



Stopping the Drain on Resources

Fighting Corruption in the Water Sector

CONTENTS

| | |
|--|-----------|
| 1. Introduction | 4 |
| 2. Background: definition and relevance of anticorruption in the water sector | 7 |
| 2.1 What is corruption? | 7 |
| 2.2 The linkage between governance and corruption | 7 |
| 2.3 Why is good governance and anticorruption of particular relevance for water professionals? .. | 8 |
| 3. From theory to practice: anticorruption and the GIZ water portfolio | 12 |
| 3.1 Anticorruption and governance approaches in GIZ water programmes in sub-Saharan Africa | 12 |
| 4. Towards more strategic integration of good governance and anticorruption in GIZ water programmes 19 | |
| 4.1 Looking at the content: what needs to be addressed? | 19 |
| 4.2 Looking at (new) partners: whom can we work with? | 23 |
| 4.3 Looking at the process: how can anticorruption/good governance be integrated into water programmes? | 23 |
| 4.4 Looking at our own structures and resources: support within GIZ | 24 |

Acronyms

| | |
|--------|--|
| BMZ | Federal Ministry for Economic Cooperation and Development |
| CoST | Construction Sector Transparency Initiative |
| DRC | Democratic Republic of Congo |
| DUWSS | Development of the Urban Water and Sanitation Sector (GIZ South Sudan) |
| GIZ | Deutsche Gesellschaft für Internationale Zusammenarbeit |
| HCD | Human Capacity Development |
| IM | Integrity Management |
| IWRM | Integrated Water Resources Management |
| JMP | Joint Monitoring Programme |
| KfW | Kreditanstalt für Wiederaufbau |
| MWE | Ministry of Water and Environment (Uganda) |
| NWSC | National Water and Sewerage Corporation (Uganda) |
| OBI | Open Budget Initiative |
| ODA | Official Development Assistance |
| RESE | Réforme du Secteur de l'Eau (GIZ Democratic Republic of Congo) |
| RU | Regulation Unit (Uganda) |
| RUWASS | Reform of the Urban Water and Sanitation Sector Programme (GIZ Uganda) |
| SOWAS | Services on Water and Sanitation (GIZ Sector Network sub-Saharan Africa) |
| TI | Transparency International |
| UPC | Urban Projects Concept (Kenya) |
| WHO | World Health Organization |
| WIN | Water Integrity Network |
| WRM | Water Resources Management |
| WSS | Water Supply and Sanitation |
| WSRP | Water Sector Reform Programme (GIZ Kenya) |
| WSP | Water Service Provider (Kenya) |
| WSTF | Water Services Trust Fund (Kenya) |

Acknowledgements / Preface

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This paper is based on the results of: a workshop on Good Water Governance at the GIZ SOWAS Conference in Kampala in September 2012; an expert panel on Good Water Governance at GIZ Head Office in November 2012; and discussions with experts from the GIZ Water and Good Governance Departments.

1. Introduction

“THE CRISIS OF WATER IS A CRISIS OF WATER GOVERNANCE, WITH CORRUPTION AS ONE ROOT CAUSE.”

(Transparency International, 2008)

Corruption impedes development and reduces the effectiveness and efficiency of development cooperation. The costs involved are enormous: Official Development Assistance (ODA) for water supply and sanitation totalled roughly USD 43.5 billion from 2006 to 2011. According to Transparency International (TI) estimates, USD 4.35 to 13 billion were lost due to corruption during that time (10%–30%) (TI 2008). Similar figures are estimated for other sectors. The figures show clearly why anticorruption occupies such a high position on the global development agenda. At the international level, numerous initiatives have been established to foster transparency and accountability in various sectors, e.g. the Open Budget Initiative (OBI), the Construction Sector Transparency (CoST) Initiative and the Open Contracting movement launched by the World Bank and GIZ.¹ Meanwhile, the German Federal Ministry for Economic Cooperation and Development (BMZ), in response to the negative impact of corruption on reforms in all sectors, has recently launched a new Anti-Corruption and Integrity Strategy BMZ (2012) to highlight anticorruption and integrity as cross-cutting issues. This strategy is binding for German development cooperation.

A number of factors make the water sector particularly vulnerable to corruption. First, investment in water and sanitation infrastructure requires high levels of accountability and transparency to ensure targeted use of funding, due implementation of projects and ultimately consumer value for money spent. Second, since the management of water resources and water and sanitation services are generally the responsibility of the public authorities, the available funds are mostly channelled through public institutions either directly or with private sector participation. Water authorities and utilities are monopolists that are not always subject to control or effective regulation. In developing countries the negative effects of corruption in the water and sanitation sector severely impact the poorest and most vulnerable segments of the population – people who seldom have the means to protect their interests.

In contrast to the open international debate, anticorruption remains a highly sensitive issue for those working on the ground in the water and sanitation sector. Openly addressing corruption among government officials or service providers would in many cases have serious and negative consequences for the working environment and role of GIZ advisors. Indeed, it can even be dangerous to expose corrupt practices openly to the public eye. Nevertheless, anticorruption can be addressed in day-to-day work in various ways, for example by setting goals and indicators in programmes and partner institutions or by fostering sound structures and checks and balances in national and local institutions.

1 <http://wbi.worldbank.org/wbi/stories/open-contracting-growing-global-movement>



Ministry of Water and Irrigation, Kenya

Against this background, this paper explores how anticorruption in the water sector can be operationalised in a pragmatic, consistent and targeted manner. Based on the manifold experiences of GIZ water professionals, this paper explains why the issue of corruption is particularly relevant in the water sector. It gives practical examples from the field and offers ideas about the future integration of water and good governance.²

The target groups of the paper are GIZ advisors working in water and sanitation programmes and good governance/public finance programmes in sub-Saharan Africa, the MENA Region, Asia and Latin America and our colleagues in Departments 42 and 44 (the competence centres and sector programmes responsible for governance/human rights/anticorruption and water/sanitation). This paper also intends to inform the dialogue and cooperation with other stakeholders/partners such as co-financers, consulting firms, KfW Development Bank and WIN. The paper is also of relevance in view of the increasing number of co-financing arrangements with donors.

² The paper confines its focus to the areas of water supply and sanitation (WSS) and water resources management (WRM).



Lusaka Water and Sewerage Co. Ltd.



Accountable and transparent investment planning secures pro-poor infrastructure investments, Zambia

2. Background: definition and relevance of anticorruption in the water sector

2.1 WHAT IS CORRUPTION?

Corruption occurs in different kinds of institutions in the public, private and non-profit sectors, and in rich and poor countries alike. Underlining the ethical dimension of the challenge, TI (2008) has defined corruption as the abuse of entrusted power for private gain.

The main elements of corrupt practices are: 1) abuse: behaviour that deviates from established norms; 2) entrusted power: either appointive (bureaucrats, managers) or elective (politicians) – including the private sector; and 3) private gain: cash, material goods, status, power, benefits to relatives (which may occur years later).

Corruption flourishes wherever an individual or individuals have a monopoly on a good or service (as is often the case in the water sector), decide at their discretion who receives that good or service and for how much in compensation, and have no incentive to adhere to standards and practices of transparency, accountability and integrity in decision-making. The definition of corruption by Klitgaard (1988) points towards the monopolistic and discretionary control of resources found in many (non-)governmental structures and organisations:

Corruption = Monopoly + Discretion - Accountability

Corruption may occur in different forms, including embezzlement, bribery, or patronage/nepotism. It may occur on administrative and operational levels (petty corruption), in high-level decision-making processes (grand corruption), or even in the design of a country's policy and legal framework (state capture). Corruption impairs the effectiveness and predictability of public institutions and leads to the siphoning off for personal use of public funds that ought to be employed for sustainable and socially inclusive development.

2.2 THE LINKAGE BETWEEN GOVERNANCE AND CORRUPTION

A closer look at the enabling causes of corruption often reveals underlying weaknesses in governance. 'Governance' indicates the formal and informal rules and mechanisms to articulate interests, manage resources, take decisions, regulate human behaviour, and exercise power in a society or sector (Ernstorfer/Stockmayer 2009). Good governance means that these processes occur in line with the four principles most relevant to anticorruption (see Table 1). These principles must be embedded both in the structure of institutions (e.g. ministries, WRM authorities, regulators, utilities) and in the processes applied within and among institutions.

| TABLE 1: PRINCIPLES OF GOOD GOVERNANCE RELEVANT TO ANTICORRUPTION | |
|---|---|
| Transparency | Access of consumers/water users to information, public understanding/supervision of decision-making processes, clearly defined rules and responsibilities |
| Accountability | The obligation of institutions and individuals to answer for their actions and decisions. Capability of civil society and governmental supervisory bodies to scrutinise public action and hold decision makers responsible. Consumers having the right to complain and be accorded appropriate decisions in good time and in accord with binding regulations. |
| Participation | Meaningful involvement of stakeholders (including underserved citizens, water users, vulnerable groups) in decision-making processes in WSS/WRM and in agricultural water use. |
| Integrity | Need for public, private and civil society representatives to be honest in carrying out their functions and abstain from corrupt practices (WIN et al. 2011). |

2.3 WHY IS GOOD GOVERNANCE AND ANTICORRUPTION OF PARTICULAR RELEVANCE FOR WATER PROFESSIONALS?

The risk of corruption within the public sector or in the interaction between public and private actors is particularly high where

1. financial resources are allocated or transferred (among stakeholders or institutions)
2. decisions are made (political, structural, staffing) in a context in which roles/functions are not separated but concentrated in few individuals (e.g. politicians making decisions related to service delivery, board directors having a stake in a water utility's business) and/or
3. other resources are exchanged (goods, services, information, etc.).

Furthermore, corruption risks are particularly high in developing countries and fragile states where political and financial disbursement pressure on the donor side coincides with weak governance structures in partner institutions and low absorptive capacity. In such circumstances, external resources are often embezzled and used to influence the distribution of power. At the same time, corruption strongly undermines state-building and state legitimacy, since the population comes to perceive government institutions as serving the interests of small elite groups rather than bringing basic services to the people.

It is evident that countries with low overall corruption levels tend to have significantly higher rates of water coverage than countries with high corruption levels.³ This strongly suggests that corruption is a challenge common to the water sector of many countries. The factors making the water sector particularly prone to corruption are summarised in Table 2.

TABLE 2: CORRUPTION RISK FACTORS IN THE WATER SECTOR

For Investment and Service Delivery

- Large-scale procurement and flow of public/donor funds
- Discretion and political distortion of investment decisions
- Monopolistic nature of service delivery coupled with failure of cost recovery/subsidies
- Complex stakeholder relationships and systems coupled with low transparency
- Unregulated informal service provision

For Water Users

- That consumers/water users depend strongly on these services and are in general willing to pay, but may be forced into paying bribes or colluding for access
- Discretion in interactions between consumers/water users and officials/utility staff
- Asymmetry of information between consumers and sector institutions or between sector institutions and other stakeholders (e.g. construction companies)

Corruption in the water sector has multiple **negative impacts** on the sector and society:

1. **Financial impact:** Due to corruption a large percentage of the funds flowing into the water sector 'go down the drain'. Estimates by WIN put the world-wide portion of funds allocated to unproductive/illegitimate uses due to corruption in the water sector at 20% to 70% of the sector budget (WIN et al. 2011). Corruption significantly increases the cost of services. This has a disproportionately severe impact on the poor and delays or undermines the implementation of infrastructure operation.
2. **Impact on sector performance:** The distortion of processes/disincentives linked to human resources management (e.g. recruitment), commercial management (e.g. billing), decision-making (e.g. project awarding, bidding), and regulatory functioning (e.g. licensing, monitoring, water tariff approval) undermines corporate governance and organisational and human capacities. In WSS services high corruption levels can lead to high Unaccounted for Water, a key performance indicator for utilities.

³ See further analysis in the Corruption Perception Index of TI (2011) and the water coverage data of the UNICEF/WHO Joint Monitoring Programme (JMP) (2010). The figures on access to water supply and sanitation services published by JMP are based on contested data sources and definitions of what 'improved access to water and sanitation' actually means, especially in urban settings. In Zambia, GIZ documented a gap between the JMP figures and the realities of access to water and sanitation on the ground, with the former particularly overstating water access rates in urban settings (GTZ 2007).



Large infrastructure projects are particularly prone to embezzlement of financial resources.

3. **Equity/social impact:** Corruption infringes upon the Human Right to Water and Sanitation by depriving poor households of their income and lowering the quality and quantity of services delivered (especially in low-income areas) and sustains unregulated informal services provision (GIZ 2012a). Thus it especially discriminates against poor water users/consumers. Clientelistic practices and political interference undermine needs-oriented planning and allocation of resources. Corruption in infrastructure construction and operation (dam-building, hydropower and flood risk management facilities) can result in severe security risks for local populations.
4. **Environmental degradation:** Corruption related to water abstraction (licensing) and discharge of wastewater (e.g. illegal permits, cover-up of pollution, etc.) contributes to excessive use and degradation of water resources and the environment (e.g. habitats, catchment areas). Additionally, corruption renders enforcement mechanisms for environmental laws/regulations ineffective.

Corruption constitutes a challenge to all development projects involving water and sanitation services and to WRM. The recent significant increase in the flow of climate-related financing and funds for the up-scaling of access to water and sanitation is coupled with an increased need for accountable and transparent use of funds and for ensuring value for money invested in infrastructure. Thus, the mitigation of corruption risks plays an important role in making up-scaling and investments related to climate adaptation (e.g. flood risk management) effective and efficient.

This paper does not suggest that everything be done differently but only that existing approaches in WSS and WRM related projects be reviewed, refined and where possible extended. The potential benefits for water programmes are:

- more effective implementation of activities without delays caused by corruption
- more efficient use of resources
- the provision of convincing reasons for staff to resist engaging in corrupt practices.

The next chapter details the approaches currently used by GIZ water programmes in sub-Saharan Africa, and the linkages to GIZ products relating to water and sanitation.



Planning workshop with partners, South Sudan

3. From theory to practice: anticorruption and the GIZ water portfolio

Addressing corruption issues is difficult. Typically, a whole range of stakeholders benefit from (more or less systematic) misappropriation of resources and will do their best to preserve their interests and privileges. Advisors in GIZ water programmes, especially when dealing with political and other



Sensibilisation of water users is a first step for meaningful involvement, Burundi.

institutional actors, must carefully consider how to address corruption challenges and underlying governance weaknesses vis-à-vis their counterparts and still maintain successful cooperation in the future.

To be clear: Anticorruption is a prominent subject on the global agenda. Public criticism and disclosure of corruption and the explicit addressing of related challenges, though important and necessary, can be dangerous. This is why both national political leaders and local decision makers/managers hesitate to fight corruption in practice even if they support anticorruption in principle. Engagement with civil society actors like TI/WIN is one effective way

to curb corruption. At the same time GIZ programmes and advisors need to maintain their role as **honest brokers**. Hence, it may be more appropriate to take an implicit approach that strengthens the aforementioned good governance principles: integrity, transparency, accountability and participation. In other words: corruption risks may be addressed either explicitly, using anticorruption approaches, or implicitly, using good governance approaches.

3.1 ANTICORRUPTION AND GOOD GOVERNANCE APPROACHES IN GIZ WATER PROGRAMMES IN SUB-SAHARAN AFRICA

Over the past decades, the focus of GIZ's technical cooperation in the water sector has moved from rather technically oriented projects for infrastructure operation to support for complex, sector-wide policy and institutional reform programmes that focus on 'unquestionably political issues such as good governance, effective public administration and democratisation' (Baum/Renger/Werchota 2009). As corruption deviates from agreed policies and standards, undermines democratic checks and balances and hampers sector performance, anticorruption must be integrated as an important aspect of the increasingly political nature of development cooperation in the water and sanitation sector. At the same time, many governance reforms in the sector already contribute to preventing corruption to a large extent without being explicitly labelled as anticorruption measures, e.g. by

establishing regulatory mechanisms and designing procedures for tariff setting that ensure transparency and accountability.

Forty-four approaches that address good governance and anticorruption were identified in a survey conducted in 2012 among GIZ water and sanitation programmes in sub-Saharan Africa – a promisingly high number.⁴ Only a few deal explicitly with good governance, corruption and integrity. In most cases **programmes promote good governance principles and anticorruption mechanisms implicitly**. Many approaches are built into sector reforms or are part of financial management and planning or monitoring and reporting. There is little involvement in the area most explicitly addressing corruption: integrity management and awareness. Figure 1 on the following pages clusters the programme approaches currently being implemented into four main categories and connects them with the respective good governance principles they address.

CASE STUDY KENYA: WATER INTEGRITY MANAGEMENT TOOLBOX FOR WATER SERVICE PROVIDERS



Private Sector



Transparency



Integrity



Within an institution



Local

The Water Integrity Management Toolbox was developed by cewas (international centre for water management services) and WIN with GIZ support. It provides a step-by-step approach to improving the financial and operational performance of Kenyan Water Service Providers (WSPs) by tackling integrity issues in the areas of inter alia commercial management, customer service, accounting. Hence integrity, which can increase revenue and cut losses, is promoted as a management issue affecting the WSP's economic viability. The approach aims at optimising the WSPs' business model in a systematic management-led integrity change process that includes:

- developing the WSP's business model
- identifying integrity risks
- selecting integrity instruments
- developing an integrity-improved business model
- elaborating an action plan
- implementing the integrity change process
- monitoring and evaluation

The toolbox was adjusted to the existing regulatory and legal framework with the support of the Water Services Regulatory Board. In the next step, the Water Service Providers Association will pilot the initiation of an integrity change process in selected WSPs in Kenya.

For further information contact:

Rose Makenzie/GIZ (rose.makenzie@giz.de), Johannes Heeb/cewas (johannes.heeb@cewas.org), Janek Hermann-Friede/WIN (jhermannfriede@win-s.org)

⁴ A questionnaire on the approaches used, their effectiveness, the resources required and lessons learnt, was sent to 18 bilateral and regional water programmes implemented by GIZ in sub-Saharan Africa, with feedback from 13 programmes.

FIGURE 1: GOOD GOVERNANCE APPROACHES IN GIZ WATER PROGRAMMES IN SUB-SAHARAN AFRICA

| Financial Management and Planning | | | | | |
|---|---|--|--|--|--|
| Planning | Strengthening budgeting capacities as part of national reforms in the planning process (incl. reorganisation of internal planning processes, improvement of communication to ministry of finance); medium term sector investment planning tools South Sudan, Burundi | | | | |
| Budget Allocation | Transparent subsidy allocation criteria; Trust Fund procedures and regulations for financing pro-poor water and sanitation projects incl. 'call for proposal', clear criteria for awarding of projects, risk management South Sudan, Uganda, Kenya, Zambia | | | | |
| Budget Execution | Development and introduction of tailor-made IT-based accounting tools, followed up by annual audits Benin (multi-level), Zimbabwe (local level) | | | | |
| Revenue Generation | Harmonised billing software; introduction of billing software (and other systems) in utilities Kenya | | | | |
| Domestic Financial Transfer | Reform of subsidy system and ring-fencing of revenues complements institutional reforms in services delivery South Sudan, Kenya, Zambia | | | | |
| Procurement Guidelines | Transparent procurement guidelines for tendering of water and sewerage services in small towns Uganda | | | | |
| Sector Reform and Institutional Framework | | | | | |
| Sector Reform | Clear and separated institutional mandates (WRM and WSS; service provision/regulation/policy development); regulatory bodies; socially responsible commercialisation of utilities; human rights based approach Kenya, Uganda, South Sudan, Benin, DRC, Zambia | | | | |
| Regulation | Regulatory bodies: e.g. independent unit within the Ministry, Regulatory tools: e.g. service standards, tariffs, performance and management contracts/licences, business planning tools, corporate governance guidelines Uganda, Kenya, South Sudan, Zimbabwe, Tanzania, Zambia | | | | |
| Policy and Legislation | Enshrining reforms in sector policies and legislation, e.g. through a dedicated multi-stakeholder consultation process DRC, Benin, Kenya, South Sudan, Zambia, Burundi | | | | |
| User Involvement | Water user groups/water resources user associations; consumer complaint mechanism; consumer engagement guidelines Benin, Kenya, Uganda, Zambia | | | | |
| Good Governance Coordination Mechanism | Participation of relevant stakeholders, e.g. ministry, private sector, NGOs/CSOs, donors, in Good Governance Working Group Uganda | | | | |

| Monitoring and Reporting | Information Management System | Automated systems Tanzania, Kenya, DRC, Zambia | | | | |
|------------------------------------|---|--|--|--|--|--|
| | Baseline Studies/ Data Bases/ Inventory | Provision of sector data and identification of gaps in service provision Burundi, Tanzania, Zambia, Kenya | | | | |
| | Regular Sector Reporting | Annual sector performance reports; regular reports from decentralised structures (utilities) Uganda, Kenya, Zambia, Tanzania | | | | |
| | Bench-marking | Annual public comparison of performance of service providers by the regulator Kenya, Zambia | | | | |
| Integrity Management and Awareness | Code of Conduct for Private Operators | Code of Conduct of the Association of Private Water Operators Uganda | | | | |
| | Anticorruption in Utility Trainings | Anticorruption integrated in regular trainings for water service providers Tanzania | | | | |
| | Advocacy and Awareness | Brochure on Good Governance; National Water Integrity Study Kenya, Uganda, Zambia | | | | |
| | Integrity Management Systems | Integrity management systems in sector institutions Kenya (water utilities) | | | | |






Transparency Accountability Participation Integrity

Findings of the survey show that:

1. As an implicit or explicit part of most GIZ water programmes, good governance approaches are applied in work with many partner institutions, e.g. ministries, regulatory bodies, utilities, and civil society. **Implicit good governance approaches are a useful starting point for building up alliances and tightening institutional, regulatory and legal provisions that mitigate corruption risks. More explicit agenda-setting is needed for going 'the last mile' in curbing such risks at a later stage.**
2. Many programmes focus their governance activities on water and sanitation rather than on WRM. However, **considerable corruption risks remain to be addressed in connection with large scale water resource development infrastructure projects.** Integrated water resource management plays a crucial role in the sector's governance. Issues of transparency, accountability and participation in the allocation and use of water resources and source/ecosystem protection will surely arise with the application of regulatory instruments such as water use concessions or abstraction licenses.
3. The survey clearly showed that **political will and ownership are key success factors in the tackling of good governance challenges.** It is therefore recommended that programmes **identify 'champions' within partner institutions and choose approaches that are in line with partner institution agendas** wherever feasible. This involves trust building with and among change agents (members of user associations, utility managers and utility associations, chief executive officers of parastatals, directors in ministries and regulators, etc.) with whom an integrity-agenda can be moved forward.
4. Experience shows that **a combination of different approaches improves impact** and increases effectiveness. For example, budget execution reforms in Benin were more effective when complemented by yearly audits. The restructuring of utilities should be framed by an improved regulatory framework. Support for the establishment of financing mechanisms in WSS should go hand in hand with better information about actual coverage/access as supplied through baseline studies or data bases.
5. When establishing new control mechanisms or financial management and planning processes, it is advisable to **foster alliances and collaboration between supervisory institutions in the water sector** (e.g. regulators of WSS/WRM and ministries) **and good governance institutions outside the sector** (such as procurement authorities, anticorruption authorities, parliament, non-governmental organizations, etc.) (GIZ 2012b). This way, the good governance agenda in the water sector can be aligned with ongoing reforms on the overarching level, on the one hand, while being supported by core governance institutions⁵ on the other.

⁵ Core governance institutions are e.g. the ministry of justice/judiciary or the ministry of finance.

CASE STUDY DEMOCRATIC REPUBLIC OF CONGO: DIALOGUE AS A CORE ELEMENT FOR POLICY DEVELOPMENT



National



Participation



Public Administration



Civil Society



Private Sector

GIZ supports Congolese national institutions in defining core policies and strategies for the nation's water sector. Institutions in DRC are still in a post-conflict reconstruction phase, and corruption is a major concern. Since there is no water ministry, responsibilities are distributed among a number of different institutions with little incentive for cooperation. This results in poor actor performance and a low degree of transparency, integrity and credibility in public institutions. GIZ supports a structured dialogue designed to take into account the complex institutional landscape and fully integrate all stakeholders in the sector.

Results

In 2009 and 2010, a national legislative framework for the water sector was developed and adopted in a broad-based consultative process that incorporated civil society and private sector representatives as well as decentralised structures. The government has adopted the development of a National Drinking Water Policy (2012) by senior decision-makers from ministries, the advisor to the President, the Prime Minister's Office, and water suppliers. The high level of integration of stakeholders created a stable and continuous environment of mutual trust and growing cooperation that is otherwise rare in Congolese institutions. Decision-makers became accountable and aware of their responsibility and more committed to their role in the reform process. Stakeholders are encouraged to assume responsibility and are held accountable to fellow participants. All of these elements are at the core of the process of state building and the transition to good governance.

Challenges

Stakeholder dialogues are time-intensive, particularly when nationwide consultation is required. A stakeholder dialogue is an iterative process that demands much of the actors involved in terms of process planning and management skills. In the event of changes in the actor landscape, such as a change of government, it is essential to integrate new actors and secure their commitment. It is thus difficult to schedule stakeholder dialogue as part of a project cycle. A particular future challenge will be to transfer collective responsibility for the implementation of policies.

For further information please contact: Simone Schnabel/GIZ (simone.schnabel@giz.de),
Dr. Thomas Riekkel/GIZ (thomas.riekel@giz.de), RESE/DRC



Corruption in water abstraction and pollution contributes to excessive use and degradation of water resources.

4. Towards more strategic integration of governance and anticorruption in GIZ water programmes

4.1 LOOKING AT THE CONTENT: WHAT NEEDS TO BE ADDRESSED?

Building on experience with approaches already being implemented and in response to BMZ guidelines on anticorruption, this paper maintains that it is both necessary and possible to integrate anticorruption and good governance more strategically into GIZ water programmes. This is relevant both for the programming of new interventions and for on-going projects. The following names possible **entry points** for the strategic promotion of good governance and anticorruption in the existing GIZ water portfolio:

Sector reform: A good entry point for reducing opportunities for corruption at the policy level is the separation and clarification of roles and responsibilities of sector institutions (policy making – regulation – service delivery). Another key aspect is the establishment of comprehensive complaint and supervisory mechanisms that ensure proper checks and balances as well as clear lines of accountability across the multiple levels of government and administration. This should be complemented by the development of transparent criteria for resources allocation, subsidies, etc. The active integration of users into reform and legal framework consultations is a further measure that strongly bolsters anticorruption.

Political economy analyses can assist a better understanding of drivers/champions of change and stumbling blocks to reform, especially in terms of anchoring and implementing good governance principles in the sector. Based on such analyses, programmes can develop sound strategies on how to pursue policy priorities.

Regulation: Regulatory authorities/entities play a crucial role in generating information on sector performance and enhancing good governance in the water sector. Public reporting on corporate governance indicators and comparative competition on governance performance can put pressure on utilities to improve internal control systems and supervisory/management practices (GIZ 2012a). Regulatory authorities can use their sector-specific knowledge and analyses to engage in a dialogue and information exchange with other public supervisory bodies. It is furthermore essential to keep in mind major corruption risks that can arise when regulatory agencies/entities exercise their functions (e.g. tariff setting). Therefore, issues of internal transparency and integrity need to be well considered, e.g. by creating integrity management systems as part of organisational development in regulatory agencies,⁶ and by supporting these agencies as pioneers for integrity and good governance.

⁶ Refer e.g. to the Code of Conduct of the Albanian water services regulatory authority drafted with GIZ support.

CASE STUDY UGANDA: TOWARDS AUTONOMOUS REGULATION



National



Oversight Institution



Accountability

GIZ supported the establishment of a Regulation Unit (RU) within the Ugandan Ministry of Water and Environment (MWE) as a stepping stone towards autonomous regulation of urban WSS services. Elements of support included long-term advisory services, consultancies, and study tours to regulation authorities and water utilities in other African countries and in Germany. Currently GIZ supports the development and application of regulatory tools and the establishment of an autonomous regulatory authority.

Results

Performance and management contracts now provide for detailed and transparent allocation of roles, responsibilities, and duties between public authorities and private water operator companies in small towns and the National Water and Sewerage Corporation (NWSC) in large towns. The RU monitors contract compliance based on key performance indicators.

Unstructured tariff alterations were widespread in small towns. A Business Planning Tool in combination with Tariff Setting Guidelines now enables private water operators and local water authorities to set realistic and transparent water tariffs.

The RU analyses monthly reports from small towns and quarterly reports from NWSC. The MWE issues detailed annual water sector performance reports, which contribute to the overall transparency of public services provision.

Challenges

The RU, located within the Ministry of Water, is not yet an autonomous regulatory authority and continues to be understaffed and underfinanced due to lack of funds. The RU needs to enforce consistent use and application of regulatory tools more stringently, and the sector needs to provide sufficient staff and budget allocation for this.

For further information please contact: Anna Kristina Kanathigoda/GIZ (annakristina.kanathigoda@giz.de), Johannes Rumohr/GIZ (johannes.rumohr@giz.de), RUWASS/Uganda

Water supply and sanitation: The up-scaling of access to water supply and basic sanitation is a key strategy for German development cooperation in the water and sanitation sector. The influx of significant resources is accompanied by the risk that funds may be diverted/pocketed at the financing institution or implementation levels. An additional risk is that the allocation of funding may be distorted by political considerations. Thus, making up-scaling effective and meeting the requirements of BMZ's checklist for the quantified access target (QVZ) (low cost per beneficiary, low-income target groups, etc.) require transparent and accountable financing mechanisms that can deliver a needs based allocation of investments, efficient implementation, and value for money invested in

infrastructure (e.g. sector trust funds). Financing mechanisms must provide for comprehensive risk management systems and information systems that track investments.

Corporate governance, i.e. the behaviour and decision-making of boards of directors and managers, is a key challenge for the performance of water utilities. The misuse of company revenues by board members and undue interference in utility operations (e.g. recruitment decisions) undermine sound management. Water utility staff members face several temptations to corruption, for example on the household level (e.g. the speed/delay of (re-)connection, meter by-passing, manipulated meter reading, collusion with informal service providers, kickbacks). As in the approach used for regulatory bodies, the establishment of intra-organisational regulations within utilities (corporate governance framework and IM systems) can improve the general attitude of utilities staff in terms of integrity and ethical conduct of business and can eliminate possible entry points for corruption. In this regard, specific attention needs to be paid to selection processes and general proceedings within the board of directors.


Integrated Water Resources Management (IWRM) / Transboundary Water Management: Good governance of water resources is crucial for overall sector performance, as it helps to protect aquifers, river basins and other water sources and to prevent conflict among user groups. This applies to local, national and transboundary WRM alike. Key risk areas are the licensing of water abstraction (water rights), the enforcement of environmental regulations, the collection of fees from commercial/industrial, agricultural and other water users, and the planning/implementation of infrastructure projects. Key to mitigating governance risk is the development of effective information systems to monitor and assess the state of water resources (quantity, quality) and regulatory frameworks to set and enforce rules related to abstraction/pollution.

Anticorruption aspects, such as promoting transparency of contracts and distribution of public funds, should be considered when planning and implementing large-scale infrastructure investments.


Several major transboundary rivers in Africa play a crucial role in transport within the region. In this instance, good governance goes hand in hand with other activities, such as stopping the bribery of border personnel and training river police and public administrations.

Water for agriculture: In the context of IWRM, good governance of water for agriculture is essential for the sustainable use of water resources. Some 70% of freshwater withdrawals worldwide go to irrigation. Given the enormous importance of water availability for agricultural production, attempts to gain illegal access to scarce water resources abound. These range from political rent-seeking for incommensurate withdrawal rights or disproportionate subsidies ('subsidy capture'), to the bribing of irrigation officials for preferential water allocation, to illegal water extraction. Corruption is often endemic in the construction of the reservoirs and canal systems needed for large-scale irrigation. In many cases, water user associations help strengthen transparency and accountability related to the distribution of irrigation water. However, in newly established user groups, large-scale and politically influential farmers often attempt to manipulate group decisions illegitimately and illegally in favour of their own interests. As these examples show, anticorruption approaches are needed at various levels of the agriculture and water sectors. Such approaches should aim to establish governance structures, processes, and mechanisms that render illegal practices unattractive for the actors involved.


CASE STUDY KENYA: RISK MANAGEMENT IN BASKET FUNDING MECHANISMS




Public Administration



National



Transparency



Accountability

The Water Services Trust Fund (WSTF) in Kenya is a national basket funding mechanism for pro-poor infrastructure investments executed by implementing agencies on the local level (e.g. water utilities). GIZ support has primarily focused on the Urban Projects Concept (UPC), a mechanism for financing infrastructure projects in urban low-income areas and scaling up water and sanitation services to the urban poor.

Results

In four years (2009–2012), WSTF investments have provided public sanitation to 100,000 people and price- and quality-controlled drinking water to an additional 1.1 million people living in urban low-income areas. WSTF was established as part of comprehensive sector reforms. The separation of infrastructure financing (UPC) and decentralised implementation (utilities) contributes to transparency and accountability in the sector. Through workshops and 'learning by doing', management capacity, corporate governance, and transparency in the operations of water utilities have all improved.

UPC risk management contributes to greater 'value for money' and development effectiveness: strong monitoring and evaluation systems and external audits, monthly reporting by utilities, and on-site field monitors ensure impact and sustainability of assets. The UPC information system records geo-referenced data on infrastructure and financial information.

WSTF is now a leading funding agency in the water sector. The documentation of impact over time strengthens the confidence of development partners (such as the EU and KfW, which provide EUR 16 million to the Fund).

Challenges

Persistent challenges are loopholes in the application of UPC funds, non-compliance of utilities with procurement regulations and the constant risk of the 'capture' of field monitors. Clientelism and political interference (especially in the run-up of elections) still threaten an efficient allocation of funds. Despite increased funding channelled through UPC, uncoordinated investments remain a challenge.

For further information please contact: Roland Werchota/GIZ (roland.werchota@giz.de), WSRP/Kenya

Since anticorruption interventions and sometimes good governance in general are sensitive issues, an indirect approach may be the most promising. Possibilities for incorporating these topics within the scope of others that are more 'easily digestible' should be explored.

4.2 LOOKING AT (NEW) PARTNERS: WHOM CAN WE WORK WITH?

Strengthening linkages to non-sector institutions

The possibilities for tackling governance and corruption issues differ depending on the national context. Partners are often interested, but GIZ programmes must identify 'champions' to work within partner institutions, or particular institutions that may serve as role models within the sector.

While most water programmes focus on WSS institutions, the supervisory bodies with substantial influence on the water sector are also worthwhile considering, such as the judiciary, anticorruption commissions, procurement authorities, civil society organizations that engage in anticorruption, and audit courts. This also applies to cooperation with other non-WSS institutions (such as local authorities) that can affect water sector performance. To avoid dilution with non-water-related issues, this should ideally be tackled in cooperation with the respective governance programmes.

Levering the potential of local, national and international non-state actors

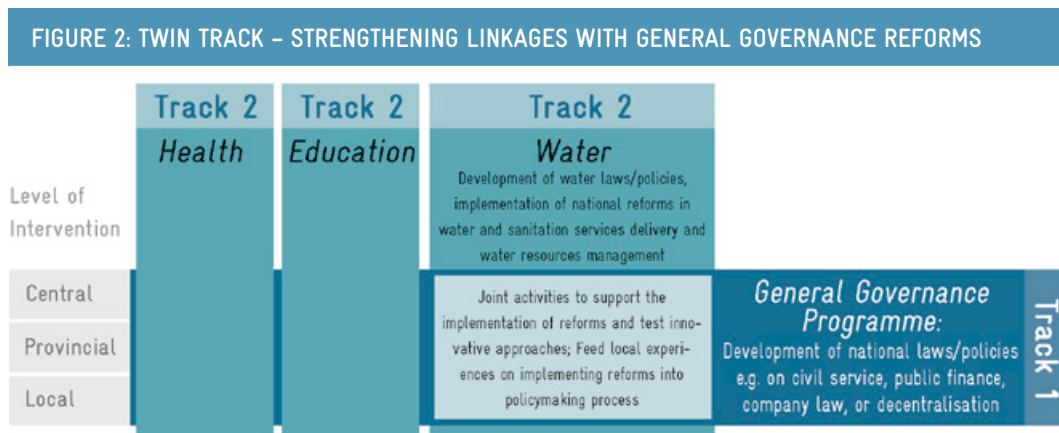
Civil society actors have been playing an important role in anticorruption and good governance for many years. They, too, can actively demand transparency and accountability of sector institutions and government. It is therefore worthwhile cultivating cooperation with these actors, both within partner countries and at the international level. In this vein, GIZ is currently broadening its cooperation with WIN, with joint activities in Uganda, Kenya and Zambia, and participation in international forums such as the 1st Water Integrity Forum (Delft, June 2013).⁷

4.3 LOOKING AT THE PROCESS: HOW CAN ANTICORRUPTION/GOOD GOVERNANCE BE INTEGRATED INTO WATER PROGRAMMES?

The integration of anticorruption and good governance issues into water programmes has to be demand-driven – not only by partners, but also by the respective GIZ water programmes. It need not be imposed top-down as a cross-cutting imperative since there are other activities that can help to promote its consideration in programme planning and execution without such imperatives. We wish to emphasise the importance of taking a broader view both within and beyond the water sector, whether through closer cooperation between GIZ water and governance programmes within a country, the linkage of water programmes with relevant non-sector institutions, or the exchange of anticorruption tools among sectors.

While (to avoid overloading) the participation of governance experts in project progress reviews (PFKs) should not be obligatory, good governance elements should nevertheless be integrated into the guidelines for these missions. Especially for infrastructure-related projects involving co-financing, the use of corruption risk assessment tools is advisable in programme planning.

⁷ Uganda: ongoing evaluation of the water sector good governance coordination mechanism; Kenya: development and piloting of an integrity management approach for WSPs; Zambia: study on entry points for strengthening the good governance principles from a 'nexus' perspective (water, energy and agriculture).



'Twin Track'⁸ refers to the connection of governance interventions with sector specific (in this case water) interventions in a given country. While under the classic twin track structure each track is represented by an independent GIZ programme, the approach can also work if governance is integrated as a component within the water programme (integrated twin track), or if the linkage is established with a governance programme by another development agency (harmonised approach).

It can be challenging indeed to establish linkages between ongoing water and governance programmes, as indicators, partners, and levels of intervention are do not necessarily complement one another.

Nonetheless, a systematic exchange among advisors/experts on both tracks can:

1. deepen understanding of governance-related challenges and solutions among water sector advisors
2. help to align water sector reforms with overarching governance reforms
3. mobilise the support of core governance ministries in related areas such as decentralisation, public financing or anticorruption.

Moreover, the water sector can lobby for a better understanding of its needs and promote its own good practices as part of the development of overarching reforms. As water is not necessarily a top political priority, such linkages can make a valuable contribution to improving framework conditions for accelerating reforms, mobilising investments and scaling up services.

4.4 LOOKING AT OUR OWN STRUCTURES AND RESOURCES: SUPPORT WITHIN GIZ

Collaboration and exchange among GIZ programmes: SOWAS working group on water governance

In 2011, a water Water Governance Working Group was founded as part of GIZ's Sub-Saharan Water and Sanitation network (SOWAS). The working group is made up of staff from GIZ water and sanitation programmes in sub-Saharan Africa as well as experts from the water/sanitation and governance sectors in GIZ headquarters.

The working group's objective is to foster cooperation and exchange, disseminate know-how and experiences with good governance in the GIZ water sector, and intensify cooperation between relevant departments of GIZ and with organisations active in the field of good governance and anticorruption. To date the working group has held a workshop at the SOWAS network Meeting 2012 in Kampala and produced several documents, including five tool descriptions for the GIZ Anticorruption Wiki and this discussion paper, which is based on a survey among water programmes across sub-Saharan Africa.

If you are interested in joining, please contact watergovernance@giz.de. Relevant literature, minutes of meetings and outputs can be accessed through the [DMS](#) working group 'water governance'.

Advisory services at GIZ Head Office

The GIZ sectoral department Good Governance and Human Rights (Dept. 42) and the Competence Centre Water are working together to strengthen ties between water and governance activities. Based on **this cross-departmental cooperation**, GIZ planning officers can sensitise programme managers for twin track activities and good governance issues, and possible joint interventions.

With the sector programme Anticorruption and Integrity (Dept. 42) in charge, '**Anticorruption WORKS**' has been developed as an advisory tool for corruption-sensitive programme planning; context analyses or peace and conflict analyses that include aspects of political economy and corruption risks are being conducted. The sector programme also offers advisory services on establishing twin tracks and a 'governance compass' as a checklist for governance in a sector.

The sector programme International Water Policy and Infrastructure (Dept. 44) coordinates collaboration and **dialogue with WIN** and can advise water programmes on opportunities for participation in joint activities.

Training on anticorruption and good governance

Training of GIZ staff: The [U4 Anti-Corruption Resource Centre](#) offers online trainings. GIZ has a variety of training courses available on topics such as good governance, anticorruption and water integrity, among them the open e-learning courses of GIZ's Global Campus GC21 and the E-Academy.

Training of partner staff / Human Capacity Development (HCD) services: The regional capacity building network WAVEPlus offers tailor-made courses to improve the performance of water service providers in Kenya, Uganda, Tanzania and Zambia. These include good governance issues in the water sector.

Resources for GIZ staff: The anticorruption toolbox

The newly developed GIZ [Anticorruption Toolbox Wiki](#) provides generic tools to foster transparency, accountability, integrity and participation in various sectors. Moreover, it gathers practical experiences from GIZ programmes in implementing these tools. Given the complex and sensitive nature of the topic, intense and unvarnished exchange on positive and negative experiences within GIZ is of pivotal importance for tackling anticorruption issues. Members of the SOWAS water governance working group have pioneered this exchange with their contribution of tool descriptions from water programmes. As the success of the toolbox depends on contributions made to it, you are encouraged to submit your experiences.

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FURTHER USEFUL SOURCES

Global Infrastructure Anti-Corruption Centre (GIACC) Resource Centre: www.giaccentre.org

Internet Center for Corruption Research: www.icgg.org

Stockholm International Water Institute (SIWI): www.siwi.org

The Government Accountability Project: www.whistleblower.org/template/index.cfm

Transparency International: www.transparency.org

UNDP Water Governance Facility: www.watergovernance.org

UNESCO Centre for Water Law, Policy and Science: www.dundee.ac.uk/water

Water Integrity Network: www.waterintegritynetwork.net

World Bank Institute, Governance & Anticorruption: go.worldbank.org/KUDGZ5E6P0

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| | |
|--------------------------|--------------------------|
| Friedrich-Ebert-Allee 40 | Dag-Hammarskjöld-Weg 1-5 |
| 53113 Bonn | 65760 Eschborn |
| Germany | Germany |
| T +49 228 44 60-0 | T +49 6196 79-1327 |
| F +49 228 44 60-17 66 | F +49 61 96 79-11 15 |

E water@giz.de
I www.giz.de

Authors:

Lotte Feuerstein, Sector Programme Anticorruption and Integrity, Dept. 42, Eschborn
Katrin Gronemeier, Support to the Water Sector Development, Tanzania
Sophie Müller, Sector Programme International Water Policy and Infrastructure, Dept. 44, Eschborn
Daniel Nordmann, Competence Center Water, Dept. 44, Eschborn
Johannes Rumohr, Reform of the Urban Water and Sanitation Sector Programme, Uganda
Simone Schnabel, Support to the Water Sector Reform, Democratic Republic of the Congo

Contact: SOWAS – Working Group Water Governance: watergovernance@giz.de

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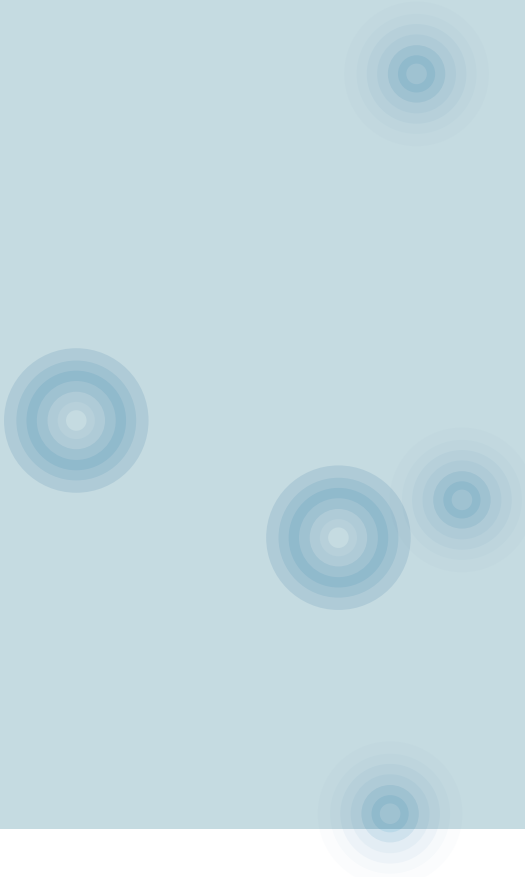
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Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn

Germany

T +49 61 96 79-0

F +49 61 96 79-11 15

E info@giz.de

I www.giz.de