Evaluating the cost of anti-corruption in political and economic terms: a case study approach

Alexandra Hartwig

Department of Politics and International Studies – Centre of Development Studies, University of Cambridge, Cambridge, UK

Abstract

Purpose – The practicality of anti-corruption efforts has been debated in development circles since the 1990s (World Bank, 1998). Moving beyond monetary metrics, this paper seeks to contribute to the discussion by assessing whether the cost of anti-corruption measures is proportionate to international concerns about corruption. This study aims to focus on the Namibian “Fishrot” files, an ongoing scandal that involves bribery, tax evasion and cross-border exploitation for access to the country’s fishing grounds. The Fishrot files implicate parties in both Namibia and Iceland, and the case provides insight into why the costs of financial crime and anti-corruption may be unduly borne by the global East. Especially because corruption stands to disrupt political and economic stability in developing countries, an understanding of these costs is essential for preventing further barriers to development.

Design/methodology/approach – This study focuses on the case of the Namibian “Fishrot” files to compare the cost of financial crime with the price of fighting it. It incorporates cost-benefit considerations on anti-corruption from political, economic and environmental perspectives.

Findings – This paper suggests that an imbalance in the response to corruption in the global East and West stands to damage development progress in countries like Namibia. It encourages a more holistic approach to anti-corruption efforts, one that acknowledges the heightened cost and burden of such efforts in developing countries.

Originality/value – This study provides a broadened perspective for assessing the effectiveness of anti-corruption initiatives, particularly for cases that involve cross-border financial crime between developing and developed countries.

Keywords Bribery, Namibia, Sustainable development, Anti-corruption, Fishrot files, Samherji

Paper type Case study

Introduction

“Is fighting corruption worth the bother?” This question was posed in a World Bank article published in 1998. While it may seem callous, the net benefit of anti-corruption efforts was not immediately apparent then, and it remains a topic of debate in development circles today. This study explores the World Bank’s question in the context of the “Fishrot” files, an ongoing corruption scandal that involves high-ranking bribery, tax evasion and cross-border exploitation for access to Namibian fishing grounds. Namibia functions as an illuminating site for a corruption case study for two reasons. The first is that the country is relatively less corrupt than others surrounding it in Southern Africa, making the Fishrot...
scandal more consequential there than in regions where corruption is already considered endemic (Corruption Perceptions Index, 2020). The second reason is that Namibia has been particularly politically stable since its independence, so the impact of the scandal on democratic processes can be observed quite neatly (Melber, 2019). This study is divided into three sections. Each section builds upon the previous to inform a development-focused cost-benefit analysis of anti-corruption measures in the Fishrot case.

The first section discusses how economic crime and corruption can damage development progress, followed by an examination of the costs of complying with international anti-corruption standards. The second section looks more specifically at the events of the Namibian scandal and effects of its fallout on the government, economy, environment and international community. The final section is a drawing out of broader issues, exploring dynamics between the global East and West and assessing whether the collateral effects of anti-corruption efforts are proportionate to international concerns about corruption. Ultimately the study concludes that, despite the high cost of combating corruption, the price of leaving it unchecked is higher. The conclusion calls for greater accountability from the West in cases of cross-border economic crime to alleviate the burden of control placed on developing countries.

Section I: The effects of corruption on development and the high costs of fighting them

Transparency International (2021) defines corruption as “the abuse of entrusted power for private gain.” There are theories that deem it an “efficient grease” – a justifiable means of bypassing ineffective institutions – but they are widely refuted by empirical evidence and are not supported by policy circles today (Méon and Weill, 2010). Arguing for the utility of corruption ignores the injustices it facilitates outside of purely economic objectives, so this study proceeds with an understanding that “the abuse of entrusted power for private gain” is corrosive by all standards.

A baseline acceptance of corruption as detrimental permits discussion beyond if it hinders development into how. Particularly relevant for the case in Namibia, which will be explored in depth shortly, are corruption’s effects on cross-border business. Transparency International’s 2014 report titled “The Impact of Corruption and Growth on Inequality” explores these issues in the context of development, arguing against corruption as a “positive” or “redistributive” force. From an international business perspective, countries become less attractive for foreign investment if they have a reputation for economic crime. The report cites a study by Shang-Jin Wei that finds corruption to be a significant factor in decreased levels of foreign direct investment; another study found that American firms were less likely to invest in countries where perceived corruption – and therefore riskiness – was higher (Chêne, 2014). These consequences of a corrupt reputation have been especially observable in the financial sector, where Western banks have restricted relationships with developing countries in the name of “de-risking” (The World Bank, 2016). In this way, economic crime excludes many developing countries from participating in international business.

Anti-corruption efforts have become a top priority in development circles because of these corrosive effects, but complying with international standards – largely set by the West – has a cost. In countries where resources are already scarce, establishing anti-corruption units with supporting legislation, staff and a budget is a financial challenge, especially when there is no guaranteed impact. In instances where poorer countries receive international funding for such initiatives, efforts to appease short-term expectations of donors may take precedence over more meaningful, long-term solutions (Heilbrunn, 2004). In addition to direct costs, there are risks associated with complying with international standards, particularly for developing countries. Revolutions are often on the backs of allegations of corruption, and as will be
shown in Namibia’s case, publicly combating economic crime can have a destabilising effect on political parties and institutions.

Also evident in the Fishrot case is a difference in repercussions for the Icelandic firm that offered the bribes and the Namibian officials who accepted them. The present study reveals that decades-long political patterns in Namibia have been disrupted by the scandal, whereas Iceland still ranks near the top of the global Corruption Perceptions Index. Developed countries have the resources and international bargaining power to weather the storms of corruption scandals, whereas developing countries can face significant threats to political and social stability in the process of pursuing justice. The Fishrot files implicate high-profile players in both Iceland and Namibia, but the remainder of the discourse will show that the stench of the scandal has lingered primarily in the latter.

Section II: the fallout of the Fishrot Scandal on Namibian institutions and stability

Namibia once caught the attention of colonial powers with its diamonds, but today, one of the country’s most promising economic sectors relies on something a bit less glamorous: fish (International Trade Administration, 2021). With its lengthy Atlantic coastline fed by the upwelling Benguela current, Namibia’s fishing grounds are among the largest and most productive in Africa, behind only Morocco and South Africa (Republic of Namibia, 2017). The fishing sector accounts for one third of the country’s total exports at 15%. Its potential for growth, employment opportunities and importance for domestic food security make it a focus of development conversations (Republic of Namibia, 2017). The Namibian population’s reliance on fishing underscores the depth of damages done by the ongoing Fishrot scandal.

The scandal began in November of 2019 when Wikileaks released a cache of over 30,000 incriminating documents from a whistleblower at Samherji, the largest fish processing company in Iceland (Winters, 2021). Collectively, the documents told an unsettling narrative of the company bribing high-level officials in the Namibian Government – including the President, Minister of Fisheries and Minister of Justice – for unfair access to fishing rights and quotas (Winters, 2021). Fishing rights and accompanying quotas are allocated by the Ministry of Fisheries and Marine Resources, in line with the 2000 Marine Resources Act, to regulate commercial fishing techniques and catch quantities (Republic of Namibia, 2000). In addition to bribery, it appeared that profits from the deal were transferred to shell companies held in offshore accounts, thereby allowing the company to launder said profits and evade taxes legally owed to the Namibian Government (Country Report: Iceland, 2019). The officials involved in these illicit agreements, as well as the banks that helped set up the shell companies, have all come under fire for their roles in the scandal. Al Jazeera released an investigative report on the case following the 2019 Namibian presidential election, which revealed just how far-reaching the fallout of the case really was. The remainder of the section will review the impacts of this crime from four different perspectives: the government, the economy, the environment and the international community.

The Fishrot scandal has destabilised Namibia’s one-party-dominant democracy

A discussion of the scandal’s developmental impact on the Namibian Government should begin with the country’s political independence. Mapping the transition from colonial control to independent governance explains the country’s one-party-dominant democratic system and how corruption stands to affect it. Previously known as “South West Africa,” Namibia was first colonised by Germany, transferred to the UK’s control after First World War and officially ruled by South Africa as its fifth province until 1972, when the UN
General Assembly declared the South West African People’s Organisation (SWAPO) the “sole representative” of the Namibian people (Britannica, 2019). Despite this recognition of SWAPO’s authority by the UN, it was only after twenty four years of guerrilla conflict that SWAPO was able to push South Africa’s apartheid control out of the country in 1990. Since independence, SWAPO has been the dominant party in Namibia through “free and fair” democratic elections every five years (Tötemeyer, 2007). While the true freeness and fairness of the elections have certainly been questioned, a senior UN official called them “an acceptable unacceptability” (Bush, 1989). This acceptability is reflected in the World Bank’s assessment that the country’s “political stability” through SWAPO dominance and the party’s “sound economic management have helped anchor poverty reduction and allowed Namibia to become an upper-middle income country.”

Whether by truly free means or not, the official figures suggest that SWAPO’s popularity was strong and stable from independence until 2019. It is to be expected that a liberation group that becomes a political party will remain in power, but “none has managed to retain a similar degree of support since independence” (Melber, 2019). The party received 70% or more of the vote for each National Assembly election since 1994, with a peak proportion of 80% of the vote in 2014 (Electoral Commission of Namibia, 2019). Afrobevertisment surveys support the votes’ suggestion that a high proportion of the population trusted the president and National Assembly to this point. The trend of popularity changed, however, in the 2019 presidential and National Assembly elections, followed by the regional and local authority elections in 2020.

News of potential SWAPO involvement in the Fishrot scandal broke just before 2019 polling. Despite President Hage Geingob’s vehement denial of all claims, the results reflected a significant decline in public support. The 2019 National Assembly and presidential elections showed the lowest proportion of votes for SWAPO since independence. While Geingob still won the election, his votes fell from 87% in 2014 to only 56% in 2019 (Electoral Commission of Namibia, 2019). With election-day arrests of Bernhard Esau, the Minister of Fisheries and Marine Resources and Minister of Justice Sacky Shanghala in connection with Fishrot, it is no surprise that the same Afrobevertisment surveys – that previously reported high trust – then showed a sharp decline in faith leading up to the 2019 elections (Kleinfeld, 2019).

The regional and local elections in 2020 revealed that public backlash from the scandal is far from over. The results were evidence of the fact that “Namibian voters vented their dissatisfaction at the government’s failure to tackle official corruption, the economic fallout and job losses from the coronavirus lockdown […]” (Country Report: Namibia, 2020). SWAPO support plummeted from 73% in 2015 to 39% in the most recent local polls, and the Independent Patriots for Change party, which campaigned aggressively against corruption, was able to sway the greatest number of votes of any opposition party (Country Report: Namibia, 2020). Sustained lack of trust in SWAPO meant that for the first time since the country’s independence, another political party was able to gain a foothold at the regional level. These cracks in voters’ loyalty on account of corruption suggest a “turning point in Namibia’s democracy” (Melber, 2020).

The Fishrot scandal has deprived the Namibian economy and people of millions of dollars
Namibia’s political turning point is also attributed to economic challenges, and the economy has suffered on account of bribery and tax evasion in the Fishrot case. Documents revealed in the 2019 leak suggest that Samherji paid over US$10m in bribes to illegally secure fishing
quotas from which it profited over US$70m (Vilhjálmssson, 2019). According to PWC (2021), Namibia’s corporate tax law is:

[...] a source-based tax system, which means that income from a source within Namibia or deemed to be within Namibia will be subject to tax in Namibia [...] Income earned by foreign companies from a source within or deemed to be within Namibia will be subject to tax in Namibia.

With an estimated 20% of all of Samherji’s global catch being sourced in Namibia and a corporate tax rate of 33% at the time, the company was liable to pay the Namibian Government millions of dollars in taxes (Gibbs, 2020). Instead, documents show that the profits were laundered through shell companies in Cyprus, Mauritius and the Marshall Islands, where tax rates are significantly lower (Winters, 67).

Corporate tax evasion is a continent-wide issue in Africa. In Al Jazeera’s investigative report on the Fishrot scandal, findings from African Union and Global Financial Integrity studies are cited to highlight the scale of financial crime:

Africa loses at least $50bn annually as a result of illicit financial flows from foreign companies doing business on the continent [...] for every dollar that comes into the developing world [...] $10 leave, mostly as a result of tax avoidance by multinational companies (Kleinfeld, 2019).

For maritime African countries specifically, an estimated $1.6bn in revenue is lost due to the evasion of taxes on fishing activities (Sumaila et al., 2020). The issue of tax evasion in the Fishrot scandal is not isolated, then, but part of a larger issue of the exploitation of the African people and their resources through economic crime.

To avoid such ravaging of its economy by multinational corporations, Namibia adopted a “Namibianisation” policy after gaining independence (Armstrong et al., 2004). The goal of the policy is to ensure that Namibian citizens are given priority access to marine resources, in large part to correct for economic injustices committed under the apartheid system. One of the main benefits of this policy is increased employment opportunities, with the absolute number of Namibians employed in the fishing industry doubling in the period from 1991 to 1998 (Armstrong et al., 2004). Rights and quotas are a key contributor to the policy’s benefits, as they dictate access based on the degree of an entity’s Namibian ownership and investments. In allowing foreign corporations to illegally obtain these rights and quotas, corrupt SWAPO officials did not just crowd out fishing grounds; they undermined efforts to promote economic recovery from colonial harms.

**Environmental damages in the Fishrot scandal hamper fish stock rehabilitation efforts**

The economic impacts of the Fishrot scandal go hand in hand with the environmental consequences. In a recent report on Namibia, the World Bank (2021a, 2021b) states:

Although the World Bank’s wealth/natural capital model does not currently account for marine or water resources, the fisheries sector should also be considered because it is vital to the country’s economy. In fact, the contribution from sectors relying on renewable natural resources accounts for over 35% of GDP, and around 70% of the population is directly dependent on natural resources for income, food, medicinal and health needs, fuel, and shelter. It is therefore necessary that renewable natural resources and the ecosystem services they provide be maintained and enhanced to support sustainable development.

As this section will show, sustainability of vital natural resources – and their impact on employment and food security – is threatened by corrupt access to Namibian waters.

Namibia’s fishing industry depends upon its particularly rich, diverse stock; the Namibianisation policy’s rights and quotas manage carefully to ensure its sustainability.
Total allowable catches set strict limits on the type and quantity of marine species that can be caught. Together with rights and quotas, they attempt to avoid the kind of overfishing that led to scarcity in the country prior to independence (Lange, 2003). Overexploitation saw a number of fish species’ populations nearly completely depleted before Namibia adopted this rigid management system, which now functions as a model for marine resource rehabilitation around the world (Chiripanhura and Teweldemedhin, 2016).

Alongside commercial fishing, domestic food security also depends on the sustainability of fish stocks for protein (Republic of Namibia, 2017). Though Namibia is recognised as an upper middle-income country, over 42% of the population is malnourished (World Food Program, 2021). This is not for lack of fish in the country’s waters, though. In a 2020 study conducted on factors affecting domestic marine fish consumption in Namibia, all participants recognised that fish were beneficial for their health but cited affordability and accessibility as barriers to consumption (Erasmus et al., 2021). A lack of access is reflected in the fact that, despite the country’s rich fishing grounds, domestic fish consumption in Namibia is still the lowest in all of Africa (ATFALCO, 2012). The goal of the Namibia Fish Consumption Promotion Trust, established by the Ministry of Fisheries and Marine Resources, is to improve this constrained access to marine resources and thereby promote greater food security (NFCPT, 2021).

When access to quotas was illegally given to Samherji by corrupt officials, it undermined the efforts of Namibianisation and the Ministry of Fisheries and Marine Resources to work in the best interests of the Namibian people. The country’s careful process of recovering natural resources after colonial exploitation is set back by foreign corporations such as Samherji, which flout the law through bribery. Further, Samherji’s detrimental fishing practices – like bycatching endangered species and overfishing – have been flagged by Greenpeace for the “profound impact they have on fish stocks and local livelihoods” (Greenpeace, 2014). Namibia is rich in natural resources for economic development and food security, but when they are accessed illegally and their benefits are syphoned off, the people of the country are robbed twice over. Sustainable development is hampered by such corruption.

The international community selectively undertakes anti-corruption efforts

The impact of Fishrot extends beyond Namibia’s borders. As the biggest corruption scandal since Namibia’s independence, the case involves 30 jurisdictions and has attracted international attention (Immanuel, 2021a, 2021b). Namibia’s score on the global Corruption Perceptions Index has been declining since 2018 as a result, with the full impact of the scandal yet to be announced in the 2021 index update (Transparency International, 2020). The first section of the study noted that anti-corruption efforts are costly and are often enforced from West to East, and this has proven to be true in this instance. While Namibia’s Anti-Corruption Commission (ACC) has worked since 2019 to arrest a number of the scandal’s participants, a firm date has yet to be set for a trial and the commission is already facing a lack of funding for the investigations (Country Report: Namibia, 2021). In response, the United Nations Office on Drugs and Crime and the International Anti-Corruption Conference have offered their assistance (Immanuel, 2021a, 2021b).

The United States has also involved itself in these anti-corruption efforts by banning Bernhard Esau and Sacky Shanghala from entering the country. This ban reflects the Biden administration’s strong stance against corruption and economic crime (US Department of State, 2021). While the Institute for Public Policy Research “welcomes” the ban, it also highlights the fact that the USA has taken no action against Icelandic officials (Immanuel,
The uneven enforcement of international anti-corruption efforts is worth noting, especially considering its disproportionately heavy burden on developing countries.

Section III: Dynamics between the East and West and collateral effects of anti-corruption

It is clear that the Fishrot scandal has had high costs for Namibia’s Government, economy and environment, but pursuing justice at the international level also has a price. The legal process in the case is complicated and time-consuming, as the scandal involves cross-border bribes and illicit banking activities in a number of different territories. To begin, the ACC has struggled to track down funds that were moved to foreign bank accounts, calling a probe into a Kazakhstani account “a wild goose chase” (Oirere, 2021a, 2021b). The commission ultimately called off the probe in September of 2021 due to a lack of supporting evidence. More recently, the Namibian non-governmental organization Affirmative Repositioning has partnered with Restitution, a London-based global anti-corruption fund, in an attempt to recover assets lost in the scandal. While the partnership promises to provide “support on the civil enforcement and asset recovery including capacity building support,” it is not clear how or when the recovery will be carried out, especially considering the already-expressed scarcity of funds for the investigation (Oirere, 2021a, 2021b). It is also not clear how the environmental damages done in the case could measurably be reversed. As of the first quarter of 2021, no Namibian victims have been compensated.

The Namibian High Court has also faced challenges engaging those accused in Iceland. In a statement not released until June of 2021, Samherji denied all accusations of bribery and claimed that consultations with the Namibian Government simply posed “risks that were not sufficiently mitigated.” Samherji also transferred much of the blame onto Namibian state-owned fishing company Fishcor, which managed the catch quotas, claiming that Samherji did not question the company’s “unsatisfactory instructions” and “paid according to them in good faith of their legitimacy”. The language of the statement positions “confusing” Namibian business operations as the scapegoat (Oirere, 2021a, 2021b). In response, Namibia has requested that Ingvar Júlíusson, Egill Helgi Arnason and Adalsteinn Helgason be extradited to appear in court for charges of bribery and corruption, but Iceland has refused (Smith, 2021). Pursuing justice for Iceland’s role in the Fishrot scandal has unintentionally provoked scrutiny and unflattering attention on Namibia’s fishing industry. As noted in the first section, developed countries such as Iceland have the resources and stability to manage scandals such as Fishrot, while Namibia stands to be perceived as too corrupt and risky for international investment moving forward.

The imbalanced dynamic between Namibia and Iceland in the fallout of the Fishrot scandal is representative of larger issues in anti-corruption efforts. As Di Mascio and Piattoni (2020) note, a global toolkit presented as corruption’s “universal cure” ignores the complexity of different countries and their unique positions. For Iceland, which has long been recognised as one of the least corrupt countries in the world, this instance of sporadic corruption does not fundamentally compromise political or social structures. Because Fishrot at least seems to be a one-off incident, a temporary decline in the country’s Corruption Perceptions Index is unlikely to do long-term reputational damage. For Namibia, on the other hand, the multi-level corruption of state officials in such a young democracy raises flags for endemic corruption, which undermines the credibility of the state’s economic, social and political systems. Iceland stands to gain much more and lose much less from Fishrot than Namibia, especially from a development perspective. A study of the Fishrot scandal has shown how Western countries are able to engage in corruption at the disproportionate expense of developing ones in this way. Until that dynamic changes,
corruption and economic crime will be too attractive to the West to control in countries such as Namibia.

**Conclusion**

This study has shown how bribery, money laundering and tax evasion in the Fishrot scandal have damaged Namibian stability while leaving Iceland largely unscathed. Despite the international attention garnered by the scandal, the lack of accountability taken by Icelandic players is representative of the wider opportunism and cavalierness of the West in exploiting developing countries. This paper does not suggest that sweeping judgements should be made about anti-corruption based on the analysis of a single country; that would be analytically dangerous. Instead, it intends to underscore the potential threat that cross-border economic crime poses to sustainable development, especially after decades of efforts to rehabilitate Africa from the effects of colonialism. International commissions must consider corruption not just as something that happens *in* developing countries, but as something that can happen *to* them, as developed countries have much to gain and little to lose by engaging in it. If the international community can acknowledge that compliance with anti-corruption standards also has a cost, progress might be made towards more equitable policies on economic crime.

It is unrealistic to propose that corruption can be stamped out entirely, but actively combating it in developed and developing countries is essential to maintaining stability in the latter. Events of the Fishrot scandal are evidence that economic crime undermines political integrity, perpetuates economic inequality, leads to environmental exploitation and taints a developing country’s reputation on the international stage. The costs of anti-corruption efforts are high, but these systemic costs of corruption are ultimately higher. In response to the World Bank’s 1998 question, then: yes, fighting corruption is worth the bother in developing countries because the threat of exploitation through economic crimes is so great. To ignore the vulnerability of these countries to cross-border corruption is to hamper the pursuit of justice for past and future damages.

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**Further reading**


Corresponding author
Alexandra Hartwig can be contacted at: aljhartwig@gmail.com