

Executive summary

Transparency International

Corruption in the water sector puts the lives and livelihoods of billions of people at risk. As the *Global Corruption Report 2008* demonstrates, the onset of climate change and the increasing stress on water supply around the world make the fight against corruption in water more urgent than ever. Without increased advocacy to stop corruption in water, there will be high costs to economic and human development, the destruction of vital ecosystems, and the fuelling of social tension or even conflict over this essential resource. This report clearly shows that the corruption challenge needs to be recognised in the many global policy initiatives for environmental sustainability, development and security that relate to water.

As the *Global Corruption Report 2008* reveals, there are several encouraging initiatives from all over the world that demonstrate success in tackling water corruption. This is the pivotal message that more than twenty experts and practitioners emphasise in this report. In addition, the *Global Corruption Report 2008* – which is the first report to assess how corruption affects all aspects of water – reflects on what more can be done to ensure that corruption does not continue to destroy this basic and essential resource, one that is so fundamental to the lives of people all over the planet.

Water and corruption: putting lives, livelihoods and sustainable development at risk

Water is vital and has no substitutes. Yet a water crisis that involves corruption engulfs many regions of the world. Nearly 1.2 billion people in the world do not have guaranteed access to water and more than 2.6 billion are without adequate sanitation, with devastating consequences for development and poverty reduction. In the coming decades the competition for water is expected to become more intense. Due to overuse and pollution, water-based ecosystems are considered the world's most degraded natural resource. Water scarcity already affects local regions on every continent, and by 2025 more than 3 billion people could be living in water-stressed countries.

The human consequences of the water crisis, exacerbated by corruption, are devastating and affect the poor and women most of all. In developing countries, about 80 per cent of health problems can be linked back to inadequate water and sanitation, claiming the lives of nearly 1.8 million children every year and leading to the loss of an estimated 443 million school days for the children who suffer from water-related ailments. In Africa, women and girls often walk more than 10 kilometres to gather water for their families in the dry season, and it is estimated that an amount equivalent to about 5 per cent of gross domestic product (GDP) is lost to illness

and death caused by dirty water and poor sanitation there, as well. When clean water is denied, the stakes are very high.

The *Global Corruption Report 2008* argues that the crisis of water is a crisis of water governance, with corruption as one root cause. Corruption in the water sector is widespread and makes water undrinkable, inaccessible and unaffordable. It is evident in the drilling of rural wells in sub-Saharan Africa, the construction of water treatment facilities in Asia's urban areas, the building of hydroelectric dams in Latin America and the daily abuse and misuse of water resources around the world.

The scale and scope of the water and corruption challenge

The *Global Corruption Report 2008* explores corruption in water through four key sub-sectors.

Water resources management (WRM), which involves safeguarding the sustainability and equitable use of a resource that has no substitutes, is shown in this report to be susceptible to capture by powerful elites. Water pollution has often gone unpunished due to bribery, and funds for WRM end up in the pockets of corrupt officials. In China, for example, corruption is reported to thwart the enforcement of environmental regulations and has contributed to a situation in which aquifers in 90 per cent of Chinese cities are polluted and more than 75 per cent of river water flowing through urban areas is considered unsuitable for drinking or fishing.

The need to adapt to climate change makes cleaning up corruption in water resources all the more urgent. Changing water flows and more floods may require massive new investment in water infrastructure and the resettlement of 200 million people globally, and demand more frequent emergency relief efforts. All of the above are particularly vulnerable to corruption, as the *Global Corruption Report 2008* shows.

Where corruption disrupts the equitable sharing of water between countries and communities, it also threatens political stability and regional security. Two in every five people in the world today live in international water basins, and more than fifty countries on five continents have been identified as hotbeds for potential future conflicts over water. Water 'grabs', the irresponsible appropriation or diversion of water without consideration for other users, abetted by corruption, may translate tension into open conflict.

In **drinking water and sanitation services**, the second water sub-sector explored in the *Global Corruption Report 2008*, corruption can be found at every point along the water delivery chain: from policy design and budget allocations to operations and billing systems. Corruption affects both private and public water services and hurts all countries, rich and poor. In wealthier countries, corruption risks are concentrated in the awarding of contracts for building and operating municipal water infrastructure. The stakes are high: this is a market worth an estimated US\$210 billion annually in Western Europe, North America and Japan alone.

In developing countries, corruption is estimated to raise the price for connecting a household to a water network by as much as 30 per cent. This inflates the overall costs for achieving the Millennium Development Goals (MDGs) for water and sanitation, cornerstones for remedying the global water crisis, by more than US\$48 billion.

Irrigation in agriculture, the third water sub-sector examined in this report, accounts for 70 per cent of water consumption. In turn, irrigated land helps produce 40 per cent of the world's food. Yet irrigation systems can be captured by large users. In Mexico, for example, the largest 20 per cent of farmers reap more than 70 per cent of irrigation subsidies. Moreover, corruption in irrigation exacerbates food insecurity and poverty.

Irrigation systems that are difficult to monitor and require experts for their maintenance offer multiple entry points for corruption, leading to wasted funding and more expensive and uncertain irrigation for small farmers. One particular problem is the regulation of irrigation with groundwater resources. As a result of weak regulation, large users in places such as India or Mexico can drain groundwater supplies with impunity, depriving smallholders of essential resources for their livelihoods. In India, the total corruption burden on irrigation contracts is estimated to exceed 25 per cent of the contract volume, and is allegedly shared between officials and then funnelled upwards through the political system, making it especially hard to break the cycle of collusion.

The fourth water sub-sector to be covered in the *Global Corruption Report 2008* is that of **hydropower**, involving dams. Few other infrastructure projects have a comparable impact on the environment and people. The hydropower sector's massive investment volumes (estimated at US\$50–60 billion annually over the coming decades) and highly complex, customised engineering projects can be a breeding ground for corruption in the design, tendering and execution of large-scale dam projects around the world. The impact of corruption is not confined to inflated project costs, however. Large resettlement funds and compensation programmes that accompany dam projects have been found to be very vulnerable to corruption, adding to the corruption risks in the sector.

Corruption in water: a challenge beyond the water sector

The importance of water for human development and environmental sustainability is well established and the global water crisis has assumed a central role in the development and environment debate. The *Global Corruption Report 2008* highlights that corruption in water is a significant factor in this crisis and therefore also a critical issue for global public policy. The impact of corruption in the water sector on lives, livelihoods, food security and international cooperation also underscores the many linkages to global policy concerns.

Corruption in water is a concern not only for the water sector. It also complicates the global challenge to confront climate change, and must be addressed in the building of a governance framework that updates and expands the Kyoto Protocol. Further, corruption in water must feature more prominently in any debate on environmental sustainability. It also matters for a global security agenda that is concerned about the root causes of conflict, extremism and failing states. Finally, corruption needs to be recognised as an obstacle to the global resolve to bring development to all, most prominently articulated in the Millennium Development Goals and related policy initiatives.

Water: a high-risk sector for corruption

The *Global Corruption Report 2008* draws some preliminary conclusions about why water is especially vulnerable to corruption.

- **Water governance spills across agencies.** Water often defies legal and institutional classification, creating a regulatory lacuna and leaving governance dispersed across countries and different agencies with many loopholes to exploit.
- **Water management is viewed as a largely technical issue in most countries.** Managing water is still predominantly approached as an engineering challenge. Consideration for the political and social dimensions of water, including corruption issues and their costs, is limited.
- **Water involves large flows of public money.** Water is more than twice as capital-intensive as other utilities. Large water management, irrigation and dam projects are complex and difficult to standardise, making procurement lucrative and manipulation difficult to detect.
- **Private investment in water is growing in countries already known to have high risks of corruption.** Nine of the ten major growth markets for private sector participation in water and sanitation are in countries with high risks of corruption, posing particular challenges for international investors.
- **Informal providers, often vulnerable to corruption, continue to play a key role in delivering water to the poor.** Informal water providers provide important bridging functions in many developing countries to bring water to the poor. They often operate in a legal grey zone, however, making their operations vulnerable to extortion and bribery.
- **Corruption in water most affects those with the weakest voice.** Corruption in water often affects marginalised communities, the poor or – in the case of its impact on the environment – future generations. These are all stakeholders with a weak voice and limited ability to demand more accountability.
- **Water is scarce, and becoming more so.** Climate change, population growth, changing dietary habits and economic development all exacerbate local water scarcities. The less water there is available, the higher the corruption risks that emerge in control over the water supply.

From diagnosis to action: lessons for fighting corruption in the water sector

The case studies and experiences presented in the *Global Corruption Report 2008* yield a set of four key lessons for fighting corruption in the water sector.

- **Lesson one: prevent corruption in the water sector, as cleaning up after it is difficult and expensive**

When corruption leads to contaminated drinking water and destroyed ecosystems, the detrimental consequences are often irreversible. When subsidised water gives rise to powerful agricultural industries and lobbies, refocusing subsidies on the poor becomes more difficult.

- **Lesson two: understand the local water context, otherwise reforms will fail**

One size never fits all in fighting corruption, but this is particularly the case in the water sector, where conditions of supply and demand, existing infrastructure and governance systems vary widely. Understanding local conditions and the specific incentive systems that underpin corruption is a prerequisite for devising effective reforms.

- **Lesson three: cleaning up water corruption should not be at odds with the needs of the poor**

The costs of corruption in the water sector are disproportionately borne by the poor. Pro-poor anti-corruption efforts should focus on the types of service provision that matter most to them, such as public standpipes or drilling rural wells. Such efforts need to be designed so that they do not undercut peoples' basic livelihoods: for example, a crackdown on informal service providers may eliminate an important way for the poor to secure reliable access to water.

- **Lesson four: build pressure for water reform from above *and* from below**

Ending corruption in the water sector requires breaking the interlocking interests and relationships that are perpetuating the problem. This is a formidable challenge. Leadership from the top is necessary to create political will and drive institutional reform. Bottom-up approaches are equally important to curbing corruption, by adding checks and balances on those in power that include the monitoring of money flows or benchmarks of utility performance.

Stemming the corruption tide: recommendations for reform

The *Global Corruption Report 2008* presents a number of promising strategies and tools to tackle corruption in water resources management, drinking water and sanitation, irrigation and hydropower. A particular country's dynamics determines the right mix and sequence of anti-corruption reforms, but the following is a summary of the most promising recommendations.

- **Recommendation one: scale up and refine the diagnosis of corruption in water – the momentum and effectiveness of reform depend on it**

Much work remains to be done on studying the scope and nature of corruption in water. Tools such as corruption impact assessments for different areas of the water sector, public expenditure tracking or poverty and corruption risk-mapping help to shed valuable light on different aspects of the puzzle. These tools need to be refined, adopted widely across the water sector and adapted to specific local contexts to lay the foundations for targeted reform.

- **Recommendation two: strengthen the regulatory oversight of water management and use**

Government and the public sector continue to play the most prominent role in water governance and should establish effective regulatory oversight, whether for the environment, water and sanitation, agriculture or energy. There are a number of institutional reforms that can make regulatory capture less likely and therefore should be prioritised: capacity building and training for regulatory staff, the provision of adequate resources (human, financial, technical and administrative), the creation of a clear institutional mandate, the

implementation of transparent operating principles and the introduction of a public consultation and appeals process.

- **Recommendation three: ensure fair competition for and accountable implementation of water contracts**

In many countries, the private sector has embraced basic anti-corruption measures as part of its standard operating procedures, but more must be done for this to have an impact on water. Governments and contractors can enter into integrity pacts (IPs) for public procurement processes. The large investment demand in the water sector means that export credit agencies, commercial banks and the lending wings of international financial institutions can play an important role in fighting corruption and should expand their due diligence requirements to include anti-bribery provisions.

- **Recommendation four: adopt and implement transparency and participation as guiding principles for all water governance**

Transparency lays the foundation for public oversight and accountability and must come to characterise how water sector business is done by public and private stakeholders alike. Too often, commitments to this principle have not been translated into action. There are, however, some examples of how transparency is being practised in water governance in the *Global Corruption Report 2008* – from opening up project budgets to disclosure of performance indicators. These must be repeated and used as the basis for learning and improvement.

Increased *participation* has been documented throughout the *Global Corruption Report 2008* as a mechanism for reducing undue influence and capture of the sector. Participation by marginalised groups in water budgeting and policy development can provide a means for adding a pro-poor focus to spending. Community involvement in selecting the site of rural wells and managing irrigation systems helps to make certain that small landholders are not last in line when it comes to accessing water. Civil society participation in auditing, water pollution mapping and performance monitoring of water utilities creates important additional checks and balances. Transparency and participation build the very trust and confidence that accountable water governance demands and civil society plays a critical role in turning information and opportunities for participation into effective public oversight.

Creating momentum for change: a global coalition against corruption in water

Implementing these recommendations requires a strategic vision. The global challenge of corruption in the water sector needs a global response, local expertise and adaptation and buy-in from a wide range of stakeholders. Transparency International, with its network of corruption experts and advocates in more than ninety countries, is well positioned to make a significant contribution. Efforts to bring more transparency to the water sector, for example, can benefit from TI's long-standing research and advocacy on raising the standard of freedom of information and transparency in governance systems around the world. Initiatives for more integrity in corporate participation in the water sector can adopt TI's

private sector anti-corruption tools for their purposes and link into TI's extensive work on accountable public procurement. The Water Integrity Network, a fast-growing international coalition of water experts, field workers, academics and activists that worked with TI in the development of this report, is spearheading the fight against corruption in the water sector. The *Global Corruption Report 2008* presents strong reasons why many others should join in and help generate the momentum for sustained reform.

The onset of climate change and increasing stress on water resources means that a critical crossroads has been reached. As the *Global Corruption Report 2008* shows, tackling corruption in the water sector is not only a moral imperative that serves the interests of many, particularly the poor. It is also feasible. The time for action is now.