How Does Influence-Peddling Impact Industrial Competition?
Evidence from Enterprise Surveys in Africa

By Vijaya Ramachandran, Manju Kedia Shah and Gaiv Tata

Abstract

Prior research has emphasized that the high costs and risks arising from a poor investment climate—lack of clear property rights, macro-instability, the burden of regulation and taxation, poor infrastructure, lack of finance, and lack of human capital—have impeded the development of the private sector in sub-Saharan Africa, despite adoption of structural adjustment and liberalization policies. Given the resulting wide differentials in productivity, it is not surprising that most of the African manufacturing sector has not been competitive in exports. However, trade liberalization should have had greater impact on *domestic* markets for manufactured goods in Africa, leading to either a rapid decline in the size of the manufacturing sector due to import competition, or to a rapid increase in productivity of surviving enterprises. In fact, neither has happened to any significant degree over the last 20 years.

Based on data from enterprise surveys conducted by the Regional Program for Enterprise Development at the World Bank, this paper argues that some African manufacturing enterprises have continued to retain their market leadership in domestic markets by investing in relationships with governments, thereby maintaining high barriers to entry and a reduced degree of competition. This influence is particularly severe in some countries in Africa and is often driven by relatively few enterprises. In particular, Zambia and Kenya seem to suffer a high degree of influence-peddling, while Mali and Senegal are at the low end of the scale. Comparisons with selected countries in Asia show that lobbying in East Africa is different than in Asia—larger enterprises, and enterprises with higher market share lobby in Africa, as compared to Asia where market share is not a significant determinant of lobbying activity.

The results imply that attempts to improve the productivity of the African private sector through focusing only on the removal of trade barriers, improvements in the investment climate, and private sector capacity building will at most be partially successful. In order to escape from the current low-level equilibrium trap, future reforms will need to explicitly consider political economy issues. From this perspective, the role of regional integration as a tool of competition policy will need to be given greater consideration.

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1. **Introduction**

Historical experience over the past two hundred years demonstrates that sustainable development has primarily resulted from increasing productivity. In most countries,[1] excess labor from lower productivity agricultural activities[2] moved initially to the manufacturing sector where their productivity was higher resulting in higher standards of living. Eventually, the share of manufacturing declines as organized service sector activities begin to predominate in the economies that develop further (Timmer, 1991).

Based on the premise that increased economic productivity would arise from change in the sectoral composition of GDP, many developing countries proceeded to develop domestic manufacturing sectors in the 1970s. Initially, industrial development was an end in itself and with the expectation of nurturing infant industries, many countries used tariff and non-tariff barriers to restrict competition for domestic industries. Moreover, in the absence of a domestic private sector that had the capital or the know-how or under the ideology that the state should control the "commanding heights" of the economy, a sizable proportion of the manufacturing sector consisted of public sector enterprises.[3] On the whole, this strategy failed as many manufacturing enterprises did not become internationally competitive (i.e. they could not survive the removal of protection) and the absence of competitive pressure also provided little incentive to innovate.[4]

Much of the successful experience with developing the manufacturing sector over the last thirty years came from countries which used manufactured exports as the basis for increasing productivity and economic welfare[5] and successfully become middle-income countries in the process. In the absence of significant domestic purchasing power or small domestic market size, the manufacturing sectors in these countries had to meet the market test early on and consequently only the most viable enterprises survived (World Bank, 1995).

As many countries began to seek to revive economic growth in the context of structural adjustment programs supported by (or in the view of many critics, initiated by) the IMF and World Bank, efforts were made to emulate the successful experiences. The key elements of the reform agenda as applicable to the manufacturing sector[6] were the introduction of greater international openness to increase competitive pressures (i.e.

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[1] This excludes small city states which have focused on trade/service sector activities or resource rich economies which have utilized resource rents to move to service sector activities directly.

[2] This does not suggest that all agriculture is low productivity relative to other activities—high value-added agriculture, including producing for niche markets, survives well into the process of industrialization.

[3] For an excellent discussion of import substitution in India, see Ahluwalia (1990).

[4] This is still an area of ongoing debate. There are other academics who argue that it is precisely such protectionist measures that led to the development of today's developed countries and therefore should be implemented by developing countries, see Chang (2002). Others have taken the view that the success of state directed development of the industrial sector is dependent upon the particular political economy existing in the countries concerned, see Kohli (2004).

[5] Exporters can be more efficient due to self-selection or due to learning, among other things.

[6] The structural adjustment programs also focused on stabilization (i.e. reducing fiscal and balance of payments imbalances). The discussion in this paper focuses only on those measures that directly affected the manufacturing sector.

reduction in tariff and non-tariff barriers), a reduced role for the state (i.e. privatization of public enterprises) and measures to improve the investment climate. Measures to improve the investment climate included economy-wide measures such as increased security of property rights, competitive exchange rates, reduced regulatory and tax burdens, improved infrastructure, availability of finance, strengthened worker skills and deregulated labor markets. Such measures also were frequently targeted at supporting particular sectors.[7] It was assumed that the reforms would lead to a one-off adjustment with an initial decline in some manufacturing sub-sectors with a recovery in other sub-sectors following in the medium-term.

These measures led to a successful turnaround in economic growth in some countries. However, this has not been the case for most sub-Saharan African countries (hereafter referred to as "African") which were disproportionately represented in the group of countries undertaking these reform measures. Based on the formal legal and policy framework, most countries are now more open and "business friendly" than they have ever been in their past. However, implementation remains uneven and there has been limited—if any—progress as measured by increased exports or changes in the size of the manufacturing sector or its productivity. Specifically,

- there has not been a major surge in manufactured exports in most African countries (with the exception of Mauritius)
- for enterprises producing for domestic markets, the assumed positive impact of a reduction in productivity differentials with the rest of the world and/or a substantial reduction in non-viable manufacturing enterprises in Africa does not seem to have materialized. While there are cases of individual firms or industries disappearing because of international competition, we have not seen large efficiency gains arising from structural adjustment. The manufacturing sector's share of GDP has remained unchanged between 1990 and 2005 in most countries and is below 10 percent for most countries (World Bank, 2007).
- productivity levels in African manufacturing continue to considerably lag those in other continents with productivity differences being very large in some cases (Zambia vs. China).[8] While factory-floor productivity in well functioning enterprises in Africa may not look very different from enterprises in other parts of the world, net total factor productivity is significantly lower primarily due to the lack of adequate infrastructure and/or much higher energy, transport, telecommunications and other indirect costs.

The bottom line is that twenty to twenty-five years after the start of structural adjustment there has been almost no structural change in the composition of African economies generally and in African manufacturing sectors in particular. So, how is it that despite lower trade barriers and continuing poor productivity, African manufacturing enterprises continue to survive and, a few, by some accounts, remain highly profitable?

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[7] For a detailed treatment of the measures to improve the investment climate, see World Bank (2005).
[8] This issue is explored in great detail in Eifert, Gelb and Ramachandran (2005) which analyzes how enterprises in 15 African countries face very high indirect costs relative to enterprises in other parts of the world.

To explain the slow growth of African economies, donors, policymakers and researchers are emphasizing the important role of political economy issues (van de Walle, 2001). In particular, they are focusing on the state's role in the shaping of public institutions and laws that impact the economy, as well as the impact of corruption on the functioning of markets.[9]

While the importance of good governance has now become center-stage in the discussion of economic growth, much of the discussion has focused on situations where money changes hands—either administrative/petty corruption or state capture which consists of private payments to public officials to shape the formation of basic rules.[10] Much less has been said about the situations where business-political ties result in influence peddling (i.e. lobbying of government officials for private gain) and the impact these have on industrial competition and economic growth. This paper examines the nature of business-government relationships in six African countries, and in particular, focuses on influence peddling as exercised through lobbying. It shows that industrial competitiveness in East Africa is adversely impacted by African manufacturing enterprises that have engaged in state capture or influence in order to maintain high levels of monopoly or market concentration.

Some lobbying is associated with (and obviously necessary) to get governments to address the problems of high indirect costs and poor quality government services. However, our analysis shows that the lobbying in Africa is focused on creating "strategic barriers" to competition *by a small group of enterprises with high market share investing resources in its relationship with government in order to retain this market power.*[11] The result—increased barriers to entry and the prevention of greater competition—may well be a powerful deterrent to the emergence of a broad based private sector in these countries.[12]

The remainder of this paper is organized as follows. Section 2 discusses the sample used, previous research and the various forms of business-government linkages. It presents descriptive statistics on these linkages for the six African countries in our sample. Section 3 presents the descriptive statistics on enterprise market share as a proxy measure for market power and industrial competition, and discusses the pairwise correlations of market share with enterprise influence. Finally, the paper includes a rigorous, econometric analysis to examine the determinants of enterprise influence. We show that larger enterprises and enterprises with greater market share are more likely to influence

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[9] Alternative explanations include the assumption that liberalization reforms are simply too recent for us to see the impact or that foreign firms are simply still waiting to enter African markets. We posit that this is likely not the explanation—structural adjustment reforms are now over two decades old in several countries.

[10] Definitions from Hellman and Kaufmann (2002).

[11] Barriers to competition are defined as structural (basic industry conditions such as cost and demand) or strategic (intentionally created or enhanced by incumbent enterprises possibly for purposes of deterring entry). See OECD (2007).

[12] A very interesting analysis of state capture and the continuing vulnerability of enterprises to government actions is contained in Emery (2003).

the state in Africa than in other regions. The final section discusses policy implications arising from these results.

2. Productivity Differentials Have Not Translated Into Changes in Manufacturing Sectors

The data for this paper were collected as part of the Enterprise Surveys initiative at the World Bank. These data are largely drawn from enterprises in the manufacturing sector and were gathered through the door-to-door administration of detailed questionnaires which cover the production characteristics of the enterprise as well as enterprise perceptions regarding business-government relations.[13] These data used are from six African countries—Kenya, Senegal, Tanzania, Uganda, Zambia and Mali (Table 1a). A stratified random sample of enterprises, drawn from available population data, were interviewed in each country (Table 1b). For this paper, a sample of 1538 enterprises surveyed between 2002 and 2004 is used.[14]

Table 1a: Basic Indicators for Sample of Countries

Countries	2004 GDP/capita (2000 constant $USD)	Population (millions)	Life expectancy at birth (total)	Manufacturing (value added) as a share of GDP	Exports of goods and services as a share of GDP
Kenya	428	33.5	47	11.16%	25.97%
Uganda	263	27.8	47	9.16%	13.69%
Tanzania	314	37.6	46	7.01%	17.82%
Zambia	339	11.5	37	12.01%	19.52%
Senegal	461	11.4	56	11.52%	27.84%
Mali	237	13.1	48	3.37%	25.38%

Source: World Bank, 2007 (Data are for 2004 except life expectancy which is for 2002)

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[13] For more information, visit http://www.worldbank.org/rped or http://www.enterprisesurveys.org

[14] A large subset of enterprises responded to political economy questions. Responses for influence were higher than those relating to state capture. In all cases, the subset of enterprises that responded to these questions mirrored the overall sample and there was adequate dispersion in the responses indicating that selectivity bias is not likely to be a problem.

Table 1b: Sample Characteristics of Enterprises Surveyed

Countries	Number of enterprises	Micro %	Small %	Medium %	Large %	Any Fgn Ownership %	Some output exported %	Full Exporter %
Kenya	284	3.9	34.6	17.1	44.5	16.6	36.2	2.8
Uganda	300	18	51	11.3	19.7	22.6	14.6	3.6
Tanzania	276	17.6	40.1	17.7	24.6	21.0	18.8	1.8
Zambia	207	—	38.9	27.8	33.3	29.2	29.7	4.8
Senegal	256	14.2	49.2	14.9	21.7	25.4	32.4	8.5
Mali	155	28.7	54.7	6.0	10.7	17.4	16.8	1.3

Some key characteristics of the sample are as follows—(1) a majority of enterprises in all countries belong to the smallest size classes with the exception of Kenya and (2) in all countries, less than 10 percent of enterprises are producing exclusively for exports. Also, both Senegal and Mali have a fairly small share of medium and large-size enterprises, which have significant overlap with foreign ownership. In our analysis below, we retain the entire sample for our descriptive statistics; for our econometric analysis, we use the subsample of enterprises that supply at least part of their output for the domestic market. In other words, we do not include enterprises that export 100 percent of their output.

Previous analysis of the Enterprise Survey data for Africa has shown that the cost of doing business in Africa is higher than other regions of the developing world (Eifert, Gelb and Ramachandran, 2005). African enterprises' gross total factor productivity relative to China is low, particularly when energy and indirect costs are netted out of gross TFP. [15]   For example, after netting out indirect costs, net TFP of Zambia is not even 10 percent of China's. Only Tanzania and Senegal have ratios that are 50 percent or higher. These results reflect the very high costs imposed by the business environment in Africa—the cost of energy plus the cost of telecommunications and transport cause net TFP to be very low for many countries in our sample. This evidence therefore leads us to the primary question which this paper explores—**how do African enterprises, particularly those producing for the domestic market, survive despite low levels of productivity as well as high productivity differentials across different categories of enterprises?**   Before, proceeding to our main hypothesis, we would like to mention two hypotheses that are worth considering but beyond the scope of this paper.

First, how much protection is offered by transport and logistics costs for imports that compete with domestic manufacturing? In order to provide a sufficient explanation, transport and logistic costs would need to add 30 and 60 per cent to the costs of imported goods without adding any additional costs to the import/foreign good content of domestic

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[15] Gross TFP is defined here as the residual of an estimation of value added on labor, capital, and raw materials. Net TFP is the residual of an estimation of value added on labor, capital, raw materials, energy and indirect costs.

manufactures. At this point in time, we do not have sufficient data to test this hypothesis; we also think it is unlikely that the cost premium is in the above range.

Second, we considered whether there might be residual protection provided through tariffs for specific finished-good products. However, with weighted average tariffs in manufacturing being at only 8-17 per cent in the sample of countries, this cannot be compensating for the productivity differentials which are three times as high, and consequently also does not seem to be a very likely explanation.

This study examines the hypothesis that in an environment of poor governance, enterprises can limit domestic competition by investing resources in their relationship with the government. This allows them to retain market share and consequently, market power. We use detailed enterprise level data from Enterprise Surveys to examine this aspect of the business-government relationship.

3. Enterprise-Government Relationships: Definitional Issues

There are three primary and overlapping mechanisms through which enterprises exert pressure on governments as per the typology developed in Hellman, Jones and Kaufmann (2000):

(1)   *Administrative corruption*: which is defined as private payments to public officials to distort (or expedite) the prescribed implementation of official rules and policies;

(2)   *State capture*: which is defined as trying to shape the formation of the basic rules of the game (i.e. laws, rules, decrees and regulations) through illicit and non-transparent private payments to public officials; and

(3)   *Influence*: which is defined as the enterprise's capacity to have an impact on the formation of the basic rules of the game without recourse to private payments to public officials (as a result of such factors as enterprise size, ownership ties to the state and repeated interactions with state officials).

We describe below the available data from the enterprise surveys on the three modalities of enterprise pressure.

Administrative Corruption and State Capture

Table 2 shows the percentage of enterprises which indicate that bribes are paid in their industry for services. We see that bribery is common in all countries: it is the highest in Kenya, where 63% of enterprises reported some payments to "get things done", and least common in Senegal, where 25% percent of enterprises report making any such payments. Disaggregation of the data by size (not reported here) shows no particular correlation with enterprise size; rather administrative corruption appears to be widespread.

Table 2: Payment of Bribes

	Percentage of enterprises indicating that bribes are paid in their industry
Senegal	25.4
Tanzania	35.3
Uganda	38.0
Zambia	44.4
Mali	59.6
Kenya	63.0

Enterprises also separately provided responses on the importance of *ad hoc* payments, to politicians, government officials, judges and political parties that enable us to look at the degree of state capture within each of the countries in our sample. Table 3 describes this aspect of enterprise behavior. Enterprises in Kenya, Zambia and Tanzania indicate a higher degree of importance than enterprises in other countries; almost seven times the number of enterprises in these countries indicate that private payments are important relative to enterprises in Senegal.

Table 3: Percentage of Enterprises Indicating Importance of Ad Hoc Payments

	Private Payments to Politicians	Private Payments to Government Officials	Payments to Judges	Contribution to Political Parties	Percentage ranking any ad-hoc payments as important (across 4 measures)
Zambia	14.7	20.0	25.3	28.6	40.7
Tanzania	35.2	33.8	35.3	34.1	39.7
Kenya	17.8	28.9	27.0	11.1	39.2
Uganda	6.9	15.7	14.9	17.1	35.6
Mali	5.9	9.6	14.8	6.1	12.7
Senegal	1.7	3.3	2.9	1.7	6.2

Note: Enterprises were asked to rank these questions on a scale of 1-5. Percentage ranking this as a severe problem (4 or 5) are presented above.

It is worth noting that under-reporting on private payments may well be a problem with these data, despite asking enterprises to report on "industry averages," not their own payments. We see that enterprises in East Africa are far more likely to complain about state capture compared to enterprises in West Africa. Like administrative corruption, further examination of patterns of state capture across enterprise size (not reported) showed no correlation; enterprises across all size classes are likely to complain about corruption in the form of private payments that impact their businesses adversely.

Influence

Is enterprise influence important?   Table 4 reports the responses of enterprises to the question of whether policy is significantly influenced by dominant enterprises, conglomerates or individuals with political ties. It is interesting to observe the differences across countries—over 53% of enterprises in Kenya believe that dominant enterprises are influential; this number is only 4 percent in Mali and 3 percent in Senegal.[16] More than 50% of enterprises in Uganda, Tanzania, Kenya and Zambia believe that policies are determined by individuals with political ties; this number falls to 18 percent for Senegal and only 14 percent for Mali. The data for Africa show the problem of influence to be much higher than in Eastern Europe—in a sample of 22 countries of the former Soviet Union, the percentage of enterprises considered to be influential does not rise above 14 percent (Hellman, Jones and Kaufmann, 2000). However, the purpose of influence-peddling—the determination of policy—appears to be remarkably similar across the two regions (Desai and Orenstein, 1996a; 1996b).

Table 4: Percentage of Enterprises Indicating that Dominant Enterprises, Conglomerates or Individuals Influence Policymaking

	Dominant Enterprises/ Conglomerates	Individuals with Political Ties
Mali	2.8	13.8
Senegal	4.3	18.6
Uganda	49.4	49.7
Tanzania	36.4	54.2
Zambia	20.7	59.8
Kenya	53.6	64.2

Next, we look at whether enterprises invest in their relationship with the government by influencing policy through lobbying. While the above rankings are subjective and prone to perception biases, the question on enterprise lobbying provides a direct objective measure of influence peddling. Enterprises were asked directly whether they lobby the government to influence the content of laws and regulations that impact their business. What exactly does lobbying encompass? Most often, it is the seeking of special arrangements that will raise the profitability of the enterprise. This can result in exemptions on tariffs and taxes, quicker clearances at land or sea ports, access to land or other resources, and sole source contracts.

We find that a higher number of large enterprises invest time in lobbying the government. Table 5 shows the percentage of enterprises lobbying the government in each country,

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[16] It might be the case that "lobbying" is understood differently in the West African business culture and may consequently lead to underrporting of this type of activity. However, the survey instrument is extensively piloted and revised prior to the administration of the full survey. Differences in language and culture are addressed to the fullest extent possible in these pilot exercises and in the translation of the survey instrument, so it is not very likely that this question is interpreted differently in the West African context.

broken down by size. This table indicates that Zambia has the highest percentage of enterprises lobbying government overall, followed closely by Kenya. It is worth noting that the rank order of the countries shown in Table 5, based on the share of enterprises lobbying government, seems to largely line up with perceptions of enterprise influence reported in Table 4 with Mali and Senegal clustered at low levels of influence peddling, Uganda and Tanzania in the middle and Kenya and Zambia at high levels.[17]

Table 5: Percentage of Enterprises Lobbying Government

	Overall	Micro	Small	Medium	Large
Mali	3.9	2.3	2.5	11.1	12.5
Senegal	8.3	2.8	5.6	10.5	16.7
Tanzania	13.9	4.2	9.5	26.1	18.3
Uganda	16.4	1.8	11.2	20.6	40.7
Kenya	35.4	0.0	26.6	44.4	43.4
Zambia	43.7	n.a.	38.6	40.0	53.0

It is worth noting that the correlation coefficient between bribery and lobbying in our sub-sample of countries is 0.30, suggesting that while bribery and lobbying are positively correlated, the extent of the correlation is fairly low. Of particular interest is Mali where the percentage of enterprises paying bribes is almost 60 percent while the percentage lobbying is only about 4 percent.[18]

3. Enterprise Influence and Industry Competition

The pattern of business-government relationships presented above indicates a fair amount of variation across countries, and also within countries, across different enterprise sizes. Not surprisingly, larger enterprises are much more likely to invest in their relationships with the government than smaller enterprises. Such relationships would not have a detrimental impact on domestic competition if there were no linkages between a enterprise's relationship with the government and its ability to retain market share.

If information on actual market shares had been available in the countries being studied, the optimal approach would have been to evaluate how the actual market shares correlated with influence peddling behavior. However, given the paucity of such data, we used questions in the Enterprise Surveys in which enterprises were asked what percentage of the national market is supplied by the enterprise. It is very important to note that this measure of market share is self-reported i.e. it is the enterprise's *perception*

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[17] It is sometimes argued that high levels of lobbying are associated with sales to the government. In our sample of manufacturing enterprises, this is not the case. Most enterprises do not sell to the government at all; those that do only sell a very small part of their production to the government (less than 5 percent in most cases).

[18] Research on Eastern European countries suggests that bribery and lobbying are subsitutes rather than complements (Campos and Giovannoni, 2006). Our analysis is not inconsistent with this result, but we focus more on the argument that bribery and lobbying accomplish very different objectives.

rather than the exact value of market share. We considered such perceptions to be the best proxy for our study given that in the absence of knowledge of their own market shares, enterprises would also be utilizing their own perceptions of concentration (and of the elasticity of demand for their products), for example, in their pricing behavior.

Table 6 shows that market share is correlated with size—large enterprises see themselves as significantly more concentrated than small and medium enterprises, and have a substantially greater share of the domestic market. Large and very large enterprises appear to control between a third and half of the market for their main product, as reported in our sample of enterprises.

Table 6: Percentage of National Market Controlled by Enterprise's Main Product, by Enterprise Size (self-reported)[19]

	Overall	Micro	Small	Medium	Large
Senegal	**37.2**	6.9	30.4	36.6	60.0
Mali	**25.9**	11.8	26.5	35.1	47.4
Kenya	**30.2**	4.8	17.1	20.0	40.0
Zambia	**32.4**	—	28.4	30.5	37.1
Tanzania	**13.4**	10.3	12.0	27.5	33.3
Uganda	**22.7**	15.0	19.0	27.4	30.4

*only 1 enterprise in this category

The data in Table 6 are also validated by the self-reported market shares of enterprises that consider themselves influential. Table 7 shows that a limited number of enterprises are controlling the market share in many African domestic markets; market share controlled by "influential" enterprises is higher than that reported by enterprises that do not regard themselves as influential. The same is true of enterprises that lobby government, as reported in Table 8.

Table 7: Enterprises Indicating Influence

	Percentage of Enterprises Self-Reporting as Influential	Number of Enterprises Reporting as Self-Influential	Mean Self-Reported Market Share of Influential Enterprises (of dominant product)	Mean Self-Reported Market Share of Non-Influential Enterprises
Senegal	1.2	3	n.a.	37.1
Mali	2.0	3	37.7	25.9
Tanzania	33.4*	21	28.6	16.9
Uganda	13.9	16	45.0	21.7
Kenya	10.8	19	25.0	20.0
Zambia	18.9	20	47.4	34.5

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[19] The size classification of enterprises in the data is as follows—micro is 1-9, small is 10-49, medium is 50-99, large is 100 workers and above.

*Note: only 64 out of 276 enterprises in Tanzania responded to this question, so the percentage is likely to be overstated. Also, it is important to keep in mind that market share is self-reported across a differentiated product market and therefore does not add up to 100 percent. Enterprises are giving us a sense of their market power rather than the actual percentage of the market that they control. The figures in the last two columns represent the mean self-reported market share of enterprises in each category.

Table 8: Enterprises Lobbying Government and Market Share

`	Percentage of Enterprises Lobbying Government	Number of Enterprises Lobbying Government	Mean Self-Reported Market Share of Lobbying Enterprises	Mean Self-Reported Market Share of Non-Lobbying Enterprises
Senegal	8.3	21	36.8	37.2
Mali	3.9	3	33.2	25.7
Tanzania	13.4	35	31.9	17.9
Uganda	16.4	49	32.7	20.2
Kenya	35.4	97	32.0	15.0
Zambia	43.7	90	38.0	27.7

The pairwise correlations between lobbying and market share are presented in Table 9 below.

Table 9: Correlation between Market Share and Lobbying

	Pearson's Correlation Coeff (Prob>|r|)
Senegal	-0.004 (0.96)
Mali	0.05 (0.56)
Tanzania	0.19*** (0.005)
Uganda	0.18*** (0.01)
Kenya	0.19*** (0.006)
Zambia	0.17** (0.04)

*** indicates significance at the 1 percent level of confidence
** indicates significance at the 5 percent level of confidence
* indicates significance at the 10 percent level of confidence

What exactly does our measure of lobbying include? Appendix 1 lists the questions from the survey instrument that are used to measure lobbying and unofficial payments. Enterprises are asked about their lobbying behavior *specifically with regard to influencing laws and regulations in the country of operation.* We see that the bivariate correlation is positive and significant for all the East African countries in our sample— enterprises with higher market share are much more likely to lobby the government as compared to other enterprises. For West Africa, the correlation is much lower between market share and lobbying.

4. Econometric Estimations of Enterprise Influence

In this section, we explore the nature of influence-peddling via econometric models that help us understand the political economy of enterprise behavior in Africa. Table 10 shows the correlations between enterprise influence and several possible explanatory variables, by using Probit estimations. We emphasize that due to the cross-sectional nature of the data, we are able to observe correlations but not infer causality.

We look at two measures of enterprise influence. The dependent variable in the first model measures whether or not a enterprise lobbies government. The second model uses a wider measure of influence by including enterprises that are either self-reporting as influential as well as those that are lobbying the government. These dependent variables are regressed on enterprise characteristics that might be associated with influence—size,

age, self-reported market share, and foreign ownership (defined as a majority equity stake by a foreign investor), as well as location and country dummies.[20]

Table 10: Result of Probit Estimations

	Model I	**Model II**
Dependent variable	LobbyG	All Influence
Intercept	-1.89***	-2.011***
	(0.29)	(0.29)
Log (workers)	0.14***	0.17***
	(0.05)	(0.05)
Log (age)	0.08	0.11**
	(0.07)	(0.06)
Market Share	0.71***	0.83***
	(0.21)	(0.21)
Foreign-owned	0.04	-0.07
	(0.15)	(0.15)
Capital City	-0.08	-0.09
	(0.13)	(0.13)
Food	0.28**	0.27**
	(0.15)	(0.14)
Textiles	0.34	0.21
	(0.22)	(0.22)
Wood	0.03	0.01
	(0.24)	(0.23)
Metal	-0.07	-0.14
	(0.19)	(0.19)
Plastics	0.35	0.67**
	(0.29)	(0.28)
Zambia	0.53***	0.53***
	(0.18)	(0.18)
Mali	-0.74***	-0.68***
	(0.28)	(0.26)
Senegal	-0.43**	-0.49*
	(0.24)	(0.24)
Kenya	0.36***	0.43***
	(0.18)	(0.18)
Tanzania	-0.42***	-0.35**
	(0.19)	(0.18)
N	727	645
Log likelihood	-400.1	-303.9

[20] Alternate models were also run with size interacted with age and foreign ownership but these interaction terms were not significant.

Model I looks at the determinants of lobbying the government.[21] It is clear that certain types of enterprises invest in their relationship with the government—large enterprises lobby government to a significantly greater extent than smaller enterprises. This likely indicates that the net benefit (benefit minus cost) of lobbying is higher for larger enterprises. The coefficient on foreign ownership, while positive, is not significant. After controlling for enterprise size, we see that enterprises with higher self-reported market share in every size category are much more likely to lobby government to influence policy.

Model II examines the characteristics of all influential enterprises (i.e. enterprises that either lobby government or identify themselves as dominant, or both). In the second model, enterprise size and market share have larger coefficients and a significant positive impact on determining enterprise influence. "High-influence" economies are Kenya and Zambia while influence-peddling is lowest in Mali and Senegal.[22] In both models, foreign ownership and the location of the enterprise are not significant determinants of lobbying. Also, the coefficient on the food sector is significant in two of three regressions, indicating that in the import-competing sector, there appears to be a significant amount of lobbying over the retention of market share. The coefficient on the plastics sector is significant; this is not surprising given that this sector must compete with imports as well.

It is worth noting the size and significance of the *country* dummies in the econometric estimations; this indicates that lobbying is affected not just by enterprise characteristics but also by country-wide variables. In comparison with Uganda, lobbying occurs to a significantly greater extent in the two countries which seem to have the highest degree of administrative corruption and state capture i.e. Kenya and Zambia. Enterprises lobby to a significantly lesser extent in Mali, Tanzania, and Senegal.

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[21] The country dummy for Uganda is set to 0 (i.e. it is the excluded category in the set of country dummies). Country-specific effects are therefore measured relative to Uganda. In this estimation, Zambian and Kenyan enterprises lobby government to a significantly greater extent than Ugandan enterprises, while Mali and Senegal have fewer enterprises that lobby the government.

[22] The market share variable used in this analysis is based on historical enterprise behavior and consequently can be considered to be exogenous from current total factor productivity. Also, while enterprises may very well have obtained higher market share due to greater efficiency in the past- the higher current market shares give them market power--their own-demand elasticity is lower with a higher market share--hence they have the ability to raise prices and exhibit anti-competitive behavior. Thus we do not include current TFP in the Probit estimations reported in this paper. However, it is also worth noting that including it as a control for efficiency does not change our results.

5. Is Africa Different?

The challenges highlighted above could exist elsewhere—hence, it is worth considering at this point why East and West Africa are different and how these compare with other parts of the world, with respect to the impact that market concentration has on the politics of private sector development.

The differences that emerge in our analysis between East and West Africa are puzzling and worthy of further exploration. Our results are not driven by fundamental differences in production and export because strictly comparable sectors have been chosen for surveys across all the countries in the sample. Mali is much poorer and with a significantly lower level of manufacturing value added—this might explain lower levels of lobbying in Mali but this does not account for the results for Senegal. A more likely explanation is the low share of medium and large size firms in Senegal and Mali vs. Kenya, Uganda, Tanzania and Zambia—it could be the case that the number of very entrenched enterprises is so small that they simply do not need to lobby at all while in East Africa, there are a sufficient number of medium to large firms to induce this behavior.

Several countries in Asia have been the subject of discussion on business-government corruption.[23]   In this section, we examine data from the Enterprise Surveys in two countries which are reputed to be "high corruption" countries—the Philippines and Cambodia—to get a sense of whether the pattern of administrative corruption and influence is similar or different than that of Africa. We also look at lobbying in South Korea, which has a history of influence peddling yet has seen high outward-oriented growth. We are aware that these countries are very different than our African sample, in terms of size, level of wealth and type of production and that the samples we are using are relatively small. The aim of this section is not an in-depth discussion of the determinants of lobbying in Asia, but rather a look at whether the type of enterprise lobbying in Asia is in any way similar to that in Africa.

The available data on administrative corruption from the Enterprise Surveys show that a similar percentage of enterprises in Asia pay bribes than those in Africa. As with Africa, there is no particular correlation with size (not reported here); bribes seem to be part of the cost of getting business done across the board. Bribery appears to be widespread in Cambodia; over 70 percent of enterprises report paying bribes, as described in Table 11.

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[23] Cases of corruption in the Philippines and Cambodia are widely reported in the national and international media (see for example, *The Philppine Times, the Far Eastern Economic Review*, and *Newsweek*, various issues). A recent report completed by Casals and Associates on corruption in Cambodia points to the need for mechanisms that will ensure basic accountability on the part of the government (Calavan, Diaz Briquets and O'Brien, 2004).

Table 11: Percentage of Enterprises Paying Bribes

	Percentage of enterprises indicating that bribes are paid in their industry
All Africa	33.4
Cambodia	70.2
South Korea	20.9
Philippines	39.3

The data on whether enterprises regard themselves or others as influential is also not particularly distinctive across regions. The share of enterprises that regard themselves as influential is smaller in Cambodia than in Africa, but Table 12 shows that a large share of enterprises view conglomerates and/or individuals as exercising a significant amount of influence in both Cambodia and the Philippines.

Table 12: Percentage of Enterprises Indicating Influence

	Enterprise Self-Reports as Influential	Dominant Enterprises/ Conglomerates	Individuals with Political Ties
All Africa	5.3	26.0	24.8
Cambodia	3.6	35.6	41.8
Philippines	5.0	19.6	19.6

Note: These questions were not asked in the South Korea survey

The data for lobbying are shown in Table 13—the Philippines has a smaller share of enterprises lobbying government than in Africa, while Cambodia reports a higher share. The more interesting difference is in self-reported market share, where we see a significant difference between the self-reported market share of lobbying enterprises in Asia vs. those in Africa. While enterprises that lobby in Africa report that they control over one-third of the market of their main product in the country they operate in, Asian enterprises report this number to be just over one-tenth of the market. Also, there is not much difference between the self-reported market share of lobbying vs. non-lobbying enterprises in Asia.

Table 13: Enterprises Lobbying Government

	Percentage of Enterprises Lobbying Government	Self-Reported Market Share of Lobbying Enterprises	Self-Reported Market Share of Non-Lobbying Enterprises
All Africa	17.9	36.1	23.8
Cambodia	15.1	10.7	8.4
S. Korea	16.15	20.9	15.9
Philippines	7.9	12.0	7.9

Finally, we econometrically compare the determinants of lobbying for Asian enterprises. Here, the results are quite different than those obtained for African enterprises (Table 14).[24]

Table 14: Result of Probit Estimations on Lobbying for Asia vs. Africa

	South Korea	Cambodia	Philippines	All Africa
Intercept	-1.81***	-1.79***	-2.99***	-1.89***
	(0.26)	(0.43)	(0.69)	(0.29)
Log (workers)	0.19***	0.07	0.30***	0.14***
	(0.08)	(0.09)	(0.09)	(0.05)
Log (age)	0.12	0.14	0.19	0.08
	(0.12)	(0.12)	(0.17)	(0.07)
Market Share	0.005	0.003	0.0004	0.71***
	(0.003)	(0.007)	(0.01)	(0.21)
Foreign-owned	0.02	0.34	-0.61	0.04
	(0.29)	(0.25)	(0.59)	(0.15)
Capital City	-0.12	0.45**	-0.18	-0.08
	(0.19)	(0.19)	(0.23)	(0.13)
Sector Controls	Yes	Yes	Yes	Yes
Country Controls				Yes
N	458	404	269	727
Log likelihood	-186.8	-161.9	-76.88	-400.1

Note:
LobbyG= 1 if enterprise lobbies the government
***denotes significance at the 1 percent level
**denotes significance at the 5 percent level
Sector controls vary by country for the Asia regressions

The regression analysis reported in Table 14. All regressions include sector controls which are not reported in the table. The Africa regression includes country dummies also to control for country specific fixed effects. Results show that while large enterprises do

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[24] Alternative specifications with sector dummies did not yield different results, so the basic specification is reported here. Majority-exporting enterprises are excluded from the samples of Asian enterprises as well.

lobby more, self-reported market share is **not** significant in determining lobbying in Asia.[25] It is also worthwhile noting that the coefficient on age of the enterprise is not significant in the regressions for Asia—in fact, the econometric model as a whole does not have much explanatory power. We do not observe the phenomenon of entrenched enterprises with high market share trying to retain their position, as we do in East Africa.

6. Conclusions and Future Challenges

In this paper, our focus has not been on the causes of market concentration in Africa. Other studies have noted that the problems of weak public institutions and poor contract enforcement may be limiting domestic competition (Fafchamps, 2004; Biggs and Shah, 2006). More recently, Nancy Birdsall notes that Africa is not so much in a poverty trap as it is in an institutional trap, as indicated and reinforced by the small size of its middle class (Birdsall, 2007).

We have noted that, particularly in East Africa, enterprises with significant market share are fighting to retain this share via lobbying. Overall, self-reported market share is significant in our estimations, indicating that the retention of domestic market power may be the reason for the lack of structural transformation in domestic manufacturing in Africa. We find that the relationship between market share and lobbying is not significant for West Africa—this is perhaps due to the difference in the size distribution of firms but is certainly worth investigating in depth. Finally, the degree of lobbying may be high in some countries outside Africa (such as Cambodia or the Philippines), but these economies are also subject to greater competitive forces via large, regional markets and/or higher degrees of global integration. Thus, in these economies, it does not appear that lobbying is being driven by the goal of protecting domestic market share, as it is in Africa. This leads to a question—can we design and enforce rules around lobbying in the African private sector? While it is beyond the scope of this paper to provide advice on this front, it is worth noting that more transparency in the enforcement of regulations and in procurement procedures will likely have an impact on the type of lobbying that occurs.,

Our work has two implications for ongoing work on investment climate reforms in Africa: first, it points to the need to incorporate *regional integration* into the design of investment climate reform options; and second, it points to data gaps which will make it difficult to evaluate the competition policy impact of ongoing efforts at regional integration.[26] Our results indicate that despite openness achieved through successive rounds of trade liberalization, there is still significant concentration of market share in

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[25] One case of lobbying in Asia that is often mentioned is that of the *chaebol*—Korea's conglomerate enterprises. There is in fact plenty of evidence to suggest a fair amount of lobbying and other types of influence-peddling on the part of these enterprises but they have also been Korea's top exporters; retention of domestic market share does not seem to be a driver of this activity.

[26] We are aware that there are several key ingredients to successful regional integration including the availability of good infrastructure, regional institutions and cross-border regulations. These, along with well-designed instruments for competition policy, can make a significant difference towards increased domestic competitiveness in the African private sector.

many African countries and large incumbents are influence peddling in order to maintain this concentration of market share. In this context, the establishment of new domestic competition policy institutions is unlikely to immediately lead to greater competition (and productivity) in African markets. While competition policy institutions are important to build for the long-term, in the short-term these institutions are unlikely to be able to counter the influence peddling of dominant market players and could well be subject to the same capture and influence peddling. We would expect that only large new external players may be potentially able to change this low level equilibrium.[27]

Regional integration expands the number of enterprises in the marketplace as well as the size of the market, thus making it both *harder* and *less worthwhile* for any given domestically entrenched enterprise to invest resources in retaining market share. It might also meet with less resistance than trade liberalization if local enterprises perceive that there may be profits to be made within a larger regional market. An expanded, regional market, which is not dominated by any single government, also makes it easier for new enterprises to enter the picture, which in turn increases competition and reduces the significance of the few large enterprises that currently dominate the marketplace.[28] Many countries in Africa are already part of one or more regional and sub-regional integration initiatives and it will be important to understand how these initiatives are impacting on domestic competition and whether there is potential to redesign both the national investment climate reform programs and regional/sub-regional programs to enhance their impact.

A key challenge which is likely to arise in assessing impact is the absence of data. Specifically, many of the questions which allowed us to understand the relationships between market power and influence peddling have been deleted from the current Enterprise Survey instrument being administered in Africa and elsewhere by the World Bank. Researchers will therefore be unable to systematically assess whether the investment climate reforms over the last few years have led to a reduction in influencing peddling to retain market share. Consequently, while anecdotal evidence suggests that, for example, the East African Community is making headway in lowering trade barriers, researchers will be unable to confirm whether these efforts are increasing competition between enterprises. Given the Africa specificity of the issues we have identified, it is important that these questions should urgently be re-introduced in enterprise surveys in Africa.

The paucity of actual data on market shares in domestic African markets is also likely to pose a challenge. We were only able to utilize self-reported market shares and

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[27] Entry of new players is not always a positive influence and, if not properly managed, this could have the opposite effect of cross-border consolidation and an increase in anti-competitive practices. Several such cases in Southern Africa are listed in Lipimile and Gachuiri (2005). Chapter 11 on "Allocation of Competencies Between national and regional competition authorities: the case of COMESA", Lipimile and Gachuiri in "Competition Provisions in RTA: How to Assure Development Gains" 2005 edited by Brusick, Alvarez and Cernat.

[28] The Competition Related Provisions (CRPs) in Regional Trade Agreements is an area of emerging study. For example, an initial taxonomy has already been developed of the CRPs in 86 RTAs and follow-up work to review actual country experience in implementation is ongoing. See Solano and Sennekamp (2006).

consequently, our conclusions are subject to many of the shortcomings which affect perception-based data. Hence, an important area of additional work—whether conducted in conjunction with Enterprise Surveys or separately—is the systematic gathering of market share and price data**.**

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Appendix 1

Questions on Lobbying in the World Bank's Enterprise Surveys Database

Think about national laws and regulations enacted in the **last two years** that have a substantial impact on your business:

a. Did your firm seek to lobby government or otherwise influence the content of laws or regulations affecting it?   YES=1   NO=2

b. How much influence do you think the following groups actually had on recently enacted national laws and regulations that have a substantial impact on your business?:

(0 = No impact   1 = Minor influence 2 = Moderate influence   3 = Major influence 4 = Decisive influence NA= Not Applicable, DK=Don't know)

<u>Degree of Influence</u>

a.Your firm	0 1 2 3 4 NA DK
b.Other domestic firms	0 1 2 3 4 NA DK
c.Dominant firms or conglomerates in key sectors of the economy	0 1 2 3 4 NA DK
d.Individuals or firms with close personal ties to political leaders	0 1 2 3 4 NA DK
e.Foreign firms	0 1 2 3 4 NA DK
f. Business associations	0 1 2 3 4 NA DK

Question on Unofficial Payments

In many countries, firms are said to give unofficial, private payments or other benefits to public officials to gain advantages in the drafting of laws, decrees, regulations, and other binding government decisions. To what extent have the following practices had a direct impact on your business.

Private payments or other benefits to Parliamentarians
to affect their votes   0   1   2   3   4   NA   DK

Private payments or other benefits to Government officials
to affect the content of government decrees   0   1   2   3   4   NA   DK

Private payments or other benefits to judges to affect
the decisions of court cases   0   1   2   3   4   NA   DK

Illegal contributions to political parties and/or election
campaigns to affect the decisions of elected officials   0   1   2   3   4   NA   DK