

## Corruption in the Hydropower Sector

### Query:

***“Corruption challenges and mitigating measures within production and selling of electricity. What studies are done on this sector and how development assistance is at risk and/or may lessen corruption risk overall within the sector? What sector specific challenges and mitigating measures are related to large scale and petty corruption? What sector specific challenges and mitigating measures can be identified related to a projects/programmes different phases (planning and implementation)? Are there particular challenges and measures when going through SWAPs? Are there concrete examples and lessons learned from involvement of civil society in monitoring?”***

### Purpose:

“The purpose of the query is first to identify risks, counter measures and lessons learnt within the production of electricity.”

### Content:

- Part 1: Introduction
- Part 2: Corruption Challenges in Hydropower
- Part 3 : Hydropower Corruption Risk Mapping
- Part 4 : Recommendations for Fighting Corruption in the Hydropower Sector
- Part 5: Further reading

### Part 1: Introduction

Little research, studies and materials are available on the specific challenges associated to corruption in the generation, transmission and distribution of electricity and there is no known systematic survey of studies in this sector. The helpdesk consulted with a senior anti-corruption expert currently working on a list of publications on sector related issues and agreed with the enquirer to draw on a list of pertinent studies from which corruption risks can be identified at the various stages of electricity provision.

In this U4 Expert Answer we provide reflections on challenges and corruption risks in the generation of electricity by one means: hydropower. Drawing on an as yet unpublished TI Global Corruption Report on the Water Sector, we have been able to provide the following information and a list of further reading. In the next section we set out an overview of corruption challenges in the hydropower sector. In Part 3 we set out a template for mapping corruption risks in the hydropower sector. In Part 4, rather than lessons learned, we offer some recommendations for fighting corruption addressed to six kinds of actors involved in hydropower projects: multilateral and bilateral donors, export credit agencies (ECAs) and

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commercial banks; national governments, civil society, media and NGOs; private sector companies and intergovernmental systems and international legal systems.

## **Part 2: Corruption Challenges in Hydropower**

Corruption in the energy sector can take many forms, ranging from petty corruption in meter reading and billing, corrupt management practices, to grand corruption in procurement processes and contract administration. The effects of corruption on access to electrical services in developing countries are particularly severe. In Africa, for example, findings from the Global Corruption Barometer 2006 indicate that 33 % of the respondents who had contact with utilities reported paying a bribe, making it the second sector most affected by corruption after the police. Effects include higher costs and charges for electrical services and longer timeframes for provision of equitable access to services. This often has a disproportionate impact on the poor and vulnerable who are most in need of services at affordable levels.

In the case of hydropower, corruption can also sacrifice environmental sustainability and amplify the adverse effects of hydropower projects on ecosystem services, which many people at subsistence levels rely on for daily livelihoods and health. Chronic corruption ultimately undermines public trust and the political sustainability of hydropower as an option for societies to consider; it leads to conflict, corruption in land allocation and deters investors and financiers concerned about their reputational risk and other costs of corruption.

About 17 percent of global electricity generation is provided by hydropower. Hydropower is a high-risk sector on account of the large amounts of global investment it attracts and the multiple opportunities this creates for bribery, fraud and other forms of corrupt behaviour. The complexity of hydropower projects can also foster risks of corruption. Corruption risks start in up-front planning where choices are made about electricity options and span the project cycle through construction, operation, maintenance and rehabilitation or decommissioning phases. In hydropower projects, typically, several ministries and departments are involved (e.g. agencies responsible for power and energy, agriculture, roads, and environment, as well as river basin organizations, where functional). Even if there is a single coordinating body and no major jurisdictional battles, this still leaves numerous opportunities for disconnection, inadequate cooperation and collaboration, and confusion. Combined with a lack of transparency, this provides fertile ground for corruption and often even undetectable manipulation and abuse.

Complexity on the institutional side is mirrored by complexity in the contracting structures for project implementation and operation (e.g. many different supply, construction and consultancy contracts, often with joint ventures involving several companies, and frequently a mix of domestic and foreign-based firms). In countries where independent power producers are encouraged, the absence of transparency in power purchase agreements (PPAs), often sanctioned by governments, is typically a concern. When international financial institutions are involved, each may have their own procurement guidelines and preferences and also tied aid restrictions. In developing countries where government systems in the water and power sectors are in transition, the debate on financing hydropower development feeds into ongoing national debates about public sector governance, public procurement, the balance of public and private investment, and the influence of multinational companies.

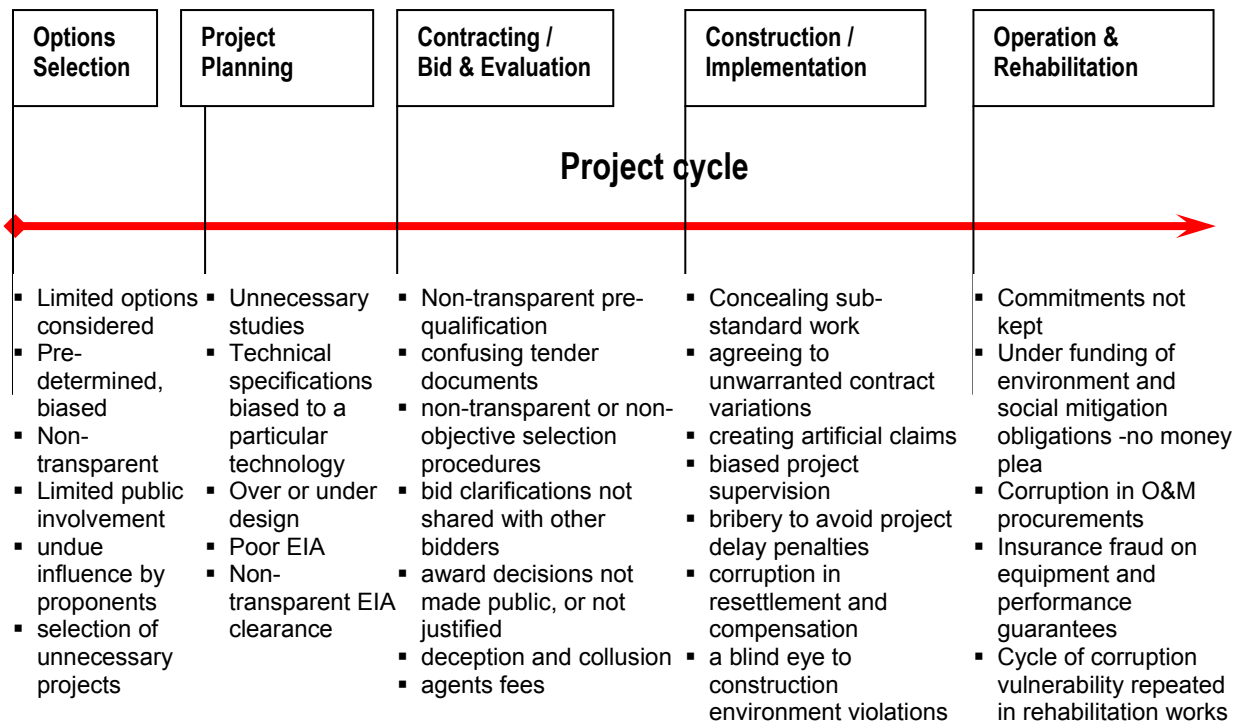
### Part 3: Hydropower Corruption Risk Mapping

It is widely acknowledged that corruption vulnerabilities in water and energy infrastructure provision needs to be seen through the lens of the project cycle. This means carefully assessing corruption risk in hydropower from the early stages of project identification and design through pre-qualification and tender, construction and operation stages.

(i) Corruption risk assessment needs a project cycle approach.

The below diagram illustrates the range of problems along the project cycle for hydropower projects. This focuses more on selection of hydropower projects and the construction and management of the hydropower assets and less on the service provision aspects.

#### Scope and enabling conditions for corruption in hydropower



The hydropower project cycle includes five major phases from the planning stage of the project where technical options are considered and decided upon, the bidding process where companies are being contracted to implement the project, the construction phase to the project operation and maintenance phase. Specific corruption risks are associated with each phase of the project cycle.

At the strategic planning phase, corruption vulnerabilities start with the potential for undue political influence in the identification or selection of hydropower sites, or undue outside influence from project developers, or with inter-departmental collusion in project approval.

During the contracting and project implementation phases, grand corruption can occur in the form of bid rigging and kickbacks associated with the procurement process and corruption of

contract administration and supervision (e.g. kickbacks to accept inflated bills, unit costs and amounts of material), often channelled through agents or sub-contractors to disguise the practice.

Finally, vulnerabilities continue during the project operation and maintenance phases where the cycle of corruption can start all over again with the procurement for maintenance and the award of refurbishment and upgrading contracts.

## **Part 4: Recommendations for Fighting Corruption in the Hydropower Sector**

The following recommendations are directed to six kinds of actors who can engage in efforts to fight corruption in the hydropower sector. These recommendations reflect the view that much of the problem can be addressed by focusing on deterrence and prevention in key areas. Measures must of course be tailored to fit the particular context of a country's governance and legal system and efforts can only be effective if they reflect a country's own priorities.

### ***Multilateral and bilateral donors***

Governance Improvement Plans (GIPs) should be a routine part of donor projects (e.g. all project lending dealing with hydropower requires corruption risk assessments and governance improvement plans with independent monitoring). A skilled assessor, or team of assessors, given appropriate access to documents and individuals for the duration of the project, could play a material role in preventing and uncovering corruption. Key project participants should commit to a strict anti-corruption policy. This reinforces the notion that long-term mechanisms to fight corruption must be an integral part of sustainable infrastructure development similar to safeguard policies for environment and social management aspects. Donor projects typically have 3 components; a policy, infrastructure financing and capacity building component. In essence, the policy component would incorporate the anti-corruption initiatives; the capacity building component would support its implementation. As a high-risk sector, the hydropower sub-sector can take the lead with this agenda in the power and water sector.

### ***Export credit agencies (ECAs) and commercial banks***

Anti-corruption measures on hydropower financing should be harmonized by ECAs and incorporated in the Equator Principles. This requires adopting and applying anti-corruption and bribery measures, disclosure policies and standards consistently by all OECD member ECAs and incorporating these in the voluntary Equator Principles for commercial lenders. [\(For further information on the Equator Principles, see http://www.equator-principles.com/\).](http://www.equator-principles.com/) This reflects an important message from industry and finance institutions that corruption is not only bad for business, it distorts trade, and increases risks and costs for all extending financing for public sector and hydropower projects.

### ***National governments***

Anti-corruption tools specific to hydropower projects should be adopted in national / sectoral governance systems dealing with hydropower projects. This requires adapting tools appropriate to fight corruption in national systems of governance, the hydropower sub-sector, and on specific projects with related capacity building support from the donor community. Many tools needed to fight corruption in hydropower at sector and project levels have been verified and tested, for example, National Integrity Pacts (NIPs) for overall regulatory

systems; Project Integrity Pacts (IPs) for the utilities and government agencies, and; Business Integrity Pacts (BIPs) for project companies and corporations. Among other measures, public companies and enterprises may be required to publish salaries and representation limits of staff members, or require senior staff to make an annual declaration of assets. At the project level, adopting tools like the Compliance Plans for dam projects is recommended by the World Commission on Dams (<http://www.dams.org/>).

### ***Civil society, media and NGOs***

Civil society and NGO involvement in governance reform around hydropower projects should be strengthened, especially independent monitoring, social accountability and compliance activities. Civil society can play a role in providing transparency and enabling local people most vulnerable to the effects of corruption to have a voice in anti-corruption measures on hydropower projects that impact them. An effective communications strategy on infrastructure projects can ensure that beneficiaries have the information they need to monitor the delivery of project benefits and hold providers accountable.

### ***Private sector companies***

Private sector companies involved in hydropower development and equipment supply should adopt transparent mechanisms to promote integrity in business transactions. Project companies developing or managing hydropower assets and companies supplying equipment or services should meet recognized good practice standards for corporate governance and have explicit internal anti-corruption policies. Companies should apply monitorable codes of ethics across the company, from executive levels to the shop floor. Industry associations can provide anti-corruption guidelines for the hydropower industry, either on an international or a regional basis in order to reach members not directly involved in donor or ECA financing.

### ***Intergovernmental systems and international legal systems***

Existing UN and OECD Conventions to combat North–South Corruption should be enforced and measures should be introduced to target high corruption-risk infrastructure sectors. The critical factor will be to demonstrate in clear and convincing terms the many adverse impacts that corruption in hydropower has on national development strategies.

## **Part 3: Further reading**

The Cost of Corruption for the Poor: The Energy Sector, April 2000, Public Policy for the Private Sector Note N°207, The World Bank Group

<http://rru.worldbank.org/Documents/PublicPolicyJournal/207lovei.pdf>

Transparency and Corruption Prevention on Building Large Dams, December 26, 1999 Paper for World Commission on Dams submitted by Michael H. Wiehen, Member of the Board, Transparency International.

[http://www.wcainfonet.org/servlet/BinaryDownloaderServlet?filename=1068207860585\\_corruption.pdf](http://www.wcainfonet.org/servlet/BinaryDownloaderServlet?filename=1068207860585_corruption.pdf)

The Role of Transparency International in Fighting Corruption in Infrastructure, Donal O'Leary, Senior Advisor Transparency International Berlin, Germany - ANNUAL BANK CONFERENCE ON DEVELOPMENT ECONOMICS, TOKYO, MAY 29-30, 2006 Rethinking Infrastructure for Development

<http://siteresources.worldbank.org/INTDECABCTOK2006/Resources/OLeary.pdf>

Setting Standards For Communications And Governance: The Example of Infrastructure Projects, Prepared for: The World Congress on Communication For Development (WCCD) October 25-27, 2006 for Thematic Session 2F, Good Governance in Practice: The Example of Infrastructure Projects <http://www.devcomm.org/> (to be updated)

Public Sector Governance Public Procurement, The World Bank's Conflicted Corruption Fight, EthicsWorld, May 30, 2006  
<http://www.ethicsworld.org/publicsectorgovernance/publicprocurement.php#wb>

International Hydropower Association, Sustainability Guidelines  
[http://www.hydropower.org/sustainable\\_hydropower/sustainability\\_guidelines.html](http://www.hydropower.org/sustainable_hydropower/sustainability_guidelines.html)