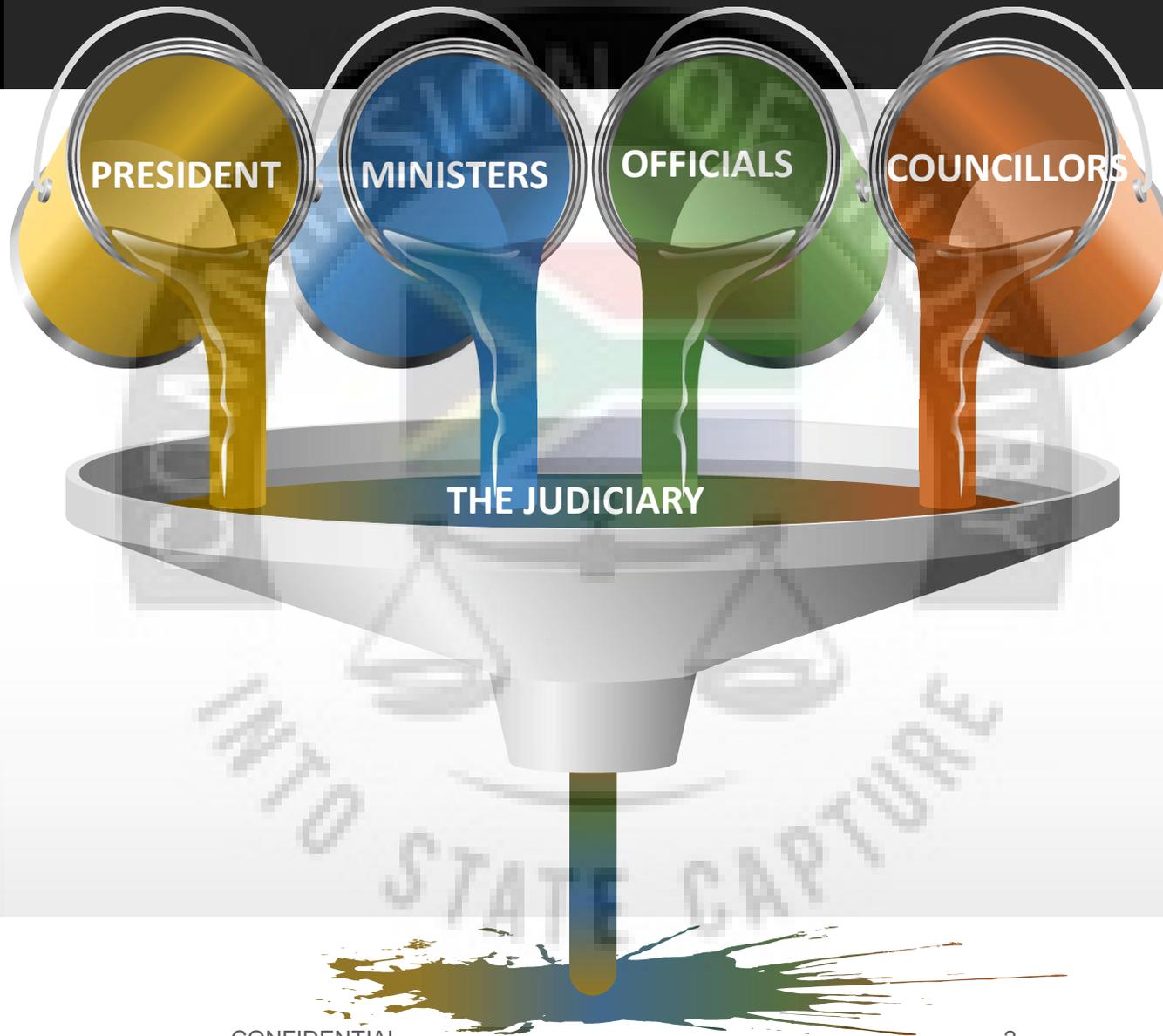


THE STATE CAPTURE PHENOMENON: WHERE BUSINESS BECOMES THE STATE

September 2018

STATE...CAPTURED



STATE...CAPTURED



INTERMEDIARIES / ENABLERS

- Intermediaries/Enablers can be many and not easy to identify
- But they are important facilitators of state capture e.g some private accountants, financial and tax advisers, international traders, lawyers, etc.

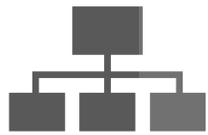
STATE...CAPTURED

CAPTOR

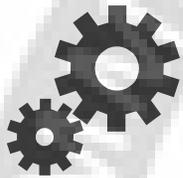
- Has control over the intermediaries/ enablers and may seize public power
- e.g. influential business people, particular economic conglomerates, military, etc.



POTENTIAL SECTORS THAT CAN BE CAPTURED



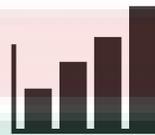
Extractives/
mining



Industrial



Energy



Financial



Communication

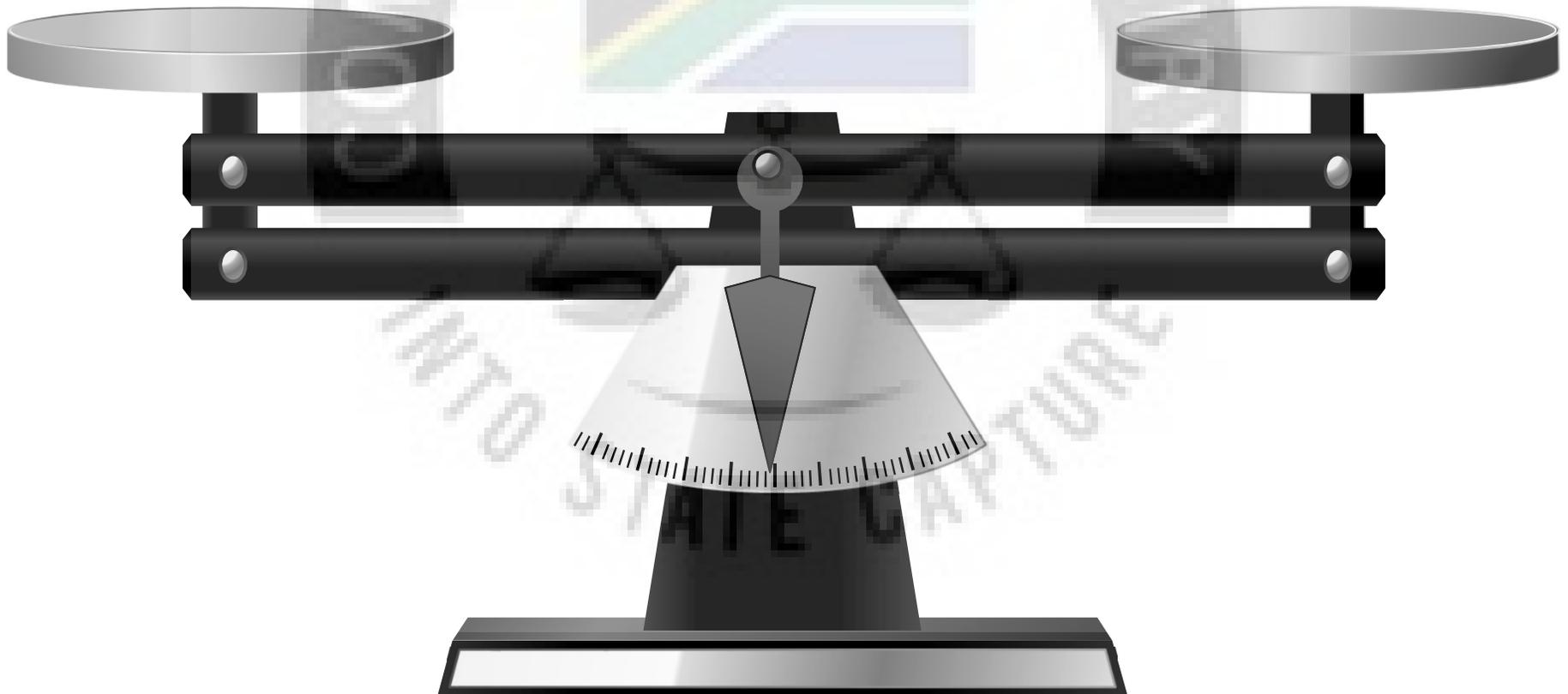


Military



RED FLAGS

- Sponsorships and Donations
- Charities or Educational Foundations
- Trusts
- Mismanaged and unduly influenced State Owned Enterprises (or through privatization)
- Illicit political finance
- Beneficiary Ownership (financial benefits to dependants or family members)
- Monopoly over fishing, mining, energy, communication rights etc
- Financial benefits to the Members of the Executives from foreign countries



CORRUPTION

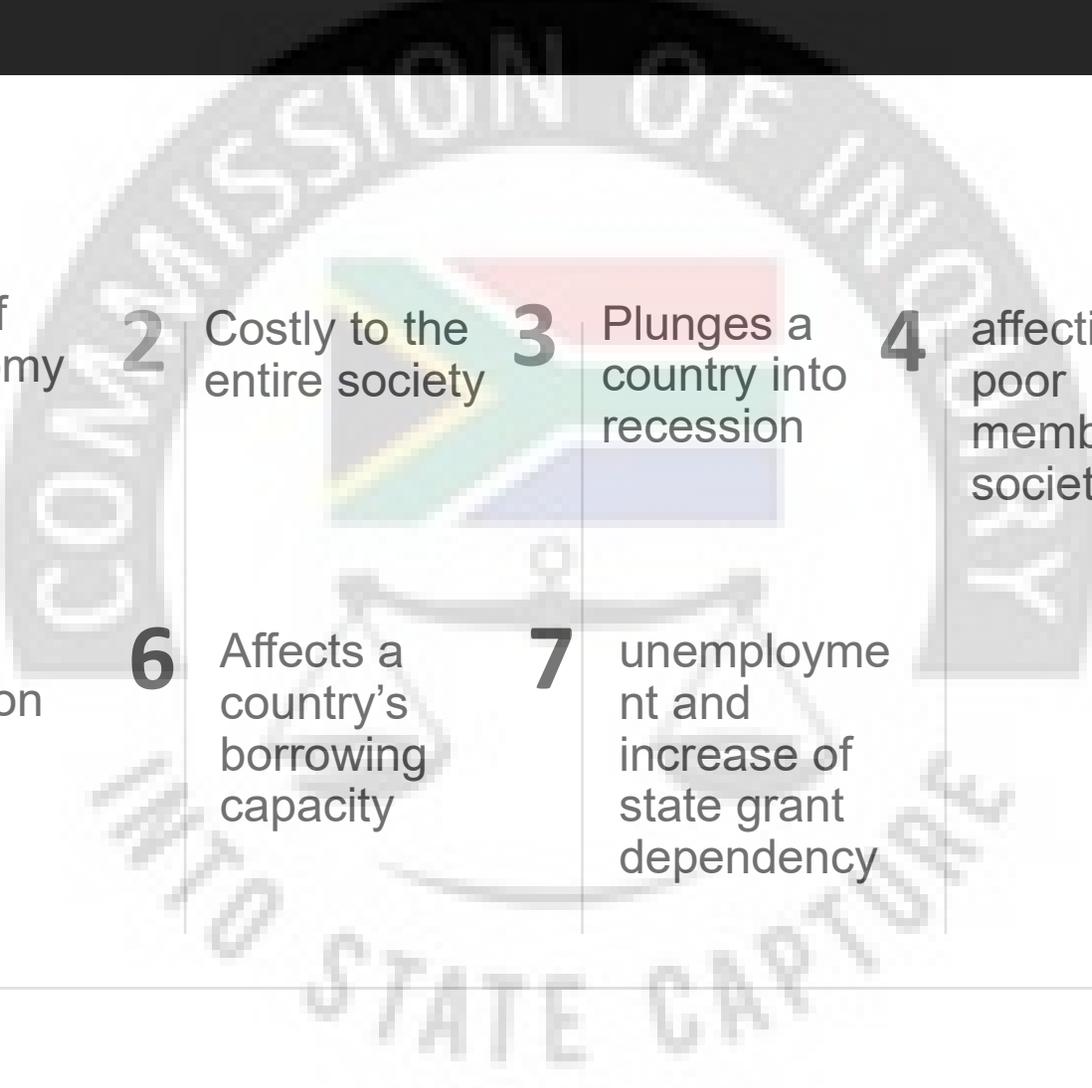
ADMINISTRATIVE CORRUPTION

1. Abuses in implementation of existing laws
2. Abuses from individualized non-compliance with procurement processes masked as Deviations (emergency procurement, sole supplier)
3. Bribes to get around administrative red tape

REGULATORY CORRUPTION - STATE CAPTURE

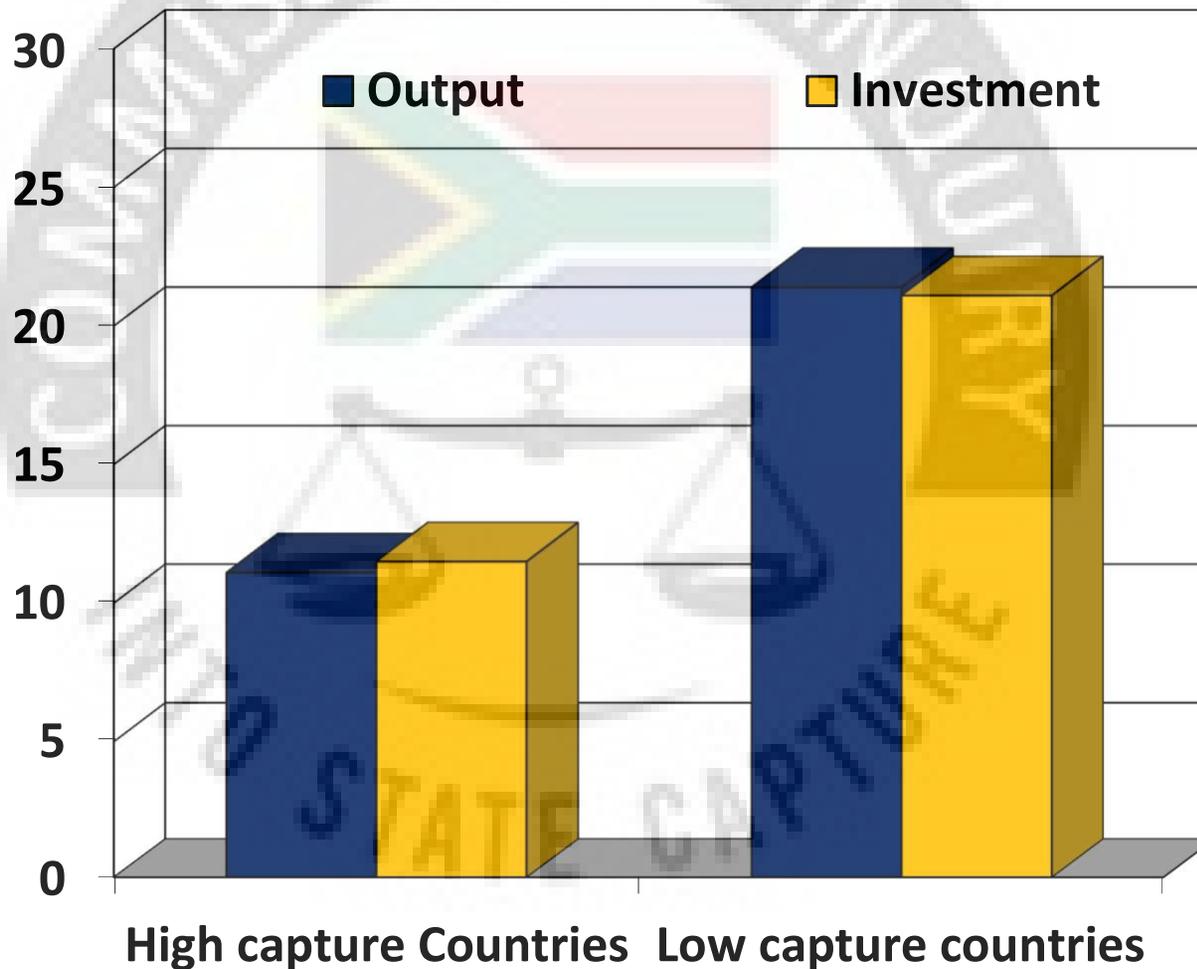
1. Elite shapes the rules of the game for their benefit at the expense of the public good
2. Undue influence and manipulation of policies to favour the powerful few
3. Changing the laws or regulations to benefit the few
4. Shaping the evolution and interpretation of laws, policies and regulations to enable corruption
5. Interpreting the policies and regulations to enable corruption
6. Tax regime changes or use of exemptions to benefit the few

CONSEQUENCES OF STATE CAPTURE

- 
- 1 Erosion of the economy
 - 2 Costly to the entire society
 - 3 Plunges a country into recession
 - 4 affecting poor members of society
 - 5 Destroys competition
 - 6 Affects a country's borrowing capacity
 - 7 unemployment and increase of state grant dependency

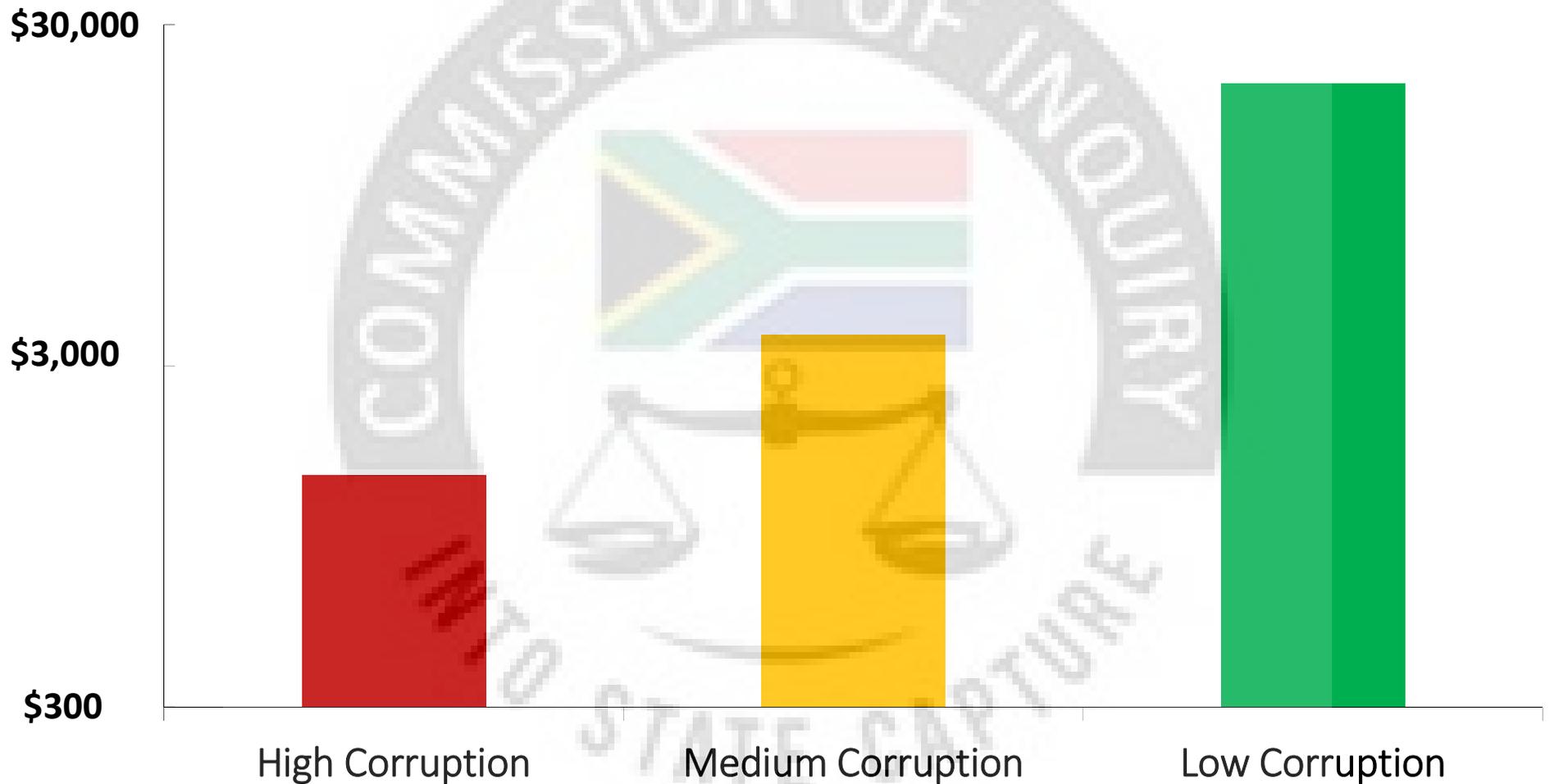
Costs of State Capture-Private Sector grows and invests less (based on Hellman/Kaufmann state capture in transition research)

Average rate of growth '97-'99



Huge Income Dividend to Citizens from Controlling Corruption & Capture

[Worldwide Data, from Kaufmann and Kraay research and indicators]



Source: Kaufmann and Kraay. Data Source for calculations: Worldwide Governance Indicators (WGI).