



THE ROLE OF THE PRIVATE SECTOR IN PROMOTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE INDO-PACIFIC REGION

Transparency International (TI) believes that **governance and anti-corruption measures** play a critical role in setting out the relationship between companies and government in order to create a virtuous cycle of increased economic growth and reduced poverty in the Indo-Pacific region, as well as elsewhere.

As evidence has shown, governance and anti-corruption are critical factors for growing business and overall prosperity in countries by:

- o creating a foundation for economic growth and productivity (including raising incomes);
- o catalysing investment by creating a stable and reliable investment climate; and
- o promoting trade by eliminating barriers, increasing efficiency and competition, and raising exports.

An emphasis on actions, programmes and interventions to raise the bar on governance and fight corruption is the best way for the Australian government to engage in sustainable and inclusive business in the different jurisdictions they operate in to promote economic growth and ensure the private sector is an effective partner in promoting development and poverty reduction.

As such, Transparency International makes the following high-level recommendations:

Recommendation 1: Integrate governance and anti-corruption programming as part of global trade and development policies

Integration could be achieved by the following proposed actions or initiatives:

- o Give priority and make provisions in trade agreements clear that all parties must promote level playing field for all parties of trade agreements
- o Use “scoping studies” to assess the levels of integrity and risks for countries where Australian firms are newly entering or expanding their business and assess levels of bribery in a country and identifying successful anti-bribery mechanisms.
- o Establish operating systems of procurement based on transparency, competition and objective criteria, as part of existing G20 commitments. Further, companies

bidding for large and/or publicly significant infrastructure projects should have effective anti-corruption policies and compliance programmes in place.

- o Require the highest levels of corporate transparency, for example, requiring beneficial ownership transparency of companies bidding for government contracts, and public country by country reporting of payments made to governments, revenues and other information.
- o Ensure that governance and anti-corruption commitments are included in any new development goals adopted beyond 2015.
- o Ensure implementation of the commitments set out in the UN Convention against Corruption, which it signed (2003) and ratified (2005), the OECD Convention on the Bribery of Foreign Officials, the ADB-OECD Action Plan for the Asia Pacific (2001) and the APEC Anti-Corruption Code of Conduct for Business (2007).

Recommendation 2: Adopt a prioritised sectoral approach to integrity building in the private sector

- o Focus should be placed on high risk sectors including oil, gas and mining and contraction sectors. The government should explore the need for country-by-country and project-by-project reporting to be mandated under Australian law (in alignment with EU regulations and company reporting requirements in the US).
- o Priority should be given to equipping the financial sector to combat corruption and prevent illicit flows by strengthening implementation of FATF standards on due diligence and know your customer measures, including enhanced due diligence by the luxury sector in Australia (real estate, lawyers, jewellery and precious metal purveyors).

Recommendation 3: Promote the development, adoption and implementation of international best-practice anti-corruption policies by companies from Australia and partner countries

- o Adopt anti-bribery standards by companies as well as guidelines regarding company ethics, conduct, access to information and whistle-blowing.
- o Support companies to develop company-wide anti-corruption programmes and safeguards and place them as regional and global leaders on the topic
- o Encourage enterprises (whether they are State Owned Enterprises, listed or private) to adopt comprehensive anti-corruption programmes which are regularly monitored for effectiveness, and considering incentives for compliant companies.
- o Assessing impact of corruption on women and other vulnerable groups by businesses and put in place appropriate mechanisms to address the challenges.

Recommendation 4: Facilitate and support countries in Indo-Pacific to strengthen their national procurement and public financial transparency systems and ensure high levels of transparency, accountability and participation

- o Provide leadership and support for these countries to promote level playing field so that Australian and other company can compete and maximise market efficiency.
- o Support would involve promoting public-private agreements on transparent bidding standards and proper third-party monitoring of publicly funded contracts.
- o Focus on increased budget transparency and checks-and-balances in countries receiving Australia's support.

Recommendation 5: Ensure government funding and partnerships reinforce anti-corruption and transparency commitments

- o Adopt a strict policy for only partnering with companies that have anti-corruption policies in place.
- o Require any private sector actor receiving development funding to be accountable and transparent with their management, such as reporting on the use of funds through the International Aid Transparency Initiative (IATI) standard (as has been adopted in the UK).

Recommendation 6: Provide support – political and financial – to tripartite initiatives involving public-private and civil society partnerships that target transparency, accountability, integrity and broader governance concerns.

- o Support collective action initiatives by the private sector, public sector and civil society.
- o Expand Australia's involvement in the Open Government Partnership (OGP) and sector initiatives such as the Extractive Industries Transparency Initiative (EITI) and the Construction Sector Transparency Initiative (CoST).

About the organisation: *Transparency International (TI) is the global anti-corruption movement with more than 100 chapters around the world. All its member organisations, including Transparency International Australia, are non-partisan. TI works with partners in government, business and civil society to put effective measures in place to tackle corruption.*

CONTEXT

Economic Growth: Over the last two decades the private sector has become a significantly important partner in development throughout the Asia Pacific Region. Market liberalisation policies of India and China in early 1990s and the increasingly open economic policies of other emerging markets in the region have dramatically changed the relationship between the private sector and governments and, in turn, public policies towards companies. These shifts have aimed at increasing investment opportunities that leverage the region's infrastructure, build-out, and young educated labour force and low cost of labour as part of national development strategies. This requires having well-trained work forces, good procurement systems, and well-functioning governments.

The evidence clearly shows that **corruption is not conducive to growth, trade or investments**.

- Estimates show that the cost of corruption equals more than 5% of global GDP (US \$2.6 trillion), with over US \$1 trillion paid in bribes each year.
- Corruption adds up to 10% to the total cost of doing business globally, and up to 25% to the cost of procurement contracts in developing countries.
- Moving business from a country with a low level of corruption to a country with medium or high levels of corruption is found to be equivalent to a 20% tax on foreign business.¹
- A ten per cent reduction in corruption is found to raise productivity by 4 per cent of GDP and increase net annual capital inflows by 0.5 per cent of GDP.²
- Countries that invest resources in fighting illicit practices are also economically more competitive.³
- Countries with good anti-corruption records receive, on average, more foreign direct investment (FDI) per capita.⁴

Companies are confronting increased corruption challenges, as part of entering new markets, consolidating their business and working in public-private partnerships.

- An increase in the corruption level from that of Singapore to Mexico impacts foreign investment as much as a tax increase of 20 percentage points would.⁵
- Executive surveys conducted by the World Economic Forum show that bureaucracy and corruption represent the top constraints for firms in emerging economies.⁶
- In a 2011 worldwide business survey conducted by TI, nearly 30% of the respondents declared to have lost business to bribery by a competitor in the last year.⁷

¹ Clean Business is Good Business, the Business Case against Corruption, Joint Publication by the International Chamber of Commerce, Transparency International, the United Nations Global Compact and the World Economic Forum Partnering against Corruption Initiative

² Lambsdorff, Johann Graf. "How corruption affects productivity." *Kyklos* 56, no. 4 (2003): 457-474.

³ Kaufmann, "Myths and Realities of Governance and Corruption."

⁴ Mauro, "Corruption and Growth."; Podobnik, Boris, Jia Shao, Djuro Njavro, Plamen Ch Ivanov, and H. Eugene Stanley. "Influence of corruption on economic growth rate and foreign investment." *The European physical journal B* 63, no. 4 (2008): 547-550.

⁵ Wei. "How taxing is corruption on international investors?"

⁶ Kaufmann, "Myths and Realities of Governance and Corruption."

⁷ Transparency International, *Putting Corruption out of Business*, 2012. <http://www.transparency.org/research/bps2011/>

- Where bribe payments flourish, firms on average waste more time with government officials over bureaucratic negotiations and experience higher, not lower, costs of capital (e.g. credit).⁸

Corruption reduces or distorts the role of the government in enforcement of contracts and protection of property rights.⁹ Strong **anti-corruption practices create a stable and reliable investment climate.**

- In a survey of more than 390 senior business executives, almost **45 per cent said corruption risks led them to not enter a market or pursue a business opportunity.**¹⁰
- More than **35 per cent of companies polled** in another survey **said they opted out of attractive investments due to corruption in the host country.**¹¹

Companies have a responsibility and interest in promoting good business practices –these benefit their bottom line. Ethics – built upon transparency, accountability and integrity –help to set the tone at the top for all company staff to act in conformity with the principle of good corporate practices.

Development: To end poverty, one must end corruption. Transparency International surveys consistently show the same problem of the poorest suffering the most from corruption. According to the 2013 Global Corruption Barometer, of the more than 114,000 people surveyed in 107 countries, one in four people have paid a bribe while trying to access the most basic services. For the poorest countries, this number is one in two.¹² The problem is compounded by weak domestic resources and public financial management systems, which are undermined by illicit flows from the country.

- Corruption in public services is often a manifestation of wide-spread ills in public institutions and the private sector.
- Illicit flows — from capital flight to money laundering and tax evasion —funnel an estimated US\$ 1.6 trillion per year away from the public purse. This money is sorely needed for health care, education, infrastructure and other national public works projects.

But the cost of corruption goes beyond the bribe paid, the law violated or the money stolen. It hits at the core of people’s right to live better lives. It undoes global efforts to end poverty as set out in eight development pledges, known as the Millennium Development Goals (MDGs) that governments from around the globe committed to in 2000 and which they promised to achieve by 2015.

In addition to distorting economic growth, corruption affects equitable distribution of resources across the population, increasing income inequalities, undermining the effectiveness of social

⁸ Kaufmann, Daniel and Shang-Jin Wei. “Does ‘grease money’ speed up the wheels of commerce?” MPRA Paper No. 8209, 1999.

⁹ Tanzi. "Corruption around the world: Causes, consequences, scope, and cures."

¹⁰ PricewaterhouseCoopers, *Confronting Corruption: The Business Case for an Effective Anti-corruption Programme*. London: PricewaterhouseCoopers, 2008.

¹¹ *International business attitudes to corruption survey 2006*, in Control Risks and Simmons & Simmons. *Facing up to Corruption 2007*.

¹² See <http://www.transparency.org/gcb2013>

welfare programmes and ultimately resulting in lower levels of human development. This, in turn, may undermine long-term sustainable development, economic growth and equality.¹³

For a country's equitable and sustainable development, governance mechanisms are needed across the board: from a nation's education and health systems to its financial system and companies. Governance is needed to mitigate climate change and to effectively manage land and natural resources. Governance is also needed for the global system that is tasked with deciding on and monitoring the development commitments that are made beyond 2015¹⁴.

Our findings show that where countries are more open, accountable and respect the rule of law, there is better education, health and access to clean water and sanitation – three of the targets outlined in the MDGs – resulting in:

- o More pregnant women getting proper healthcare and having healthy births
- o More children and young people going to school and learning to read
- o Families having access to clean water and having piping to take their sewage away

As the world looks beyond 2015, it is essential that governance and anti-corruption form a core part of the new commitments.

- o Everyday people know what a difference governance can make in ending poverty. "An honest and responsive government" is among the top three development priorities signalled in a recent global poll of more than 2 million men and women of all ages from 194 countries around the world.¹⁵

The example of public procurement shows why.

- o Corruption in public procurement – a market which is estimated globally at US\$ 2 trillion¹⁶ each year - does not just mean citizens' money wasted.
- o It means that the public's needs are not fairly and properly considered when projects are designed and implemented; it undermines the quality of works and services, which in turn can damage the environment, perpetuate poverty and even cost lives.
- o Practice has shown that where transparency and accountability are low in public procurement, corruption can arise at a rate of between 10 and 25 per cent — and in the worst cases, up to 50 per cent — of the total contract's value.¹⁷

¹³ http://www.transparency.org/files/content/corruptionqas/Impact_of_corruption_on_growth_and_inequality_2014.pdf

¹⁴ UN, "Communiqué Meeting of the High Level Panel of Eminent Persons on the Post-2015 Development Agenda" in Monrovia, Liberia, 1 February 2013.

¹⁴ www.post2015hlp.org/wp-content/uploads/2013/02/Monrovia-Communique-1-February-2013.pdf.

¹⁵ See: <http://data.myworld2015.org/>.

¹⁶ OECD, 'The size of Government Procurement Markets' (Paris, France: OECD, 2002). www.oecd.org/dataoecd/34/14/1845927.pdf. This amount corresponds to potentially contestable government procurement markets, i.e. markets where "competitive pricing exists, where there is actual and effective competition, or there is potential competition due to the existence of low barriers to entry to the market".

¹⁷ Transparency International, 'Handbook for Curbing Corruption in Public Procurement' (Berlin, Germany: TI, 2006). www.transparency.org/whatwedo/pub/handbook_for_curbing_corruption_in_public_procurement.

Partnerships: There has been an increased recognition of the critical role of the private sector as an actor in delivering and supporting development programmes, through public-private partnerships as well as tripartite initiatives. As put forward in their report to the United Nations, the High-level Panel on the Post-2015 Development Agenda agreed there is a need for partnerships between governments, the private sector and civil society in order to align their efforts towards sustainable development.¹⁸ This is a similar position coming out of the Global Partnership for Effective Development Cooperation (GPEDC), which was formed in 2011 and is an effort to bring countries, companies and civil society organisations to work “better together to end poverty” around a common set of principles, which 161 governments (including Australia) and 56 organisations have endorsed.¹⁹

Efforts being led by the Construction Sector Transparency Initiative (CoST), the Global Initiative on Fiscal Transparency (GIFT), the Open Contracting Initiative and the Open Government Partnership (OGP) represent important multilateral, multi-stakeholder processes that are setting a new and common bar for transparency and accountability standards. In addition, the EITI (Extractive Industries Transparency Initiative) aims to strengthen governance by improving transparency and accountability in the extractives sector. They all recognise the critical role of the private sector in making better outcomes for governments and society.

CONCLUSIONS

It is in everyone’s interest for the Private Sector to grow beyond the traditional profit making mind-set and adhere to accountability and transparency. There is no reason why companies should not play by the same rules that are expected of governments.

For growth to be sustainable and consistently reduce poverty, it is crucial for companies to look beyond immediate profit and move towards medium and longer term development strategies.

Governance and anti-corruption programmes play an imperative role in ensuring that the economy grows in a sustainable and inclusive way and that development is promoted alongside poverty reduction across the globe.

This is an area which is traditionally supported by bilateral donors. Given the pervasive nature of corruption and its impact on every aspect of a society and the need of creating a level playing field for businesses, companies have a duty to engage in anti-corruption programmes as much as traditional bilateral and multi-lateral donors.

¹⁸ See http://www.un.org/sg/management/pdf/Monrovia_Communique_1_Feb_2013.pdf

¹⁹ For more information, see: <http://effectivecooperation.org/about/>.