

# GLOBAL INTEGRITY SUMMIT

Australia 2014

**OUTCOME PAPERS**

Integrity and  
Development



*Towards an Integrity 20*

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# INTEGRITY AND DEVELOPMENT

Empowering development is a key issue for the G20, recognising that sustainable economic development benefits the poor in low income countries and provides the greatest possibilities of global growth. The G20 agenda concentrates on the contributions to growth made by the four issues of countering corruption, infrastructure, tax and financial reform. The G20, however, also recognises the role of women in economic development and the benefits of their empowerment, raising broader questions about ‘development for whom’.

The GIS highlights developing countries’ interests in the four substantive integrity topics and notes some further general development issues of significance to the G20.

## CORRUPTION

While corruption is found in all societies (and some that have strong integrity systems were once highly corrupt), poorer societies can afford it least. Unfortunately such societies usually possess weaker integrity systems. So too, with weaker economies the ambitious often are tempted to seek government office where they can extract more wealth through corruption than through the market. Such conditions impose higher demands on the integrity of leaders. Where leaders with integrity emerge they need to not only set an example but to develop their integrity institutions, looking to what they have rather than importing western integrity systems as a whole. This approach includes strengthening existing integrity institutions but also looking to potential strengths within their own communities and cultures. Often stronger local communities than state institutions exist and can act as effective eyes on what is done in their neighbourhoods by governments and corporations. If empowered with appropriate knowledge and methods of engagement (sometimes using technology like smart-phones), local communities can possess both the motivation and information-gathering capacity to ensure that projects are delivered as promised. So too, such groups will generally find ideals, values or stories within their own cultures that support integrity and condemn corruption. These cultural resources are invaluable, as anti-corruption rules and regulations need to resonate with and make sense to the locals. That said, the people of developing countries usually hate corruption more than those in developed countries which suffer it less. Mobilising their anger is a potent source of reform, as development is impossible without local effort and buy-in.

Development even alongside corruption is possible, at least for a time and developing countries cannot wait to eliminate corruption before engaging in development. However, integrity improves the outputs and sustainability of development initiatives, and helps ensure the project benefits its intended target.

Equally, successful development can benefit integrity. As the economy develops there are more avenues for securing a decent income without seeking and abusing state power. Local wealth increases regional security and divisive inequalities; and an expanding middle class expects more from their government—not least because they are shouldering much of the tax burden.

## FINANCIAL INTEGRITY

Developing countries have suffered from corrupt officials exporting their ill-gotten gains to western banks – in which western financial institutions were previously complicit. Their own financial systems are less developed than those in the West and western institutions should never seek to benefit from that comparative strength. A genuine global banking and finance profession should assist the local finance industry to identify the ways that it serves the community in which it operates, how it can build public trust in its operations, and ultimately provide an exemplar of social responsibility to its clients.

## TAX INTEGRITY

Base erosion and profit shifting (BEPS) is a global issue that requires a global solution. The international nature of tax planning means that unilateral and uncoordinated actions by countries will not suffice and may exacerbate the problem.

The G20 response to BEPS is a collective international effort which stands to assist both developed and developing countries. But the challenges for developing countries may differ both in nature and scale. Gaps in developing country tax legislation, together with low administrative capacity, are likely to mean that developing countries may face cruder or more aggressive tax avoidance than that typically encountered in more advanced economies. BEPS solutions need to be developed and evaluated with such issues in mind and BEPS actions for developing countries may need specific emphases or nuances compared to those more suited to advanced economies. In particular, corporate income tax amounts to a more important source of revenue in the poorest developing countries as their ordinary citizens have limited capacity to pay tax.

Companies operating only in domestic markets are at a competitive disadvantage if multinational enterprises (MNEs) shift their profits across borders to avoid or reduce tax. More broadly, BEPS undermines the credibility of the tax system in the eyes of all taxpayers. When the largest and most high-profile taxpayers are seen to be avoiding their tax liabilities, this undermines confidence in and effectiveness of the tax system. This issue of 'tax morale' is particularly important for developing countries as they face significant challenges with the taxing of 'hard to tax' sectors, including small businesses.

Developing countries face specific challenges in applying a complex set of rules designed to counter cross-border international tax avoidance – especially in employing and retaining staff of equal knowledge, skill and experience to those employed by well-advised MNEs.

## INFRASTRUCTURE INTEGRITY

Again, infrastructure is much needed in developing economies. There are fewer resources and borrowing capacity to meet such needs. There is a stronger case for private provision and public private partnerships (PPPs) but less capacity to negotiate the complex deals that are involved – and less experience in monitoring them. Negotiators and regulators need assistance with those tasks – not just from developed countries but from other developing countries which have managed to succeed in infrastructure development. The World Bank's Global Infrastructure Facility (GIF) assists in providing expertise but, like the G20, should be careful that it does not push PPPs. The track record of PPPs in G20 countries is very mixed with promoters and financiers often the only winners. If such outcomes occur with PPPs that developing countries feel have been foisted on them it will do great reputational damage to those who pushed them.

There is some infrastructure that is taken for granted in developed countries but would not be a high enough priority in developing country budgets to be funded without private investment. This thought may occur to business executives (or governance advisors) transiting through shiny new airport terminals. Such developments could present classic opportunities for well-designed infrastructure projects.

## TRANSPARENCY

Preventing BEPS implies transparency at different levels particularly in developing countries where the formal mechanisms by which it is (partially) secured in western countries will rarely be available to the full extent in developing countries. To achieve such improvements may require the involvements of local communities as structural reforms require corresponding changes to cultural norms and attitudes to increase their efficacy.

## PROFESSIONALISM

There is no justification for lower professional standards in developing countries. Professions should play at least as great a role in promoting integrity among themselves and by their clients. Increasing capacity toward this end in developing countries is a challenge, and requires political buy-in to be effective. In addition, there is evidence that an increased presence of women in positions of power leads to improved integrity outcomes.

## GENERAL ISSUES

The greatest need for growth, and potentially the greatest opportunities for it, lie in developing countries. If governments are to serve their people, and corporations are to live up to their justifications to benefit the communities in which they operate, they need to articulate the ways in which they will serve and benefit the peoples of developing countries. It should not just be through making claims about rising tides and trickle down theories, nor by just reciting the generalised benefits of democracy and markets. How they serve and benefit those communities needs to be publicly stated and delivered.

If western countries and companies do not deal with developing countries and their peoples with integrity, their investments could potentially be expropriated or confiscated as the fruits of corruption.

If the development agenda succeeds, the relationship between consumers and producers in developed and developing nations will change. The very low wages paid for products from developing countries is a clear short term benefit for western consumers. The increased purchasing power gained through development may generate more purchases from the developing world – providing an opportunity for operations in the developed world as well as a challenge. Our economies and lifestyles may converge towards a higher or a lower median – the latter option is best for all.

Other forums and organizations outside the G20 may possess a stronger development focus, and a higher proportion of developing countries. The G20 should at minimum ensure that its work synchronizes with the work of these other international organizations, supporting rather than stymieing their efforts. However, the G20 goal of increasing global growth and its recognition that the greatest opportunity for such an increase lies in developing countries can, if achieved, make development much easier. It goes without saying that such growth needs to be sustainable in all the senses of that word.

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