



Corruption and Public Utilities: The Case of the Water Sector

Corruption and Public Utilities: The case of the water sector

Introduction

Introduction

Causes

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Effects

Analysis France

Analysis Germany

Corruption in France

Corruption in Germany

Conclusion

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- 3 parts:
 - 1) Corruption in theory
 - 2) Comparative analysis France and Germany
 - 3) Corruption cases in France and Germany
- Underlying hypotheses: strong relation between
 - 1) corruption and modes of organization
 - 2) corruption and regulation

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1. Theory: Causes – Monopoly and institutional aspects

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Corruption = f (Monopoly, Discretion, Transparency)

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- Water distribution meets these characteristics
 - Natural monopoly
 - High fix costs, negligible marginal costs
 - Existence of important rents → need for regulation
 - Institutional factors influence D and T
 - question of regulation
 - Concerns quality and economic aspects
 - Modes: institutional or contractual
 - Levels: national, regional, local

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1. Theory: Causes – Institutional aspects

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■ Corruption and decentralization / federalism

■ Pros

- Decentralized information
- Easier to detect corruption

■ Cons

- Multiplication of agents
- Intimacy of a small network
- More corrupt opportunities

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1. Theory: Forms – Organizational aspects

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- Corruption depends on modes of organization
 - Public management
 - Hypothesis: government not benevolent
 - Patronage, favoritism, nepotism
 - Embezzlement
 - Privatization
 - Hypothesis: no real competition, state intervention
 - Patronage, favoritism, nepotism
 - Regulatory capture
 - Public-private partnerships
 - Corrupt opportunities ex ante and ex post
 - Bribes
 - Patronage
 - Regulatory Capture

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1. Theory: Effects

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- Until early 90s “grease the wheels” hypothesis
 - Enhances efficiency and speeds up commerce
 - Not realistic
 - Direct effects
 - Costs
 - Consumer prices
 - Quality
 - Productivity
 - Investments
 - Transaction costs
 - Indirect effects
 - Public revenue
 - Growth
 - Institutions

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2. Comparative Analysis: French water sector

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- Modes of organization and market structure
 - Public-private partnerships dominate
 - Oligopolistic market
 - Veolia Eau, Suez-Lyonnaise des Eaux, SAUR
- Regulation
 - Institutional concerning water resources management and quality
 - Different levels
 - Tariffication
 - Specificity: Sapin, Barnier and Mazeaud laws
 - Contractual dominates
 - Weaknesses
 - Abundance of exceptions permitting discretion
- Expectation
 - Concentrated large-scale corruption in the form of bribes

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2. Comparative Analysis: German water sector

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- Impact of federal structure
- Modes of organization and market structure
 - Public management dominates
 - 14,600 operators
- Regulation
 - Institutional dominates
 - Different levels
 - Tariffication
- Expectation
 - Dispersed corruption including smaller amounts in the form of embezzlement

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3. Corruption cases: France

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- Grenoble 1987
 - Important aspects
 - Corruption between “friends”
 - Large scale bribes
- Implicated persons: Mayor, CEO of Lyonnaise des Eaux and executives
- The deal
- Scandal and sentences
- Effects
 - Price increases
 - Decline of investments
 - Decline of quality
 - No causality but convergence of these indicators

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3. Corruption cases: Germany

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- Federal structure makes detection difficult
- More difficult to detect corruption in public management
- Schleswig-Holstein
 - Important aspects
 - Corruption very dispersed
 - Risk that it remains unnoticed
 - Embezzlement
- Implicated parties: Public employees, construction firm
- The deal
- Detection
- Effects difficult to determine

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- Confirmation of hypotheses
 - Strong relation between corruption and modes of organization
 - Strong relation between corruption and regulation
 - Decentralization / federalism has an impact on corruption
- Methodological problems to test hypotheses
- Further research needed
 - How to measure corruption in the water sector?
 - How to estimate the impacts of corruption in the water sector?
 - More knowledge necessary about interaction of regulation and corruption
 - Rather centralized / decentralized regulation?
 - Role of federalism → political regime
 - Interaction level of regulation / mode of organization

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