



# Governance and Corruption

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# Outline

1. Definitions of corruption
2. Academic disciplines on corruption
3. Donor views and actions on corruption
4. Hazards in the donor approach
5. The political economy of development and corruption
6. Discursive representations of corruption
7. Case study on secrecy jurisdictions
8. Conclusion



Sidy L. Dramé, Senegal

SELF-HELP REPRESENTATIVE



# 1. Definitions

- Weber and Talcott Parsons (1997: 80-82) good governance is the mode under which public goods are distributed on the basis of **ethical universalism**
- Good governance also makes reference to the rationalist, social welfare maximisation paradigm and the common good
- A governance mode based on rational-legal authority has an opposite in patrimonialism, clientilism, patronage, and nepotism
- Ethical universalism and government impartiality stand opposed to particularism
- Thus high-level corruption most commonly defined as:
  - **“the misuse of public office, public resources or public responsibility for private - personal or group – gain”**(Szeftel, 2000: 407)

**Table 1: Different types of corruption**

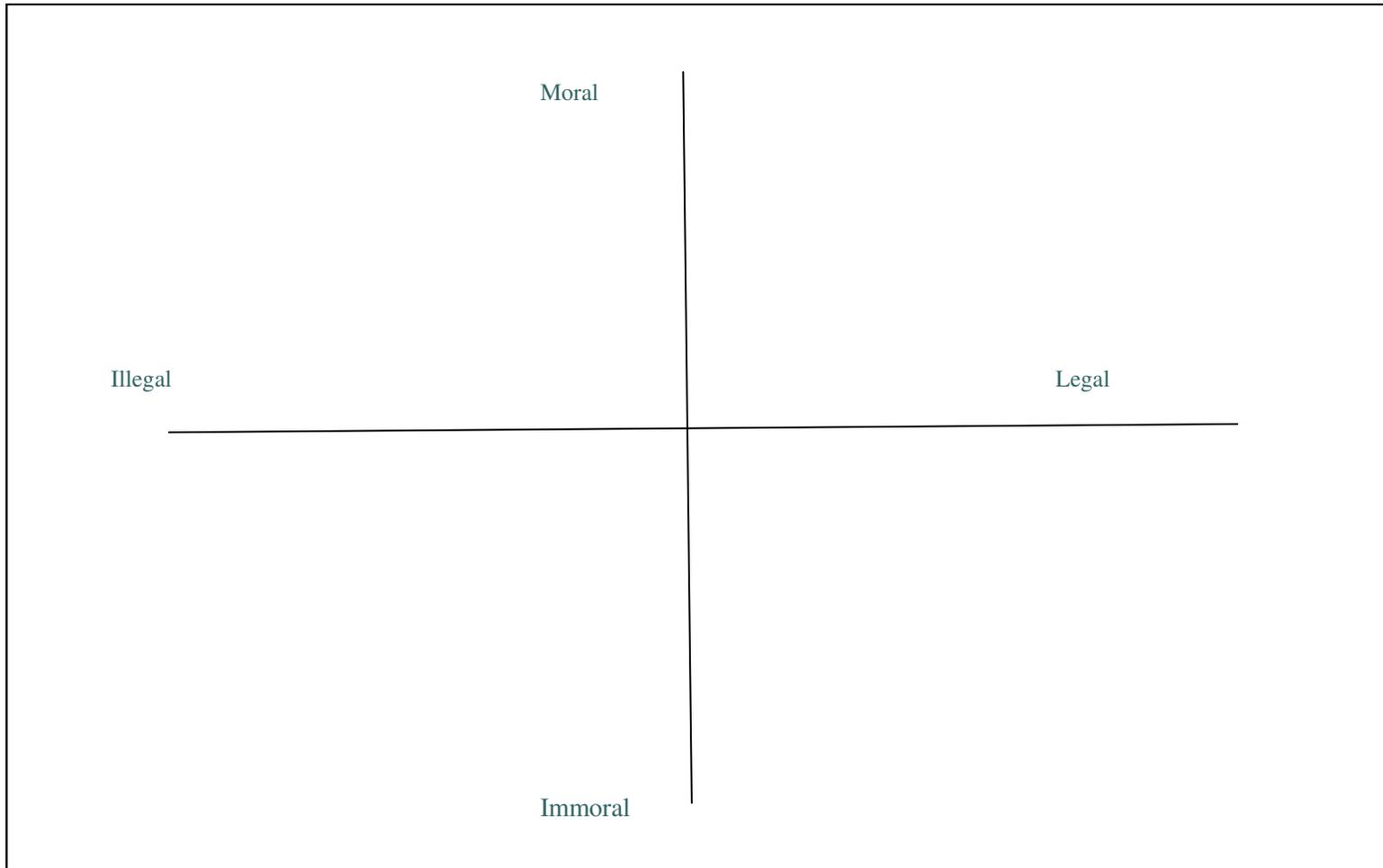


	<i>Definition</i>	<i>Involves</i>
Administrative corruption	illicit payments required from users by civil servants for the implementation of existing regulations, policies and laws.	A wide constituency experienced by citizens as harassment in their efforts to obtain even small administrative goods. Companies typically seek tax advantages, licences or influence on the formation of rules and law.
petty corruption	Small acts, or rent-taking actions, by civil servants. Bribery, influencing, and gift giving are sometimes seen as different forms of petty corruption.	Public administrators, particularly those with direct encounters with members of the public, who accept bribes for expediting documents or, in the case of the police, not charging a suspect.
Graft	Involves the utilization of public resources to serve individual or private interests.	Use of resources, time or facilities by a staff member (without a transaction with an external person). Often used interchangeably with corruption.
Influencing	Forcing a decision in one's favour	Political lobbying is a form of influencing and is legitimate, but secretive contacts or suspicion of favouritism or influence that are suspected to be disproportionate to public interest may be considered as corrupt.
Bureaucratic corruption		Wide constituency who pay money to get in or get on. Also a moneyless form where officials give relatives and other persons jobs which they would not otherwise obtain, also called patronage. (see U4, 2005)

● ● Table 1: Different types of corruption cont.

	<i>Definition</i>	<i>Involves</i>
Political corruption	Often conflated with grand or high-level corruption: the misuse of entrusted power by political leaders. More specific meaning is corruption within the political or electoral process.	The use of resources, machinery, personnel, and authority to perpetuate one's position, such as during electoral campaigns, corruption in political finance such as vote buying, the use of illicit funds, the sale of appointments and abuse of state resources (Ts 2004)
Political patronage (clientelism) and high level corruption	Electoral process resources are directed to patrons, clients, family or ethnic clan of office holders.	The 'patron' can present himself or herself as a social altruist, discharging an obligation to political supporters, family members and others." (U4, 2005)
High level corruption	The misuse of high public office, public resources or public responsibility for private, personal or group gain	This term is often used interchangeably with grand corruption, or endemic corruption
State capture	Private payments to public officials, and the 'capture' of their area of jurisdiction, in order to affect laws, rules, decrees, regulations or capture resources for example contracts.	Firms, who need to pay, and the public in general, whose interests are sidelined

# Discussion point





# Vignettes

- 1) A female civil service worker has a child who has contracted cerebral malaria but she has no money for the emergency fees to admit her to the hospital. However, she does have access to the office supplies account and could borrow the money until month end.

Is this petty corruption? Where would you place this act on the quadrant grid?

- 2) A tender process manager for roads is publishing a road building tender using the best quality system. It is in his home area. His tender brother applies and he is suitably qualified and meets the quality criteria. So do four other companies. His brother has not entered the best price, but this is not the criteria given primacy in the decision-making process. His brother is a popular local politician. He awards the tender to his brother.

Is this corruption? What type? Where would you place it in the grid?



- 3) A border control guard at an international border post is proud that he doesn't take bribes to allow contraband goods to pass tax free, and prides himself on being free of corruption, unlike most of his colleagues. He is however, very low paid, and without the 'subsidies' the other guards regularly take, his daughter is struggling to find the things she needs to take to school. He sometimes takes a box of paper home, a notepad, pen or pencil to compensate for the effects of his honesty.

Is this corruption? What type? Where would you place it on the grid?

- 4) An international export flower firm have obtained tribal trust land through a local politician in exchange for granting him equity in their offshore holding company. The greenhouses are now guzzling so much water that the water table has dropped in the surrounding villages and women have to walk further for water. Few people gained employment, some local children are malnourished, and the wages are derisory. Those employed in the processing factory pilfer fertilizer and hide what they can each day in their rubber boots as they leave the factory.

Corruption? Whose?

- 5) A benevolent President in a patronage system has a vacant governorship. He knows that the incumbent will use the position to grow rich. Meanwhile, his people are poor. He decides to have a ballot, but ask candidates to also indicate how much money they will place in the regional development fund if he were to announce their successful election subsequently.

Corruption?



## 2.1 Political theory

- Ideas of corruption have classical republican roots.
- Machiavelli emphasises that:
  - “we are generally reluctant to cultivate the qualities that enable us to serve the common good. Rather we tend to be ‘corrupt’, a term of art the republican theorists habitually use to denote our natural tendency to ignore the claims of our community as soon as they seem to conflict with the pursuit of our own immediate advantage (Skinner, 1999, 170)
- Machiavelli, solution:
  - *“it is laws that make them (men) good”*



## 2.1.2 Political science

- Corruption is a **function of the lack of durable political institutions** and political competition, and of a weak and undeveloped civil society
- Lack of public service ethic and/or integrity
- Flourishes in weak democracies
- Leads to policy emphasis on strengthening institutions and voice mechanisms

see Robinson, 1998; Paul and Sekhar, 1997; McCourt, 2000



## 2.1.3 Patrimonialism

“In neopatrimonial regimes, the chief executive maintains authority through *personal patronage*, rather than through ideology or law....relationships of loyalty and dependence pervade a formal political and administrative system and leaders occupy bureaucratic offices less to perform public service than to acquire personal wealth and status.

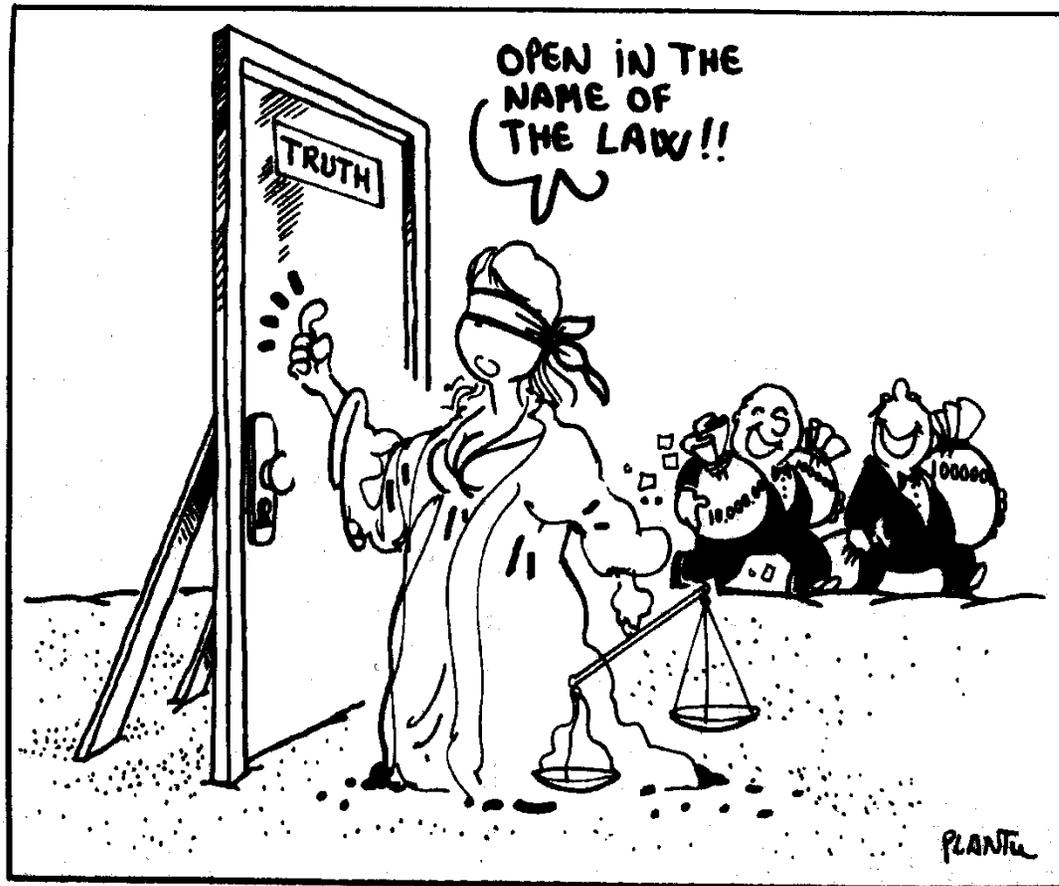
The distinction between private and public interests is purposely blurred....personal relationships...constitute the foundation and superstructure of political institutions. The interaction between the ‘big man’ and his extended retinue defines African politics, from the highest reaches of the presidential palace to the humblest village assembly.”

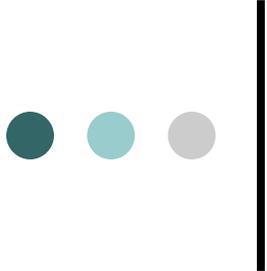
Bratton and van de Walle (1994: 458-9)



## 2.1.4 The public and the private

- "African political societies are duplicated between, on the one hand, a *pays legal*, a legal structure which is the focus of attention for multilateral donors and Western states, and on the other hand, a *pays reel* where real power is wielded. In extreme cases this duplication can lead to the existence of a hidden structure which surrounds, or even controls, the official occupant of the presidential throne, rather like a board of directors which appoints an executive to carry out its decisions"





## 2.2 Economic theory of corruption

- **Is just one way of allocating scarce resources**, is an ‘optimal amount of corruption’, in terms of ‘marginal social cost’
- “Corruption is a variant of economic choice, and like any other economic choice is determined by its price on the market”
  - (Caiden in de Leon 1993, 13)
- “[C]orrupt incentives are the nearly inevitable consequences of *all* government attempts to control market forces – even the ‘minimal’ state” (ibid)
- **corruption is diagnosed as a species of rent-seeking.**



## 2.2.1 Rent-seeking can be productive

- *The functionalist school*: Corruption is functional to getting things done
  - “the availability of personal gain via public corruption recruits skilled personnel into an otherwise unattractive, unrewarding bureaucracy, motivates an otherwise lackadaisical administrative system into the timely actions necessary for economic development, and provides socialising services to otherwise disenfranchised parts of the political system” (ibid, 11)



## 2.3 Public administration

- *Principal Agent theory*: difficult for the principal to monitor the agent's actions

<http://www.u4.no/document/glossary.cfm#principalagenttheory>

- There are problems with this theory (Fukuyama (2004) which relies on aligning agent incentives with those of the principle when used in anti-corruption work in terms of organisational management
- More fundamentally where particularism dominant, corruption more a collective action problem since it is not in the interests of actors to try and change the rules even if they know how damaging corruption is, but better to struggle to join in the culture of privilege (Mungiu-Pippidi, 2006)



## 2.4 but economic anthropology...

- Definitional and analytical problems:
  - corrupt behaviour is *socially located* and *purposive*, therefore requiring intelligent explanation and response
  - Is in some senses relative
  - 'One person's corruption is another's rightful patronage' (meritocracy)



## 3. Donor views

- The World Bank: ‘abuse of public office for private gain’
  - (WB, 1997: 8)
- Corruption seen as most significant dysfunction of developing states
  - (Commission on Africa, 2004)
- Political conditionality and policy on anti-corruption core to good governance
- Anti-corruption policy can augment accountability and democracy

But,

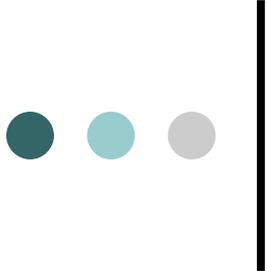
- Corruption understood in a neo-liberal, economistic anti-state paradigm which emphasises politics as a source of rents
- So, policy unduly relies on deregulation (to reduce opportunities for officials to collect bribes)



## 3.1 Donor Policy (1990s)

- Reduce corruption by reducing government's role in the economy
- Stop, or privatize, as many government functions as possible





## 3.2 Practical responses

The range of options for changing governments' *modi operandi* is extensive and some work:

- “developing and implementing strategies which create a firm ethical basis for public administration;
- opening up government to make most official information accessible to the public, and fostering positive and open relationships between government agencies and the press when the press asks for information and comment;
- developing internal financial management systems that ensure adequate and effective controls over the use of resources;
- establishing other types of internal oversight mechanisms to provide speedy and effective review of contentious decisions;
- assuring the adequacy of judicial review of agency actions;
- making managers at all levels responsible for the activities of their subordinates;
- increasing the effectiveness of supervision to enable superior officers to check and control the work of their staff;
- conducting surprise checks on the work of officers;
- requiring officials at management levels to certify that those they supervise comply with civil service regulations and laws;
- purging payrolls to eliminate "ghosts" and make their reappearance more difficult;
- implementing effective monitoring of the assets, incomes, and liabilities of officials with decision-making powers;
- introducing appropriate restrictions on post-public employment in the private sector;

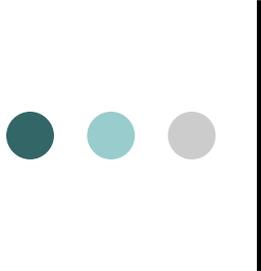


## Responses cont.

- providing complaints channels to enable junior officials to complain about their superior's corruption;
- ensuring that the press is both itself free and free to expose corruption;
- rewarding good behaviour;
- establishing mechanisms for civil society to be involved in a continuous process of government review;
- polling the public periodically on its perceptions of government service delivery;
- establishing an open, genuinely competitive and transparent system of public procurement;
- examining present practice against "best practice" and the rules in place in the most transparent systems;
- ensuring that choices are not captive to departmental advice and interests;
- involving "outsiders" (i.e. independent individuals who are not part of "the system");
- forcing speedy decision-making in order to eliminate delay during which corruption can take place;
- encouraging professional bodies (accountants, auditors, lawyers) to declare that participation in corrupt activities (including money-laundering) is unprofessional conduct and that corrupt members will be liable to disbarment;
- requiring all gifts, hospitality etc. received by government officials and all political donations to be reported and recorded;
- reviewing and enforcing appropriate "conflict of interest" regulations (including the introduction of ethics programmes and periodic group discussions of real-life ethical dilemmas drawn from their own experiences); and,
- building coalitions of interests in support of corruption prevention, drawing on the private business sector and civil society."

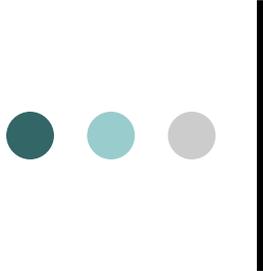
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From <http://www.transparency.org/sourcebook/00-summary.html>



### 3.3: A summary of the global anti-corruption policy package: 1990s to 2000s

Measure	Geography	Epistemology	Disadvantages	Advantages
Anti-corruption Commission, est. of external agencies	Inspired from Hong Kong and Singapore	institutionalist	Parallelism in government, fuzzy accountability creates impression of inevitable dysfunction	Creates oversight facility when corruption endemic in mainstream government Ministries
Integrity workshops and ethical codes of conduct	TI, Europe	Normative, moralism	Easy to adopt without policy change; shallow interventionism	Changes behaviour; reduces resistance to reform; changes organisational culture
Raising salaries of top civil servants	Hong Kong, Singapore	Neoliberal, econometric	Creates impression that public office remains the site for rapid private gain; large inequality justifiable	Reduces incentives for corruption. Allows civil servant to feel valued and respond with loyalty
Public service downsizing	UK, US	Neoliberal, new public management	Loss of seniority and experience; disrupts state-class reproduction and can cause social instability	Reduces ghost workers and loss of public revenue to corrupt payrolls. Can increase meritocratic criteria of appointment
e-technology	European	technocist	No necessary human attitude change	Can reduce opportunities for corruption in discretionary decisions



## 3.3 Policy packages cont:

Measure	Geography	Epistemology	Disadvantages	Advantages
Anti-corruption campaign	IFI	Postcolonial, interventionist	Symbolic violence and 'Othering'; pathologises politics of majority South; crates distrust of indigenous institutions; fuels a political culture based on scandal	Can package a set of reforms into one appealing discourse and raise political consciousness, knowledge and support for reform
Conditionality	IFI	realist	Blunt instrument subject to geopolitical abuse	Allows for punitive basis for incentive where necessary
International Conventions	global	liberal	Judicial reach is poor when conventions not domiciled	Allows reformers to internationalise their efforts and recruit cosmopolitan support and solidarity. Creates norms of behaviour
<i>democratisation</i>	<i>global</i>	<i>Solidarist; social democratic</i>	<i>Long term policy; requires consistent policies of social justice and resource distribution; North needs to change too.</i>	<i>Embeds permanent values of accountability and transparency and the institutional means to achieve them</i>



## 4 Hazards: Economic

Conditionality works!

Economic costs (even if misconceived):

- In August 1997, the IMF suspended a \$220 million loan to Kenya because the government had not done enough to curtail bribery. The World Bank also delayed loans.
- Following the IMF's decision, Kenya's currency lost 20 percent of its value  
(Bonzom, 1997 cited in Ivanov, 2006)



## 4.1 Perception rules

- As TI notes, the CPI ‘influences the policies of major aid agencies and is a factor in the foreign investment decisions of multinational corporations’

(Transparency International, 1998)

- Since 2004, the index is formally among the criteria used by the US government to determine whether developing countries qualify under the Millennium Challenge Account, leading to the exclusion of Kenya solely on the basis of its corruption ‘score’.

- There have been calls to use TI’s index as a benchmark for the conditionalities of international financial institutions

- (Buiter, 2005: 31; cited in Ivanov 2006)



## 4.2 Economic cost - Macro

- *Perception* of corruption affects access to FDI:

If a country improves by 1 point (out of 10), in the CPI, the valuation of stocks of its domestic firms increases by roughly 10 percent and foreign direct investment increases by 15 percent.

- [We also know corruption (itself) negatively affects growth, savings, and investment]



## 4.3 Political Deregulation problematic

“..devolution of a centralized staffing function in developing countries can increase opportunities for **corruption** rather than decrease them as the economists’ argument holds”

(McCourt, 2000: 11) (see also Nunberg, 1995)

Information and competition can reduce corrupt incentives, but cannot substitute for the personal integrity of political actors



## 4.4 Political hazards

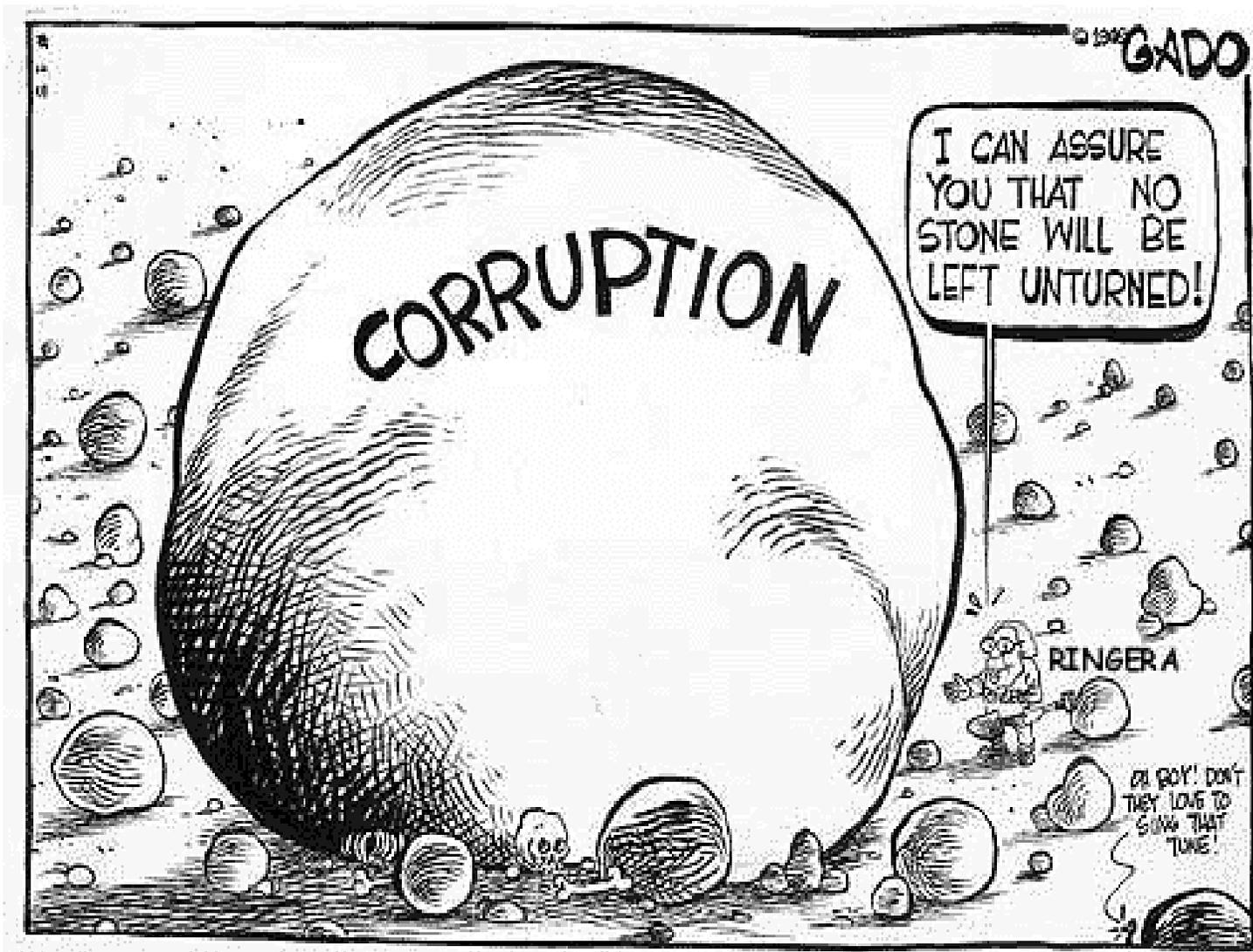
- Measurement of corruption added to larger discourse delegitimizing the southern state.
- State under attack: anti-corruption policies can contradict meanings of decolonisation, empowerment, and indigenisation policy
- Legitimizing redistributive economic policy becomes a problem when polity and economy are seen as inevitably corrupt
- It might be that the aspirations in anti-corruption policies are just too great and demand too much



## 4.5 Political hazards

- If anticorruption policy lacks results, it may reinforce popular cynicism about politics
- Corruption scandals become part of a delegitimizing spiral in which the credibility of democratic norms is further undermined (Chubb and Maurizio, 1988: 138-9) [\[1\]](#)
- Obsession with corruption can degenerate political discussion from substantive policy issues into accusations of corruption and promises of integrity. [\[2\]](#)

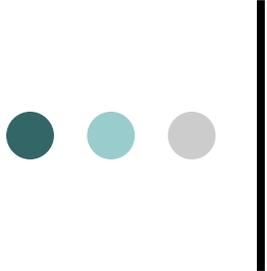
[\[1\]](#) [\[2\]](#) From Kalin Ivanov (2006), *The Limits of a Global Crusade against Corruption*





## 4.6 Then..

- Private wealth is automatically attributed to illicit means
- Anticorruption discourse becomes a vehicle for social envy.
- Generalised absence of trust corrodes polity and economy
- States lose legitimacy and may fail



## 4.7 Summary: Hazards in the donor approach to corruption

### *Economic:*

- Quantification has a high economic cost
- Corruption perception is relative and racialised (TI CPI), yet overly used

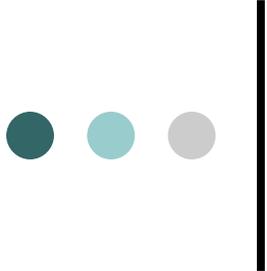
### *Political:*

- ‘Overproduction’ of scandal is counterproductive
- Population fatigue and political cynicism
- Loss of national confidence
- Pathologising of redistributive public policies



## 5. Corruption and political economy

- Political corruption exists in institutions of government everywhere
- Corruption involves global relationships
- But common understanding is that corruption only exists 'over there'



## Consider

- "the institutionalized racism that assumes the Third World to be inherently corrupt and corruptible and which thereby underwrites bribery even where nominally accountable procedures are in place"
- (The Corner House to the International Development Select Committee<sup>[1]</sup> HC 39-I).

Evidence to the committee from pressure groups suggested western businesses paid bribes conservatively estimated at £53bn a year, with the arms and construction industries the worst offenders"

(*The Guardian*, April 4, 2001)

<sup>[1]</sup> culminating in the Fourth Report, *Corruption*, 4 April 2001, HC 39 I Report and Proceedings of the Committee, and HC-39 II Minutes of Evidence and Appendices, accessed at <http://www.publications.parliament.uk/pa/cm/cmintdev.htm> 20 June 2001



## 5.2 The development finance market

- Public and private intimately connected and much opportunity created in the political economy of aid and development itself
- OECD *Corruption Convention* and ECGD *Guidelines* regulate markets, but also can increase cronyism and economic alienation because of faulty 'due diligence' systems (Bracking, 2007)



## 5.3 In development projects

- Procedures privilege Northern companies
  - ‘Due diligence monitoring’ encourages companies to contract with the known
  - employment of agents and ‘briefcase’ companies hides corrupt practice
- Thus, regulating ‘**between commerce and sociability**’ [between ‘the known’ and the ‘known too well’] restricts access to development project opportunities
- Increases resentments in South



## 5.4 Selecting business partners

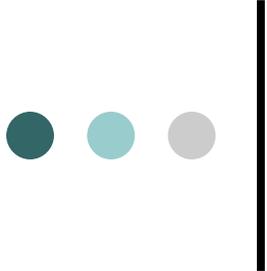
- A contradiction between:
  - the positive view given to proximity and personal credential as a source of success and market intelligence (the 'West')
  - warnings of undue proximity in anti-corruption codes designed to impact on contracting behaviour (the 'Rest')
- USA *Foreign Corrupt Practices Act* requires a compliance regime with due diligence procedures:
  - "An FCPA compliance regime would also require that a company establish business relationships only with reputable and qualified business partners" (Cited in Cornerhouse, 2005).
- Meanwhile, the CDC Group positively endorse partnering singularly with 'the best of breed' (CDC, 2005: 12).





## 5.5 Managed markets

- The best of breed input perceptions to the CPI such that developmental nationalism is punished as corruption
- Measurement is thus constitutive, and ‘corruption’ a disciplining concept in that it shapes the field of action of market participants
- Flawed and self-interested anti-corruption policy contributes to
  - an increased perception of corruption
  - an increased incentive for southern elites to indulge in corruption (to get a piece of the action)



## 5.6 Responses to political economy of development

- Patriotic or Racial Nationalism
- Denial of inclusiveness of development contract/Faustian pacts with big business
- Increase in 'own' cronyism
- Contracts retrospectively renegotiated and bilateral investment guarantees ignored
- Economic redistribution by extra-liberal means



## 6. Discourse theory and corruption

- Common (mis)representations of developing states underpin development policy on corruption
- In a totalising way: Western knowledge and power are connected  
Representations of 'crisis' serve the powerful: demand intervention while reassuring superiority
- The 'crisis' of corruption fits this model
- Development is a 'political technology' **a constructed collective discourse** which aligns and subjects countries into particular 'fields of action' (Foucault) where they are constantly viewed as deficient/corrupt



<b><i>Classical liberal nation-state</i></b>	<b><i>Late state formations</i></b>
Meritocratic/skills based	Paternalist
Entitlement based demands/rights	clientelist demand model
Independent community leadership/free associational life	Co-option of community leadership/civil society
Votes cast for performance	Votes bought for resources
Leadership roles defined and achievable	Leadership responsibilities individual/arbitrary
Resource distribution choices owned by community	Resource allocations personal
<b><i>Business environment</i></b>	
'networked'	cronyism
What you know	Who you know
Open tender (competitive)	Restricted tender (clientelist)



## 6.1 Development knowledge

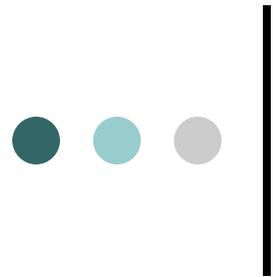
- Creates different meanings for similar anthropological practices/business behaviours:
  - Developmental concession (closed tenure systems for development projects for western experts) is benevolent expertise
  - Southern state policy on empowerment (closed tenure systems for development projects which build an African economic and political elite) is corruption



## 7

# Tax Havens: a case study

- A fictional or juridical rather than *de facto* abode
- Territories who take advantage of their main asset, “the right to write the laws” (Palan, 2002: 151)
  - “the sovereign equivalent of parking lot proprietors: they could not care less about the business of their customers, only that they pay for parking their vehicles there” (Palan, 2002: 152)
- It is a strategy of the *commercialisation of state sovereignty*
- Ronan Palan, Richard Murphy and Christian Chavagneux:
  - “Tax havens are not working on the margins of the world economy, but are an integral part of modern business practice... They have become one of the most important instruments in the contemporary, globalized financial system, and one of the principle causes of financial instability” (2010, 4)



## 7.1 Tax havens: scope

- 46-60 tax havens housing about two million international business companies (IBCs), and thousands/millions of trusts, mutual funds, hedge funds and captive insurance companies.
- “About 50% of all international banking lending and 30% of the world’s stock of Foreign Direct Investment (FDI) are registered in these jurisdictions” (Palan et al, 2010, 5).
- This money stock is joined by roughly \$12 trillion in wealth ‘belonging’ to very rich people (ibid) , or ‘high net worth individuals’ (HNWIs), or ‘permanent tourists’ (PTs).
- An estimated tax loss of USD 50 billion a year to tax havens or ‘six times the estimated annual cost of achieving universal primary education, and almost three times the cost of universal primary health coverage” (Oxfam, 2000)
- USD 160 billion per year in lost corporate taxes which is more than one and a half times the combined aid budget of USD 103.7 billion in 2007, and enough to fund the MGDs by 2015. Christian Aid (2008)



## 7.2 Jurisdiction shopping

- Firms are ‘jurisdiction shopping’, where
  - “juridically dispersed subjects have learned to take advantage of the fiction of their fragmentation by rearranging their legal existence in ways they see fit”
  - “the true meaning of the term “international tax planning”;.. is the planning of whichever aspect of their “reality” corporations or wealthy individuals are prepared to reveal at whichever location” (Palan, 2002: 172)



## 7.3 Narrative of offshore logic

- Corporate actors are averse to business proximity in an African context
- Corruption, graft, malpractice, excessive risk, political seizure widely perceived, and are all part of a self reinforcing circle which pathologises African institutions
- Leads to a reduction in distal relationship [by geography, legal jurisdiction, nationality of most funded partners]
- Huge use even by 'public' sector: 81% Norfund, 164 CDC funds (Bracking et al, 2010)



## 7.4 The normative: tax havens

- Different views of tax havens commensurate with normative differences in neoliberal and heterodox approaches to economics

### **Heterodox:**

- seen as reducing fiscal base in developing countries, encouraging capital flight and criminality, and costing lives through exacerbating poverty (heterodox)
- an abuse of rules and codes of sovereignty

### **Neoliberal or orthodox view:**

- Legitimate use of legislative capacities used in utilitarian manner to attract business, an EPZ for finance, a specialist international service centre, an 'offshore financial centre' (OFC)
- Business views this as Tiebout-type efficiency paradigm, preventing states from abusing their monopoly position in an exchange relationship to society, that is punitive taxes
- Tax havens a rational advantage-maximizing strategy for firms (must be good..)



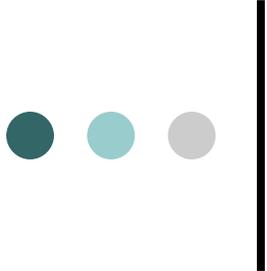
## 7.5 Botswana the ‘Switzerland of Africa’

- Botswana has a secrecy jurisdiction structure. The Botswana International Financial Service Centre (IFSC), established in 2003, provides
  - Botswana is also devcross-border investment services at a low price and transactional cost,
  - no exchange controls,
  - low and sustainable taxation environment (IFSC, 2010a).
  - Tax exemptions (see table, next slide)
- developing its treaty regime, with an
  - “expanding Double Taxation Avoidance Treaty network and where there is no double taxation agreement yet in place, Botswana IFSC businesses are provided with credits for withholding taxes of up to 15% levied in those jurisdictions.” (IFSC, 2010c).
- The IFSC terms Botswana the ‘Switzerland of Africa’ .. **‘the ideal wealth preservation centre of Southern Africa’**. Through the vehicle of a Botswana Trust, there is ‘no impediment’ to inward placement of Funds and then their on-investment globally (IFSC, 2010a).



## 7.6 Orthodox efficiency paradigm

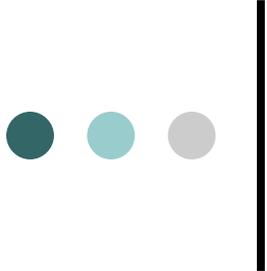
- secrecy jurisdictions/OFCs are **efficient handlers of financial services** that offer better quality governance, corporate infrastructure and legal services relative to non-secrecy jurisdictions.
- A body of 'positive school' economic literature on OFCs argues:
  - **secrecy jurisdictions contribute to a higher level of investment** by increasing the effective return on investment (see also Desai, Foley and Hines 2006a), and the effective rate of tax onshore in some circumstance (in developed country homes of the MNCs) (Dharmapala, 2008a; Keen, 2001; Hong and Smart, 2007).
  - **their governance is superior to non-secrecy jurisdictions** in terms of better political and legal systems, particularly for solving shareholder disputes, and because they have lower levels of corruption (Dharmapala and Hines, 2006).
- Norfund and other DFIs agree that OFCs are necessary and have benefits. Also offer the foreign investor safe profit repatriation and freedom from capital gains tax



## 7.7 Post-neoliberal view of secrecy jurisdictions

(Heterodox) They are harmful to the sovereignty and rights of others, including

- workers
  - Communities
  - other shareholders in the firms that are invested in from secrecy jurisdictions
  - stakeholders in competitor firms in the local marketplace.
- This is because the principle characteristics of secrecy jurisdictions are the **differential treatment of foreign persons**, and **secrecy**.
  - They shift the distribution of reward from invested capital in favour of the ‘international’ investor and the private equity fund managers, and away from the nationally domiciled shareholder, commercial banking sector and workers.
  - The economy and society suffer from a low fiscal base represented as a proportion of GDP, and thus restricted funding for public services.
  - Critically, they are *not free market enhancing, but market distorting* and free riding



## 7.8 Mineral Deposits Ltd, Senegal

- Australian gold mining company, funded by the CDC through a private equity fund in Mauritius (Private Eye, 16<sup>th</sup> April 2010).
- The Mauritius companies facilitated a movement of wealth out of Senegal (where the company nominally never makes a profit, and which has a 30% tax rate) to the order of
  - USD 12.4 million in tax-deductible “technical assistance” fees
  - USD 11.1 million in 2009 for the leasing of mining fleet equipment
  - USD 42 million in tax-deductible interest payments on loans to the offshore parents.
- In short, Mineral Deposits Ltd paid just USD 45,000 in tax in Senegal, while benefiting from tax exemption of USD 14.6 million (Private Eye, 2010).
- Supporters of the view that development is achieved in this way need to offset this revenue loss in Senegal using the argument that without this structure,
  - the foreign direct investment would not arrive at all
  - that the USD 425,000 a year promised by Mineral Deposits Ltd for social programmes would be arrested
  - jobs would not be created.
- **Or, should extraction stop until returns are better?**



## 8 Conclusion

- Neglect of internationalised networks and incidence in the North
  - *Insights from global political economy*
- Anti-corruption policy adopts the language of moral crusade, not democracy
  - *Insights from politics and development*
- Requires regulation of sociability, but this differs by spatial location
  - *Informed by economic anthropology*
- Contemporary anti-corruption discourse has little to say about the immorality of modern business practice
  - *E.g case study of tax havens/secretary jurisdictions/OFCs*



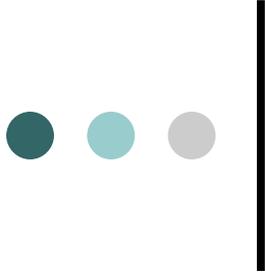
## 8.1 Conclusion cont

- Spacial context of economic activity is central to its classification and meaning in corruption discourse
  - *Insights from political economy*
- Perception measurement of corruption leads to:
  - *the pathologising of redistributive state policy in the South*
  - *Racialised ordering*
- Corruption acts as a key signifier of the ‘spacial sink’ in the political economy of development



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