



Working Paper:

Corruption and Environment at the Local Level

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Corruption can have a devastating impact on the environment. This paper will examine two instances of corruption in cities. It will describe how urbanization has created serious pressure on the ability of local governments to achieve their fundamental objectives. Finally, it will discuss new thinking on environmental management at the local level and integrity in urban governance. Local governments, using these systems, can reduce corruption, more effectively manage local environmental issues, and better respond to the challenges of urbanization.

Corruption at the Local Level

Examples of corruption that seriously impact the environment are not hard to find, unfortunately. Recently, in Indonesia, following the resignation of President Suharto, the Jakarta City Government canceled an agreement with two companies involved in providing water to the capital. One of the companies was owned by a longtime Suharto business partner; the other was controlled by one of Suharto's sons. These companies, together with their foreign partners, had corruptly procured two long-term concessions in 1997, short-circuiting a painstaking process of increasing the supply of private credit for municipal enterprises that was to have involved the issuance of revenue-backed bonds by local public water authorities. The two concessions, both for 25 years, came to a total of 1.4 billion US dollars.

The second example is from Eastern Europe. This is much more circumstantial, so I am not going to name the country or city. But it is a situation that you will all recognize. Local governments have been given increased powers in the last five years. Many of them have moved to privatize or otherwise improve their city's transportation, water supply, and housing systems. This example concerns transportation and the city's public bus system. In many cities, important decisions needed to be taken on whether to modernize their fleets of buses and whether it might be time to change the public transportation system. But, unfortunately, in some cases, the cities did not examine what its alternatives were to buying those new buses. Or how many they really needed, if any at all. Perhaps the better answer might have been a light rail system or some other combination of transportation supply. When studies were done, they were sometimes financed by these same transportation companies. The process for selecting a supplier may have been perfectly above board, but the process that led to it was fatally flawed.

The consequences from these two examples are clear. Consequences for the environment and consequences for the communities. In Jakarta, the city and, by extension, all its residents, may have suffered because, in an under the table deal, too little was probably paid to the city. The commissions that may have been paid by the companies would have been recuperated in some way. Generally, it comes from higher charges to the population for their water. Both foreign company partners are respected for their technical competence, but in such situations the city was not in a position to insist on its environmental goals.

In the European example, the absence of a system to ascertain the best solution, financially, technically, and environmentally may come to haunt the cities concerned. Greater air pollution is certainly one possible result.

What Urbanization Means for Local Governments

The world is urbanizing at a very rapid pace. The examples above illustrate what can happen in these rapidly urbanizing situations. The pressure to provide better services and the lack of public resources to do so underlie both situations.

In my work on urban issues, and especially in the past five years, it is clear that local authorities face fundamental issues in trying to accomplish their objectives.

First, they need to deliver the services that people are expecting. The more people there are, the more difficult this becomes, and the better organized and managed they need to be. The demand for water, transportation, housing, and economic development, each with substantial impact on the environment, is accelerating.

Second, local governments often do not have the authority and resources to do the jobs that people demand. Or they have the responsibility without the financial resources. Decentralization of resources has not kept pace, in many areas, with decentralization of responsibility. Furthermore, since many of the newcomers to cities are poor, the resources that cities are able to mobilize on their own often fall short.

Third, local governments have been neglected in the past by powerful central governments. Technological and human resources have been concentrated at the center. There is a large gap to fill to bring local governments up to the standard required to achieve their objectives.

Fourth, many countries are now in transition and turmoil, either from one basic economic system to another (as in Europe) or in figuring out how to operate when the economic and financial system is collapsing (as in Asia). Local governments are particularly vulnerable in these situations because of their weak resource base and because these abrupt transformations hit hardest on the majority of poor people within cities.

Environmental Management Systems

In talking about the issues that urbanization brings, it is clear that management plays a crucial role in how well a city is able to respond. If a city is well managed, it stands a better chance of withstanding the pressures of corruption. It also stands a better chance of coping with the environmental pressures that urbanization brings. Transparency is a key part of successful management systems.

One system being tried in the U.S. seems to hold promise for not only improving a city's environment, but also reducing the likelihood that the examples of corruption I described earlier will be repeated. Not impossible, but certainly less likely. This is called EMS for Cities, Environmental Management Systems for Cities. It is now being run as a pilot project in seven American cities, one county, and one State prison system. USAID is also working with the same concept on a pilot basis in other countries.

In the United States, the Environmental Protection Agency has funded this two year program, which is directly descended from and related to the concepts of ISO 14001. ISO (International Organization for Standardization) 14001 is a system designed to improve corporate environmental management. In many ways, cities and corporations face the same kinds of problems and pressures with regard to the environment. They both can generate extensive waste streams. They both have public health and community well-being responsibilities. And, finally, they are both subject to environmental regulations.

EMS for Cities is a management system that can help a city take environmental actions systematically. It can be complex, as might be needed in cities with complicated environmental issues and an extensive regulatory framework. But, it can also be quite straightforward and simple. It needs to be adapted for use in each particular city.

EMS can help a city address a number of pollution issues and get beyond the traditional end of pipe solutions to environmental pollution by providing incentives to transform the processes themselves that lead to waste. In other words, fix the problems before they begin. EMS looks comprehensively at:

- delivery of environmental services (water supply, waste water treatment, solid waste management);

- management and control of industrial and other pollution sources in and around the city limits;
- groundwater, surface water, and air quality monitoring and health risk assessment;
- cleaner public transportation services (through increased use of fuel efficient or clean vehicles, use of clean fuels, and mass transport systems).

How is all of this accomplished? A comprehensive answer is not possible in this short paper, but the major steps the city must undertake are as follows:

1. a policy statement,
2. identification of all activities of the city that have an impact on the environment,
3. setting performance objectives,
4. achieving these objectives,
5. periodically reviewing the strategy and objectives.

One of the most important things about EMS is that it needs to take place within a framework in which the city has assessed its environmental needs and has come up with an environmental strategy for the future. This strategy needs to be arrived at with maximum involvement of the public in order to have the most possible inputs on what the citizens want and need. What their priorities are. When this is done in a transparent and open way, the city then becomes accountable to the public for implementing what has been agreed upon. And progress has to be monitored and accounted for.

There have already been some conclusions drawn from the pilot projects in the United States. Most of the towns involved are fairly small and do not have someone specifically designated to be an environmental manager. This has made it more difficult and should be considered by any town considering how to introduce systematic environmental management. Someone is needed who can take a hard look at the environment and represent its interests, rather than entrusting this job to the public works person or generalist, who has traditionally been responsible.

The goal of all of this is a cleaner city and better service delivery. But the results are also likely to be a cleaner city in the second sense of the word. Remember now our European and Indonesian examples. Would they not have been helped if there had been a clear, publicly accepted and known environmental strategy that included how the Council was going to deal with both transportation and privatization issues? Furthermore, as part of EMS, there has to be clear public knowledge for undertaking each of the major steps the city proposes. Would this have been enough in the face of a determined effort like that in Jakarta? No, probably not. This is why we must now examine some of the other steps that a city needs to take if it is going to deal with corruption issues that may ultimately harm the environment and end up costing the city and its inhabitants much more money.

Integrity Systems

Consensus is gradually emerging among practitioners that a comprehensive approach to integrity in urban governance can help deter corruption. Each of the components in this system is important. Transparency International (TI) is pioneering a system of integrity in urban governance with three major tools.

First, there is the municipal survey. This can come in many shapes and forms and needs to be specifically tailored to the needs of the particular situation. This survey can be carried out in a number of different ways. It can be limited to city employees in a department that deserves focused attention. It can be expanded, and this is often very useful, to include the consumers or residents of a city's services. In that way, the city gets to hear firsthand what the public perception is of the job that they are doing. The survey can be carried out in the setting of a workshop, exchanging views and experiences on how to improve services. If there are suspected problems of corruption, it can be used to find out what they are and to get suggestions from the employees on how to combat this. It should not come as any surprise to learn that very often, most people in a department known for its corruption do not like to be part of a corrupt organization. The idea is to begin to pinpoint where the problems are and what steps might be taken. The survey can also be performed by a third person, someone from outside and simply be undertaken on the basis of interviews and possibly a workshop. Each situation is different.

In order for the survey to be successful, it is vital to have the support of the top leadership of the city. And it has to be the active support, because employees know very quickly when something is serious. There are of course situations, in which much more than a survey is needed. When there is a bad situation that is widely known, action should be taken without hesitation. This requires the police and the judicial system. And if a campaign is going to be successful, it often is necessary to go after the most prominent people involved from the outset. People will then know that you mean business.

The second tool that TI advocates is the integrity workshop. An integrity workshop is generally much broader than the survey workshops I talked about within the city itself. The integrity workshop is intended to bring together a broad range of people and it also reflects TI's coalition approach to addressing corruption issues. Out of this broader workshop might well come a detailed work plan for a municipality, including the survey to see where the problems really lie. Thus, an integrity workshop might be the very first step in a process. But not necessarily. After a municipality has looked at itself, it might become an advocate for broader changes in the community that would require other participants. For example, one of the problems that might be surfaced in a focused municipal survey and workshop is that the city cannot move very far without the active support of the police and judiciary, who may themselves be compromised. A broader workshop could well help in this situation.

The third tool that TI uses in this process is the integrity pact. The integrity pact is an agreement among all potential parties to a procurement that they will neither bribe nor be bribed. Thus, in a transportation procurement, the city and all potential bidders for the contract would agree that the process would remain transparent and be undertaken in complete accordance with established rules. Donors could also be part of this system, both directly and indirectly. Sanctions need to be severe and enforced in the event of a breach.

These are the basic approaches that seem to hold the most promise for prevention or lowering the possibility for corruption at the local level. They must be combined, of course, with vigorous prosecution of those found to be involved.

To return to our first example, if Jakarta had had in place a system that included the integrity pact concept for these major water concessions, could what happened have been avoided? One would like to think so, although when there is that much high power involved it is always difficult to speculate. It undoubtedly would have helped because the foreign companies themselves would have been part of the system. Similarly with our European example. And if the EMS for Cities had been in place, the chances for improving the environment and avoiding falling prey to the temptations of corruption would have been increased.

There was a sequel to the Jakarta water concession episode, even before the recent story in the Washington Post. As a result of the outcry and pressures, Presidential Decree 7/98 was issued earlier this year, requiring competitive bidding in municipal sponsored private infrastructure projects. And since then, a number of smaller projects have actually been bid this way.

Conclusion

This is an eternal struggle and one that is not easily won. It requires constant vigilance. As well as vigilance and transparency, it also requires a great deal of work at all levels of society. The reason why a number of these corrupt transactions happen is that the systems that control transactions is not very strong. For example, there are a number of elements that contribute to the creation of strong successful market systems that encourage competition. These include competent government regulation, rigorous accounting practices, a diverse field of suppliers, and a well functioning and independent financial system. These elements need to be built over time because they are generally not very strong in many countries. While these institutions are being built, the general public must rely on having a system of vigorous disclosure that will discourage people from taking chances.

Putting environmental management and integrity systems in place is not easy. To do so is, however, important. If a city can successfully accomplish both, it stands a very good chance of being better able to accomplish its overall development objectives.

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