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Department of Foreign Affairs and Trade

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## TI AUSTRALIA SUBMISSION TO THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE DEVELOPMENT POLICY REVIEW

Transparency International Australia welcomes the opportunity to provide this submission into the development of Australia's new International Development Policy.

TI Australia endorses the submission by the Australian Council for International Development (ACFID) and Publish What You Pay (PWYP) Australia.

## TRANSPARENCY INTERNATIONAL AUSTRALIA

TI Australia (TIA) is part of a global coalition to fight corruption and promote transparency, integrity and accountability at all levels and across all sectors of society, including in government. TIA was launched in March 1995 to raise awareness of corruption in Australia and to initiate moves to combat it. TIA believes that corruption is one of the greatest challenges of the contemporary world. Corruption undermines good government, distorts public policy, leads to the misallocation of resources, harms private and public sector development and particularly hurts the poor. It drives economic inequality and is a major barrier in poverty eradication. Tackling corruption is only possible with the cooperation of a wide range of stakeholders. We engage with the private sector, government and civil society to build *coalitions against corruption*. Coalitions against corruption will help shape a world in which government, politics, business, civil society and the daily lives of people are free of corruption.

TI Australia is the national chapter of [Transparency International \(TI\)](#), the global coalition against corruption, with a presence in over 100 countries.

[TI Australia](#), is registered with the Australian Charities and Not-for-Profits Commission (ACNC) and is an affiliate member of ACFID.



## SUMMARY

Transparency International Australia (TIA) holds the firm view that Australia's new International Development Policy (IDP) must clearly focus on eradicating extreme poverty and assisting countries achieve sustainable development and inclusive economic growth. The IDP must prioritise the poorest and most marginalised people and address their critical needs.

This can only be achieved through tackling corruption. The Indo Pacific region scores poorly on the [Transparency International Corruption Perception Index](#), and the [Asia Pacific Global Corruption Barometer](#). Corruption hampers economic growth and increases poverty. It deprives the most marginalized people of equitable access to essential services. Countries that are corruption prone are often conflict prone and characterized by human rights violations. Corruption is not gender neutral, with women and girls bearing the brunt.

Corruption represents a major obstacle to reaching all the SDG goals. There is broad consensus that without meaningful action to reduce corruption, progress towards all SDG goals is likely to be extremely limited.

The government has stated that the IDP will place an emphasis on strategic and economic partnerships in the Indo-Pacific region, reflected through an increased focus on infrastructure. Infrastructure is a corruption prone sector. The provision of loans and grants through the newly established [Australia Infrastructure Financing Facility for the Pacific](#) (AIFFP) will require robust due diligence, transparency and accountability if inclusive economic growth is to be achieved.

## RECOMMENDATIONS

Transparency International Australia recommends that Australia's new International Development Policy:

1. Include measures to address the significant corruption risks in the region, with particular focus on the gender and human rights impacts of corruption;
2. Monitor the impact of corruption against Australia's contribution to achieving the Sustainable Development Goals;
3. Support civil society across the region to help ensure accountability of public and private institutions, strengthened democracies, peace and stability;
4. Implement strong risk management and due diligence for all DFAT international development projects in partnership with the private sector, and particularly in corruption prone sectors such as infrastructure, extractives, construction, telecommunications, and transport; and



5. Require all DFAT and AIFFP funded projects to undertake due diligence, including beneficial ownership disclosure, as outlined in the OECD Due Diligence Guidance on Responsible Business Conduct.
6. Require all DFAT and AIFFP funded projects to adhere to the principles of open contracting through use of the Open Contracting Data Standard

## TI AUSTRALIA POSITION

### Corruption and sustainable development in the Indo Pacific region

Australia's new IDP must take account of the significant corruption risks in the Indo Pacific region. The Transparency International Corruption Perception Index (CPI) measures perceptions of corruption in the public sector. It is the most widely used global index of 180 countries and territories. It uses a scale of zero to 100, where zero is highly corrupt and 100 is very clean.

Corruption damages democracy, contorts public policy, warps the allocation of public resources, results in a loss of trust and confidence in government, and hinders private and public sector development.

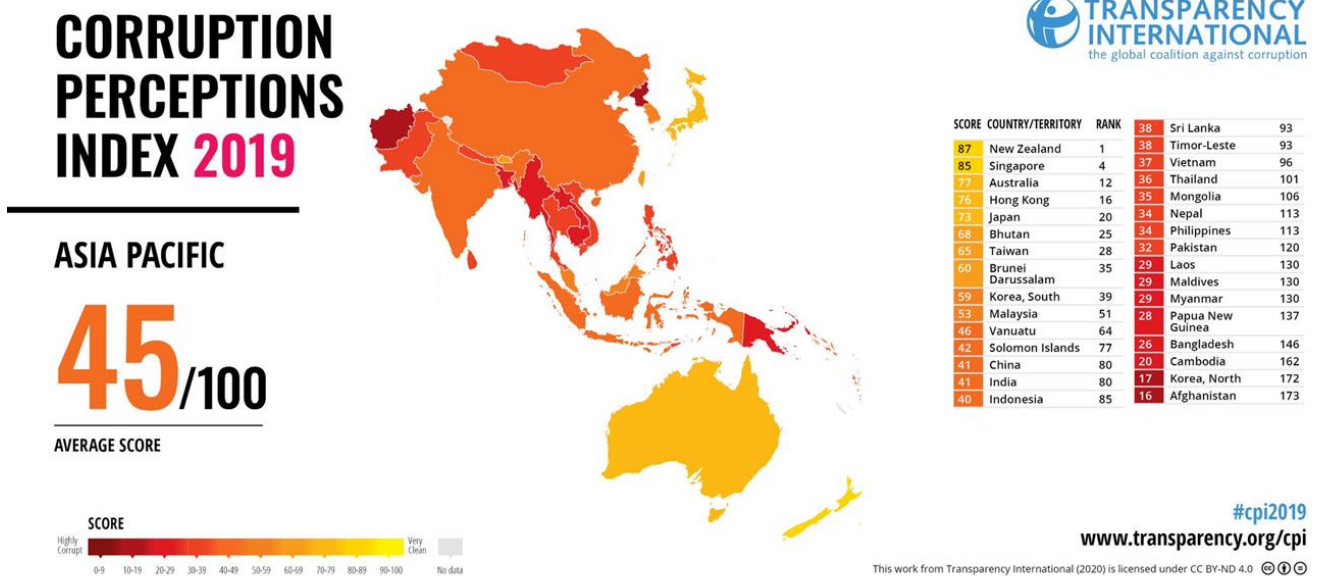
[The 2019 CPI](#), released in January 2020, confirms that most countries are failing to make serious inroads in the fight against corruption. Two thirds of countries score below 50/100, and the global average score is just 43/100.





The Asia Pacific region is stagnating in the fight against corruption. The lack of progress is unsurprising given the prevalence of weak democratic institutions, poor governance and enforcement mechanisms, shrinking space for civil society.

While often seen as the engine room of the global economy, in terms of political integrity and governance, the region performs only marginally better than the global average, scoring 45/100.



Australia's new international development policy must take account of the significant corruption risks in the region. Inclusive development is high on the agenda for governments around the world, as people voice their concerns about growing inequality, persistent poverty and the exclusion of the most vulnerable. Achieving sustainable and equitable development in the Indo Pacific region will only be possible by ensuring public decision making promotes the public good. Corruption undermines this as it distorts democratic processes and promotes private interest over public.

Corruption affects all the Sustainable Development Goals (SDG) and related sectors. It undermines development outcomes and severely compromises efforts to achieve health, education, gender equality, climate action, water and sanitation and other goals. This makes for a compelling case to monitor the impact of corruption across the IDP.



Transparency International's 2017 [Asia Pacific Global Corruption Barometer](#), a survey of almost 22,00 people across 16 countries and territories, assessed perceptions and experiences of corruption. Results showed that bribery affects a huge number of citizens. TI estimates that over 900 million people across the 16 surveyed places had paid a bribe in the last year to access basic services such as education and health care.

### Shrinking civil society space to combat corruption

Transparency International (TI) has 15 years' experience working in the Asia Pacific region and has offices in 19 countries. Our work has been supported through the DFAT funded *Effective and Accountable Governance for Sustainable Growth* (2016-2019) program and will continue through the DFAT and New Zealand Ministry of Foreign Affairs and Trade program, *Supporting Transparent, Responsive and Open Networks for Good Governance* (2020-2023). The key goal of this program is to reduce corruption in the region by empowering a strong and independent civil society voice and network to mobilise action in support of increased accountability of public and private institutions.

Our external consultation with more than 80 stakeholders across the region has shown that corruption remains a near universal concern. Stakeholder feedback identified the top four pressing issues relating to corruption as:

1. A lack of political integrity and accountability among elected leaders;
2. Weak enforcement of anti-corruption measures;
3. Low awareness in the community about people's rights, what corruption is, the value in a corruption free environment and their role in achieving it; and
4. The fact that citizens do not feel engaged or empowered to demand transparency and hold those in power accountable.

As the leading anti-corruption civil society organisation, TI plays a key role in empowering people to be informed, aware, and equipped to act against corruption. However, the regulation and reduction of civil society space to provide an independent perspective as a monitor and an advocate has increasingly been flagged as a significant area of concern by many TI offices in the region. This threatens the ability of civil society to play the active role that it must in order to call for truly transparent, accountable, and responsive governance.

The new Australian IDP must place a strong emphasis on ensuring a strong civil society sector across the region to help ensure good governance and accountability, strengthened democracies and peace and stability.

### High risk corruption sectors

Research undertaken by Transparency International indicates that the construction, infrastructure, mining and telecommunications sectors are particularly corruption prone. The OECD has identified the construction, mining, defence and military industries, natural



resources and energy, medical and pharmaceutical, telecommunications, transportation sectors, infrastructure projects and property development activities to be particularly prone to foreign bribery. Further, the OECD has found that almost 60% of foreign bribery cases occurred in four sectors extractives, construction, transport and storage, and information and telecommunications – all linked to infrastructure.

The Asian Development Bank (ADB) and the OECD recognise that infrastructure is a corruption prone sector. They have established the [Anti-Corruption Initiative for the Asia Pacific](#), with a strong focus on infrastructure.

Their [2019 conference in Hanoi](#) noted that in order to drive socio-economic growth, facilitate domestic and cross-border trade, and mitigate the effects of climate change, countries in the Asia-Pacific region are investing heavily in public infrastructure. These projects include roads, railways, mass transportation systems, marine ports, airports, health care and education infrastructure, water supply systems, and waste treatment facilities. The complexity and high costs however, leave these projects highly susceptible to corruption risks, as demonstrated by a multitude of cases around the world and in the region. As a result, the need for managing corruption risks in large infrastructure projects and developing holistic measures for fighting corruption in the infrastructure sector has never been greater.

Transparency International Australia is engaged with the OECD and the ADB on this issue. We have identified common characteristics as to why infrastructure is corruption prone. These include:

- The complexity and large scale of projects (road, rail, ports, energy grids, telecommunications, transport systems);
- Vast amounts of money involved;
- Large number of stakeholders, third parties and agents - contractors, consultants, clients, investors, and government departments. There are many interests who will seek to influence decisions making which can result in state and policy capture;
- Public private partnerships and 'blended financing' can make responsibility and accountability opaque
- Opaque project design, appraisal, selection and budgeting;
- Lack of transparency regarding decisions on access to and use of land, in some cases resulting in land grabs, resettlement and loss of livelihoods;
- Poorly paid public sector in some jurisdictions which creates temptation to accept bribes; and
- Political patronage and kickbacks (including unregulated political donations).

All-in-all a sector that is too often characterized by undue influence, lobbying by special interest groups and 'ripe' for bribery and corruption.





When infrastructure projects and decision making is captured, corruption occurs and decisions are made that are not in the public interest. This can have significant impacts. These can include:

- Construction of ‘white elephant’ projects with little or no social benefit, that are not aligned with the needs of the community, are not gender sensitive or disaster risk resilient, and driven by investor and donor priorities;
- Failure to deliver essential services;
- Robbing the ‘public purse’ through overpricing, wastage and poor-quality construction and materials;
- Hindering inclusive economic development and poverty alleviation; and
- Devastating impacts when materials, design and construction is compromised through corruption resulting in construction collapse.

Corruption is not gender neutral. It is often women and girls that bear the cost when funding for projects meant to deliver essential services end up in deep pockets through kickbacks, gifts and political patronage.

The Department of Foreign Affairs and Trade must embed these learnings in the new IDP.

The establishment of the [Australia Infrastructure Financing Facility for the Pacific](#) (AIFFP), to be administered by DFAT must be linked to the IDP, and broader ‘all of government’ alignment.

The AIFFP will comprise AUD 1.5 billion in loans and AUD 500 million in grant funds for priority infrastructure projects in Pacific island countries and Timor-Leste.

Given the known corruption risks in the infrastructure sector, the [AIFFP Design Document](#), lacks the necessary attention to, and management of, corruption risks. The document states that “initial project screening and a due diligence review is conducted on all proposals to determine their financial viability”. It also states that “the AIFFP will use existing DFAT operating policies and procedures, including those on fraud and anti-corruption...”

Existing policies and processes, as outlined in the Design Document, are not robust enough for the associated risks of this sector and the region of operation.

Much greater due diligence, transparency and accountability of this facility is required to avoid the known corruption characteristics in infrastructure projects. This includes investigation into the [beneficial owners](#) of potential project partners. This is particularly important at the design phase when fundamental decisions are made about what to build. It is at this point that decisions can, and do, result in the wrong infrastructure, in the wrong place, at the wrong time, and for the wrong reason, resulting in little or no social benefit.

It is recommended that all AIFFP funded projects, and all DFAT funded private sector partnerships align with the [OECD Due Diligence Guidance on Responsible Business](#)



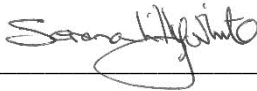
Conduct, the principles of open contracting, including the Open Contracting Data Standard. This needs to be explicit in the International Development Policy.

## CONCLUSION

Transparency International Australis is grateful for the opportunity to make this submission and to highlight the critical issue and important role that DFAT can play in combatting corruption in the Asia Pacific region, and supporting a strong civil society.

I would welcome the opportunity to discuss issues in this submission further.

Yours sincerely



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