 Lack of competitive bidding and poor process

A lack of competitive bidding could indicate preferential treatment to particular suppliers. Warning signs include multiple sole sourced contracts, or multiple contracts let just below thresholds for competitive procurement. Another sign may be a few suppliers receiving most of the contracts, especially if awards appear to be “rotated” among suppliers, or if other reputable firms are being excluded.

Poor processes could be due to incompetence, or could be due to corrupt officials influencing the bidding process to favor a particular set of bidders. Examples of poor process include:

- Unexplained delays in the procurement process
- Unreasonable prequalification requirements
- Unjustifiable disqualification of the winning bidder
- Selection of the lowest bidder followed by changed orders increasing the price, or changing the specs, or reducing the quality or volume of goods and services.

A useful tool for detecting corruption in the utility’s procurement of goods and services is to conduct regular bid reviews, to look for corrupt patterns in supply contract awards (see Section 6.2.1 for more detail on this approach).

5.2.2 Numerous suppliers

Large numbers of suppliers also can indicate corruption in procurement. For example, many of the suppliers may not be legitimate, but may be “fronts” that provide an avenue for utility staff to transfer utility funds to themselves or others, or they may actually be controlled by a single firm.

5.2.3 Problems with quality

Poor quality can also be symptomatic of fraud in the award process. If a service contractor (for example a maintenance contractor) misrepresented the qualifications of the firm or its staff in bidding for the work, it may seek to prevent proper inspections, or may pay relevant officials to ensure inadequate supervision.

An equipment supplier may be contracted to provide goods, say concrete pylons, to meet agreed engineering specifications and then actually supply pylons that do not meet the specification (and are lower value). The supplier would pay a kickback to relevant utility staff. Suppliers or utility staff (or both) may also attempt to falsify quality tests to prevent detection of any disparity between the contract specifications and quality of the goods supplied.

5.2.4 High unit prices

If the cost of inputs is unreasonably high this may be due to corruption. The supplier may inflate unit costs and kick some or all of the extra profit back to the officials awarding the supply contract.

The best way to assess whether unit costs are high is compare them against unit costs in bids for the same products

- From other (private) firms in the same country
- In other countries in the same region.

5.3 Commercial Operations

The commercial function is where the electricity sector interacts with the final customer. This function involves providing connections, metering consumption, billing customers, and collecting money from them. In disaggregated sectors this may also be referred to as the “retail” or “supply” function.

Corruption is a risk in the commercial function of any publicly-owned electricity provider. Corruption in connections and commercial operations involves employees and officers of the utility extracting money from utility customers for their private benefit. Sector practitioners need to distinguish this form of corruption from commercial losses caused by customer action **without** involvement by utility staff. For example, if a customer makes an illegal connection to the system, or tampers with the meter to make it under-register, this is theft by the customer but not corruption. It only becomes corruption if the utility’s staff is knowingly involved and benefiting from the activity.

Mechanisms for corruption in the commercial function include:

- Side payments for connection
- Side payments for under-billing
- Side payments for writing-off debts or recording fictitious payments
- Side payments for not enforcing collection.

5.3.1 Side payments for connection

Utility staff may extract side payments for providing connections in a number of ways, including:

- Demanding bribes to install connections (or to install connections within a reasonable timeframe)
- Turning a blind eye to illegal connections in return for payment.

Box 5.3: Payments or Gifts for Electricity Connections—Data from the Enterprise Surveys

The World Bank’s Enterprise Surveys collect data on delays in obtaining electricity connections. Of the countries covered by the Enterprise Surveys, businesses in 72 countries have reported that they expect to give gifts or informal payments in order to get a new electricity connection. The proportion of businesses reporting this expectation range from 0.99 percent in South Africa to 75 percent in Syria.

Source: <http://www.enterprisesurveys.org>

In some cases, organized groups may provide illegal connections to users in return for payment, with collaboration from utility staff. In return, the organized group would provide a kickback of some sort to the utility staff or officers involved.

5.3.2 Side-payments for under-billing

Users may pay utility staff or officers to understate their consumption for billing purposes. This can include understating actual consumption, or tampering with the metering or billing system, for example:

- Paying a meter-reader to under-report metered consumption (see Box 5.4 below)
- Paying a utility employee or contractor to tamper with the meter, or in some other way cause under-registration of actual consumption
- Paying a utility employee to drop a customer from the billing system
- Where an illegal connection has been discovered, bribing a utility employee to fail to regularize that connection (so the user can continue to steal electricity from the utility).

Box 5.4: Under-reporting Consumption

The state-owned Baku Electricity Company in Azerbaijan reported a household payment collection rate of 12 percent in the second half of 1999, despite employing 1,000 meter readers and payment collectors. Only part of the payments collected were officially recorded, but consumers did not seem to mind, since the meter readers in return allegedly reduced their reported consumption by 50 percent. The indifference of the consumers was replaced by anger, however, when the low payment collection rate repeatedly led to electricity blackouts due to the lack of fuel at power stations.

Source: Lovei, L. and McKechnie, A. “The costs of corruption for the poor”. Energy Services for the World’s Poor. Chapter 8.

A Transparency International survey of users' experience of corruption in the power sector in countries in South Asia found that meter readers and billing officers were among the sector actors most frequently involved in corruption in the electricity sector.

Box 5.5: Corruption in the Power Sector in South Asia

A survey of corruption in South Asian countries carried out by Transparency International found that power consumers faced endemic petty corruption. The survey found that more than 60 percent of the electricity users surveyed reported irregular connection processes, and that direct payment to office staff was the dominant irregular practice. Bribes paid to get a proper supply, and overbilling, were the most common forms of corruption, with meter readers and linesmen identified as the key facilitators by means of direct extortion (see table below). Users considered the power suppliers' lack of accountability and monopoly of service provision to be the major contributors this corruption. The table below shows the main actors identified as engaging in corruption.

Major Actors in Power Sector Corruption

	Bangladesh	India	Nepal	Pakistan
Meter Readers	26	23	24	36
Billing Employee	07	22	22	24
Officers	20	24	13	12
Linesmen	12	37	36	09
Repairmen	—	05	—	01
Electricians	—	07	—	03
Other	—	—	—	03

Notes: Table shows percentage of respondents reporting corruption with each type of actor. Multiple responses were permitted.

Source: Transparency International

5.3.3 Side payments for tampering with the accounting system

Customers may bribe utility employees to amend a customer's record in the utility's financial system by:

- Wiping any debts recorded against the customer's account
- Entering false payments.

5.3.4 Side payments for not enforcing collection

Staff sent to disconnect a customer may accept payment for leaving the customer connected, while reporting back to the utility that the disconnection has been done.

5.3.5 Detecting corruption in connections and commercial operations

Indicators of corruption risk here include:

- **Long waiting lists for connections:** If utility staff demand bribes in order to provide connections, then potential customers unable or unwilling to pay the

bribe will remain on the waiting list. A long waiting list increases the values to customers of by-passing the waiting list, and hence the willingness of the public to pay bribes

- **High levels of non-technical losses:** This may indicate that utility staff are allowing high numbers of illegal connections to persist, or may be due to persistent under-recording of users' consumption. Studies have shown that corruption in the electricity sector manifests itself in high non-technical energy losses, for example due to high levels of unauthorized connections, and low rates of revenue collection (see for example Smith, 2004)
- **Billing and collection systems that are disorganized:** Poorly organized billing and collection systems may be simply due to incompetence. However, disorganization could mask tampering with the billing system or under billing
- **Utility unable to link billing system to accounting system:** Outputs from the billing system (such as figures for kilowatt hours sold, revenue, and accounts receivable) should equal the corresponding numbers in the accounting system. Ideally, a utility's billing and accounting systems should exchange information to check that this is the case. If numbers in these two systems consistently do not match, or if the utility appears reluctant or unable to link these two critical systems, this could be an indication that corruption is taking place
- **Qualifications in audit reports as to revenue and receivables figures:** for example to reflect unexplained discrepancies between the financial statements and the utility's billing system
- **High levels of receivables:** High levels of receivables may indicate that utility staff are failing to enforce collection, possibly in return for bribes
- **Low collection ratios:** Collection ratios are the ratio of actual revenue collected to total sales billed. If the ratio is low, this indicates a significant failure by the utility staff to collect bills. This could be due to corrupt activity, such as writing off debts in the billing system, recording false payments, or failure to enforce collection, in exchange for payment from customers (see Smith, 2004).

Box 5.6 below explains the importance of organized billing and collection systems for electricity utilities, and how this can be corrupted.

Box 5.6: Theft of Electricity in State-Owned Power Utilities

State-owned power utilities that suffer from power theft are generally slack in measuring and billing for electricity. Generally, power from the generating plant is measured and delivered to the high-voltage transmission network at the grid substation. This power is then stepped down at distribution substations and released into distribution feeders. It is often at the distribution substations that the first major theft of power takes place. All substations should have meters to measure the flows of energy into the feeders, but these meters are often erratic and unreliable. Replacement of defective meters is deliberately delayed, with utility officials citing various problems such as lack of finances, need for "bulk purchase" to obtain competitive rates, and elaborate tendering procedures. There is anecdotal evidence in some countries that utility employees and their union leaders

steadfastly resist efforts to put meters on feeders.

Measuring the energy received and sold is the starting point in curbing power theft. Not many utilities have reliable reporting and monitoring systems, however. As a result, there is usually no way of reconciling the energy received against energy billed against the amount paid by customers.

Example from India: Who Wants Accountability?

One distribution utility in India took a series of steps to tighten procedures and plug the leakage of revenue. Metering was given high priority on this agenda. Utility staff enthusiastically supported the purchase of about 400,000 meters to be installed in consumer premises. The process of drawing up specifications, issue of tender notices in newspapers, choice of turnkey contractors, and visits abroad to inspect the meters before they were shipped was completed promptly. But when it came to buying about 600 meters to be installed at the feeders, troubles started. Unions of linemen and section officers saw the step as a move to victimize their members by making them specifically responsible for the energy received and sold. They argued that accountability should be ensured across the utility at all levels and not confined to a few low-level employees. It took the utility another two years and a change in the management to get all the feeders metered.

Source: Gulati, M. and Rao M.Y. "Corruption in the Electricity Sector: A Pervasive Scourge" in Campos, J. and Pradhan, S. (2007) *The Many Faces of Corruption: Tackling Vulnerabilities at the Sector Level*, Washington, DC: The World Bank, page 127–128

Table 5.1 lists some of the main ways in which people steal energy from electricity systems, while Table 5.2 provides some areas vulnerable to corruption in commercial operations.

Table 5.1: Vulnerability to Corruption: Theft of Fuel and Electricity

Activities	Mode of Theft	Possible Beneficiaries of Corruption
Generation	<ul style="list-style-type: none"> ▪ Theft of fuel camouflaged as auxiliary consumption in thermal generation plant ▪ Unauthorized use of fuel or electricity in the homes of generation plant staff 	<ul style="list-style-type: none"> ▪ Staff of the generation plant ▪ Labor union leaders
Transmission	<ul style="list-style-type: none"> ▪ Tapping of overhead transmission lines by large consumers ▪ Defective meters 	<ul style="list-style-type: none"> ▪ Large consumers ▪ Politicians ▪ Bureaucrats ▪ Utility managers ▪ Transmission line staff
Distribution	<ul style="list-style-type: none"> ▪ Tapping of distribution lines ▪ Unauthorized supply of energy ▪ Organized resistance to paying for electricity ▪ Non-billing and under-billing of energy ▪ Tampering with or bypassing meters ▪ Billing the consumer at a lower rate 	<ul style="list-style-type: none"> ▪ Consumers ▪ Distribution utility staff ▪ Consumers ▪ Utility managers ▪ Distribution utility staff ▪ Labor union leaders ▪ Politicians ▪ Groups of consumers acting in concert (farmers, industries, residential areas, and the like) ▪ Local mafia with political protection ▪ Consumers ▪ Billing staff ▪ Consumers ▪ Linemen ▪ Consumers ▪ Billing staff ▪ Utility managers

Source: Gulati, M. and Rao M.Y. "Corruption in the Electricity Sector: A Pervasive Scourge" in Campos, J. and Pradhan, S. (2007) *The Many Faces of Corruption: Tackling Vulnerabilities at the Sector Level*, Washington, DC: The World Bank, page 127

Table 5.2: Vulnerability to Corruption: Customer-Interfacing Activities

Activities	Areas vulnerable to corruption	Red flags
New connection, additional load	<ul style="list-style-type: none"> ▪ Information on procedure not clear or not available ▪ Harassment by utility staff. 	<ul style="list-style-type: none"> ▪ Undue delays in giving connections ▪ Lack of periodic data reconciliation between new connections, meter reading book, and consumer ledger.
Meter reading	<ul style="list-style-type: none"> ▪ Poor quality of meters ▪ Irregular meter reading. 	<ul style="list-style-type: none"> ▪ Tampered-with meters ▪ Meters not tested according to norms ▪ Wide variations in consumption by similarly placed consumers ▪ High electricity losses in some feeder lines ▪ High incidence of broken meter seals.
Payment and correction of bill	<ul style="list-style-type: none"> ▪ Errors in bill ▪ Collusion between utility staff and consumer ▪ Billing based on factors other than actual use (such as average consumption or load factor). 	<ul style="list-style-type: none"> ▪ High incidence of billing disputes or bill corrections ▪ Fall in collection while consumption remains the same.
Repair service, fuse call	<ul style="list-style-type: none"> ▪ Supply interruptions caused by accidents ▪ Routine maintenance work. 	<ul style="list-style-type: none"> ▪ Poor maintenance of complaints record ▪ Undue delay in attending to complaints ▪ Frequent burning of transformers.
Meter installation, replacement of defective meters	<ul style="list-style-type: none"> ▪ Inadequate protection devices for meters ▪ Delay in issuing and installing meters. 	<ul style="list-style-type: none"> ▪ High volume of complaints regarding quality of service ▪ High incidence of burnt meters of large consumers (who may be charged a flat rate for consumption during the period the meter is not replaced).
Disconnection	<ul style="list-style-type: none"> ▪ Nonpayment of bill ▪ Delay in receipt of bill ▪ Pilferage by consumer. 	<ul style="list-style-type: none"> ▪ High level of receivables ▪ Frequency and amount of default in bill payment.
Reconnection	<ul style="list-style-type: none"> ▪ Delay even after rectification of cause of disconnection. 	<ul style="list-style-type: none"> ▪ High incidence of deviation from the normative standards of service.

5.4 Human Resources

"Human resources" encapsulates the way the utility deals with its staff. This includes processes for hiring, firing, setting and amending pay and conditions, undertaking performance assessments, providing incentives for staff, assigning work, deciding on promotions and movement between different positions within the utility. Essentially this comes down to processes for setting the level of effort or value employees are to provide to the utility, and the salary and other benefits the employees receive in return. (Other benefits can include the level of seniority, or level of managerial discretion individual employees have, which in turn can offer them opportunities to benefit from corrupt activity).

Staff salaries are a source of value within a utility, and can be diverted for personal financial gain, or for financial gain of family members or political supporters. This form of corruption is difficult to detect as

- Utility management tends to treat salaries as a bulk expense item
- Management often has high discretion over recruitment.

These two factors make it difficult for outside observers to review recruitment methods, or to see whether at the individual level the value of salary payments is appropriate given visible outputs. That is, is the amount and value of work an individual does for the utility worth what that person is paid?

Typical avenues for corruption in human resources include:

- **Ghost workers:** These are people—real or fictitious—who are on the payroll and receive a salary, but do not actually do any work for the utility. Utility or union officials collect the salary notionally paid to the "ghost"
- **Stand-ins:** Using a stand-in is similar to the ghost worker method. In this case, someone who is on the utility's payroll does not himself do any work for the utility, but pays someone else to work in their stead. The "owner" of the job makes a margin on the difference between what he is paid and what he pays the stand-in
- **Job-selling:** This is similar to a stand-in—someone who is on the utility's payroll sells their job to someone else. The "purchaser" of the job does the actual work and receives a salary, but pays some of that salary back to the "seller" of the job
- **Payment for hiring or promotion:** Managers in the utility with the right to hire, promote, or fire people (or with influence over these decisions) demand payments from staff in return for using this influence. The payment could be in return for recruitment, for a promotion, or simply for keeping the staff member on. This may be a one-off payment, or may be arranged as a continuing contribution of a percentage of that staff member's weekly or monthly pay check. A variant of this form of corruption is a staff member paying relevant managers to be transferred

to a post that offers that individual greater opportunities to engage in corruption themselves

- **Staff used for non-utility business:** Senior utility officials may use utility staff to work on that official's own personal or business projects, rather than on utility business. This is equivalent to diverting other company resources such as inventory or money for that official's personal benefit.

Box 5.7: The Market for Transfers

Davis (2003) found a sophisticated market for transfers in a number of South Asian water sector utilities, which has developed from a common policy of transferring professional staff every two to three years. Staff pay to secure a transfer to a desirable post. In most cases the payment was made to politicians or unelected local leaders, who would use their influence with senior officials (and possibly share part of the fee) to secure the transfer. Very few staff in Davis's study reported paying their superiors within the utility for a transfer.

Davis found that staff had sophisticated methods for estimating the value of a particular post (its extra-salary revenue generating potential), and therefore the maximum amount they were prepared to pay to secure the transfer. She found that "in state-level agencies where the range of possible transfers is comparatively larger, a 'plum' post (e.g., to a construction division within a desirable geographic location) costs the equivalent of four months' salary. The price of a position in construction or procurement located in a less desirable part of the state was 2.5 months' salary."

As well as cash payments, staff provide favors for in exchange for influence. Davis reports that "one mid-level engineer described his authorizing water supply connections to a group of households on unregistered land (where public services are prohibited by law) in exchange for an assembly member's assistance with a transfer request. Another said that he provided several tankers of water without charge to a wedding celebration for a local leader, who in turn helped the staff member keep his post for a period beyond the typical three-year transfer threshold. Interviews with staff suggest that this form of exchange is more common than direct payments to influential individuals for their assistance with transfers." While this example is from the water sector, issues are similar in state-owned electricity companies.

Source: Davis, Jennifer "Corruption in Public Service Delivery: Experience from South Asia's Water and Sanitation Sector" *World Development* Vol. 32, No. 1, 2004. See page 60.

5.4.1 Detecting corruption in human resources

Sector practitioners can use several methods to assess corruption risk in the area of human resources. These include:

- Benchmarking against other similar utilities
- Reviewing available utility specific information
- Externally auditing or reviewing staff positions.

Benchmarking

Benchmarking human resources expenditure measures and staff efficiency measures against comparable utilities in similar countries can help to highlight any significant problems. Indicators to benchmark include:

- Number of staff per connection
- Proportion of utility costs spent on salaries.

If the utility performs poorly on either of these measures relative to other similar utilities (that is if both measures are relatively high), this can simply be due to inefficiency. However, it *may* be an indication of human resources corruption. For example, widespread use of ghost workers would increase the number of positions on the payroll for a given level of output, thus inflating both of the above measures. Similarly, if senior officials regularly divert staff time away from utility business to their own personal or business projects, this will reduce the utility's output for a given number of staff/salary spend.

Utility specific information

Sector practitioners can review actual or anecdotal information on the utility's human resources function, to look for any evidence of corrupt activity.

A good starting place is to review the utility's records of current personnel. If these records appear to contain irregularities, or appear to be out of date or poorly maintained then this is a "red flag" that corruption may be occurring. Poor record keeping *may* be a deliberate ploy to hide human resources corruption (or may reflect incompetence).

Complaints from staff or union leaders can be another useful source of information. For example, if utility managers regularly demand payments from staff to retain their job or get promoted, staff may seek to alert outside observers to this practice. Staff complaints could be gathered through surveys, or from some other complaints system. Any system for reporting staff complaints must include protections from retribution by utility officers who are accused of corrupt activity. This may include procedures for maintaining staff anonymity. In using this information sector practitioners must also be alert to the possibility of false complaints.

Independent audits or reviews

If warranted, sector practitioners can take proactive steps to detect human resources corruption, with cooperation from the utility. Options include:

- A survey of staff at work in all sites of the utility, to confirm whether:
 - All the jobs on the payroll are filled by actual people
 - All the jobs on the payroll are being done by the individual recorded on the payroll, and
 - Jobs are actually being done in line with specification.
- Introducing a requirement that all staff pick up their pay checks in person, and that staff must present identification before receiving their pay.

5.5 Company Property and Money

Corruption in the use of company property and money differs from the other types of provider level corruption. In contrast to the various schemes described in Sections 5.1 to 5.4, here the individual simply steals property or other things of value directly from the utility. Under the definition of corruption this Sourcebook uses (see Section 2.1), misappropriation of property and money from a **public** utility for private gain is a form of corruption. The same action in a **private** utility would not fall within the definition of corruption, as no public funds are involved, although it would still clearly be theft and therefore illegal.

For the purposes of this discussion, corruption involving company property and money covers misappropriation of any asset owned by the utility, including the money in the utility's bank accounts, the utility's inventory and stores, or its vehicles and equipment. Misappropriation might include any of the following:

- Fraud or embezzlement that takes money out of the utility's bank accounts
- Direct theft of property, for example theft of company stores that are then resold, diesel taken out of trucks and used for personal benefit, and so on
- Use of utility vehicles for personal travel
- Provision of utility vehicles to Ministers or other senior officials outside the utility for their personal or business use
- Business travel by utility staff to expensive resorts, or for private purposes
- Travel by Ministers or other senior officials, at the utility's expense, where the travel is not necessary to the business of the utility.

Utility resources are valuable, and staff managers often have discretion over how these resources are used. It may be difficult for management to distinguish between legitimate and illegitimate resource use. It is also difficult for outsiders to detect whether the level of resources used by the utility is appropriate for the utility's level of output.

In some countries, utilities or state-owned enterprises have a tradition of supporting Ministers and senior government officials. This would include some of the items listed above, such as the utility providing a car for the Minister's use, or paying for travel for the Minister that is not related to the business of the utility. This may also extend to other areas, such as the utility providing stores and personnel to maintain the houses and other property of the Minister or other senior officials. Sector practitioners need to be sensitive to this type of tradition. In countries where this type of practice is (or has been) common, control of utility property and expenditure will warrant extra attention in assessing corruption risk.

5.5.1 Detecting corruption in stores, travel, and use of company property

A well managed utility will have internal controls in place to prevent misappropriation of company property. The absence of such procedures is a "red flag" for corruption in that it may reflect management's desire to cover up misappropriation of company property. Indicators of corruption in the use of company property and money include:

- Poor control of bank account authorities, check-books and credit cards
- Lack of a proper inventory control system
- Stores records are not reconciled with accounts, and not audited

- Lack of a proper asset register
- Company vehicles not accounted for
- Unexplained shortages of supplies.

If the utility is running a proper accounting system, that system should include an inventory module that records inventory by location, by unit, and by value. The system should provide a record of the number units of each item that should be in stores at any point in time (say, the number of meters, the volume of fuel, and so on). Good practice would involve regular audits to compare the numbers in the inventory system against a physical stock-take of the utility's stores.

Source List 5.1: Detecting Corruption at the Provider Level

Source	Description
<p>Campos, J.E. (2007) “A Practical Approach to Combating Corruption: The Value Chain Methodology” <i>The Governance Brief</i>, ADB, Issue 16.</p>	<p>This paper describes a value chain methodology for detecting and combating corruption. The paper highlights the prevalence of corruption in procurement, and discusses the three most common manifestations of corruption here: kickback schemes, front companies, and bid rigging.³⁰</p>
<p>Kalnins, V. (2005) “<i>Assessing Trends in Corruption and Impact of Anti-Corruption Measures</i>”, the Anti-Corruption Network for Transition Economies, OECD</p>	<p>This paper discusses various methods for detecting and measuring corruption at both a national and provider level. It includes a discussion of various “red flags” of corruption at the provider level, and methods for identifying corruption, including tests for fraud and audits (financial, general performance, or specifically focused on ethics or corruption), and a framework for risk assessment. The document includes a number of useful real world examples.</p>
<p>Kenny, C. (2008) “<i>Is There an Anticorruption Agenda in Utilities?</i>”</p>	<p>Emphasizes the difficulty in measuring not just corruption, but the extent of damage done by corruption, petty or grand. To that extent, the “new” anticorruption agenda provides renewed justification for the “old” focus on institutions at the level of utilities management.</p>
<p>Sohail, M and Cavill, S. (not dated) “<i>Combating corruption in infrastructure services: A tool-kit</i>”, WEDC Institute</p>	<p>This document provides tools for combating corruption in infrastructure services for policy makers, professional staff of utilities, regulators of infrastructure services, and consumers of these services. It is separated into three sections with tools for users, operators, and regulators. This toolkit identifies various “red flags” of corruption, and matches them with “tools” or “interventions” to reduce that particular type of corruption. It also provides case studies of different types of corruption practitioners can look out for.</p> <p>The toolkit includes tools to assist utilities put in place policies and procedures to combat corruption.</p>