High-Level Rent Seeking and Corruption in African Regimes:

Theory and Cases

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Introduction[1]

An intense debate has raged for years over Africa's economic difficulties. Aside from the obvious problems of warfare, drought, and disease, the usual suspect is economic policy. However, the record of over a decade of structural adjustment efforts is difficult to read. A recent analysis by the World Bank provides significant evidence that improved policies lead to improved prospects for growth, and that the continuing economic problems in Africa are the result of a failure to carry liberalization far enough (World Bank 1993a). According to that analysis, no African governments were rated as having "good" economic policies and only one, Ghana, was deemed "adequate;" with an annual growth rate of 1.3 percent per capita (1987-1991). Opponents of World Bank/IMF policy have criticized the Bank's analysis on numerous grounds, but even World Bank economists mutter that rates of private investment and economic growth are higher in Viet Nam and China (whose economic policies still bear a strong socialist imprint) than almost anywhere in Africa. Something more than standard macro-economic policy failures must be at work.

This paper focuses on one of the "usual suspects" -- rent seeking by officials at the highest government levels. Based on both theory and concrete African examples, it demonstrates how such rent seeking can harm an economy and stifle investment and growth. "Rent seeking" is often used interchangeably with "corruption," and there is a large area of overlap. While corruption involves the misuse of public power for private gain, rent seeking derives from the economic concept of "rent" -- earnings in excess of all relevant costs (including a market rate of return on invested assets). Rent is equivalent to what most non-economists think of as monopoly

profits. Rent seeking is then the effort to acquire access to or control over opportunities for earning rents. These efforts are not necessarily illegal, or even immoral. They include much lobbying and some forms of advertising. Some can be efficient, such as an auction of scare and valuable assets. However, economists and public sector management specialists are concerned with what Jagdish Bhagwati termed "directly unproductive" rent seeking activities, because they waste resources and can contribute to economic inefficiency (Bhagwati 1974, see also Krueger 1974).

Corruption and other forms of rent seeking have been well-documented in every society on earth, from the banks of the Congo River to the palace of the Dutch royal family, from Japanese politicians to Brazilian bankers to the New York City police department. Since there is always a positive cost to any effort to prevent corruption, the "optimal" or efficient level of corruption is greater than zero (Becker and Stigler 1974). There are, however, significant differences in the form and extent of rent seeking behavior. Recent economic research on rent seeking has begun to point toward policies and institutional structures that can mitigate the most destructive forms (Klitgaard 1988, Pope 1996, Rose-Ackerman 1978, 1997).

Much rent seeking is part of the decentralized search for private gain by a multitude of private individuals and low level officials. Such activity is the result of vague and restrictive laws, high tax and customs rates, and controls on domestic prices and foreign exchange that produce opportunities for private gain. It is especially likely when citizens do not view the state as legitimate or deserving of respect (Dia 1996, pp. 28-35). Civil service systems that do not reward officials for honesty and competence fuel rent-seeking networks. Without denying the

importance of such decentralized activity, we concentrate, instead, on the top of the hierarchy to emphasize cases where the search for personal gain can itself importantly influence the level and type of government intervention in the economy. We are interested in the link between officials' desire for personal financial gain and the creation of opportunities for rent seeking.

Development economists have long recognized that government policies and institutions matter to growth (Pack 1988, pp. 343-358, Olson 1996), and recent cross-country research relates institutional and political variables to measures of economic growth and to other macroeconomic variables of interest.[2] The study of corruption and rent seeking is a natural next step for the institutionally-oriented economist whatever the empirical difficulties involved. Rather than treating the imperfections of government as only the result of laziness or incompetence, one views government failures as also stemming from the self-interest of politicians, bureaucrats, and private individuals and firms. The central issue for research is whether payoffs are a way around inefficient rules or a source of inefficiency on their own. Are they an explanation for some of the evident distortions obvious to an observer of government policies, or are they an efficient response to these distortions?

Although data on corruption will always be difficult to obtain since the practice is illegal and secret, recent cross-country studies shed some light on these questions. Research has been made possible by data from proprietary firms that provide information to companies trying to decide where to invest.[3] Statistical studies using these data series indicate that strong legal and governmental institutions and low levels of corruption have beneficial effects on investment, growth, and other economic variables. Other work provides evidence that more competitive

economies have less corruption because they have fewer economic rents available for capture by corrupt agents. The studies suggest that countries that have poorly functioning government institutions tend to be relatively corrupt, and that payoffs to public officials are seldom sufficient to overcome other governmental failures. Furthermore, because corruption is tied to other features of government structure, attempts to reduce corruption without a more fundamental change in the behavior of public institutions is unlikely to be successful.[4]

The multitudinous links between public and private institutions and rent seeking is a large issue that cannot be explored in full here. We focus, instead, on incentives at the top of the government hierarchy. Some of the behavior we describe is legal rent seeking, not illegal corruption, because the state has no well-developed rules governing conflict of interest or distinguishing between the private and the public interests of top officials.

Because this paper concerns rent seeking among high level officials in Africa, our model attempts to capture stylized facts about some African countries. Although a number of countries have recently made substantial process in establishing democratic governments, many others remain essentially autocratic (Dia 1993, 1996; Widener 1994). They are either unabashedly autocratic or are nominal democracies with strong one party or one man rule (Lewis 1996; Mbaku 1994, pp. 29-38). Even when rulers rotate in power, many of these changes are the result, not of elections, but of coups in which one autocrat replaces another. Thus we begin with a discussion of the behavior of two extreme types of autocrats -- a benevolent dictator seeking to maximize society's wealth and a pure kleptocrat concerned only with his own riches (Andreski 1968, Brennan and Buchanan 1980). These are, of course, extreme cases that do not describe any

existing states, but they highlight the contrasts we seek to analyze. Next we modify the simple model to include a bureaucracy that may itself seek a share of the rents of public programs.

After discussing these archetypal cases, we bring in the role of foreign lenders and donors to show how their programs are affected by the type of government they face. We then turn to some specific African examples that illustrate a range of different possibilities. The cases we discuss are by no means a test of the model, but they do illustrate some of the strengths and weaknesses of the theoretical framework. Finally, we briefly consider the options available to an autocratic ruler who, nevertheless, wishes to contain rent seeking and corruption. In this paper we limit our focus to rulers with some degree of autocratic power. We leave to future study a comparison of democratic and nondemocratic regimes.[5]

I. Benevolent Autocrats and Kleptocrats

Consider two different types of ruler--a benevolent autocrat and a kleptocrat-- each of whom has control over the level of government intervention in the economy. Neither is an absolute despot since each must work within the existing institutions of society. He or she can select the level of government activity, but the resulting level of national output is a function of the way this choice interacts with the institutions and resources of society.

Suppose that the benevolent autocrat wants to maximize economic output by allowing the market to work, with government intervention only to correct market failures (e.g., to provide basic health, education, and security, to enforce contracts and property rights, to set optimal fees for pollution, to take necessary anti-trust action, etc.).[6] Civil servants would be paid the opportunity cost of their time, equal to the foregone productivity of their talent in the private

sector, and would be employed only to the point where the value of the marginal product of a civil servant is equal to the market wage. If an unduly large state sector exists, the ruler would seek to privatize those enterprises that can perform better in the private sector.

Suppose, in contrast, that the kleptocrat seeks to maximize his or her own income by creating and extracting rents. Since both types of autocrats can essentially act as monopolists, both will favor productive efficiency (Olson 1993, p. 569). They will have different views about how the gains ought to be distributed, but they will endorse many of the same policies. Pure waste is not of interest to either type of ruler. The kleptocrat, however, will not favor policies that distribute benefits widely throughout society with little opportunity to extract rents at the center. He or she will support policies that produce personalized rents even if they result in lower overall social wealth. A kleptocrat, fearful of being overthrown, may have a higher discount rate than the benevolent autocrat and hence may favor policies that benefit him or her in the short run with costs spread far into the future. It does not matter much whether we describe such a ruler as corrupt or as a rent seeker. The basic point is that the ruler is in control of the levers of state power and can manipulate them for personal gain. Such rulers, however, are unlikely to have absolute control over the state apparatus. They will need to share the rents with subordinates as the cost of retaining their power. This introduces additional inefficiencies. In the discussion below we attempt to sort out some of these factors in an effort to isolate the inefficiencies and inequities of kleptocratic rulers.

Of course, in practice, rents are not simply created at the top of the hierarchy and distributed to lower level officials. Bureaucrats who deal routinely with the public can create

their own opportunities for payoffs, and private individuals and firms can offer bribes to or seek special treatment from officials at all levels. A complete analysis would consider these issues (Klitgaard 1988, Rose-Ackerman 1978, Pope 1996) which arise in all types of states, but we believe that it is worth focusing as well on the distinctive features of autocratic rulers.

We demonstrate below that under plausible conditions the kleptocrat chooses too large a public sector and selects the wrong mixture of government services. Although corrupt rulers may sometimes support privatizations that would be opposed by a benevolent ruler, they may also support inefficient nationalizations and keep other enterprises in public hands. Once we take explicit account of the bureaucracy, additional inefficiencies are introduced. Subordinates' demands for a share of the gains will generate additional waste especially if the kleptocrat is unable to coordinate subordinates' activities (Shleifer and Vishny 1993).

A. Kleptocracy and the size of government

Let us then compare the size of government with corrupt and benevolent autocrats, recognizing that there may be some unfortunate cases where any kind of central authority, even a highly venal one, is preferable to a chaotic status quo. Although in many applications the distinction between rent seeking and corruption is an important one, it is of little relevance to our model. Rent seeking is the more general term and refers to both legal and illegal attempts to obtain and create monopoly rents. Corruption includes the class of transactions that are against the law. It violates the obligations that public agents have to their principals. When an autocrat controls a state, however, such distinctions are not of central importance. Thus although we refer

to corrupt and benevolent rulers, we recognize that in particular circumstances the ruler's behavior may not be against the law even though it is harmful to the nation's citizens.

We consider first the case in which each type of ruler can write on a clean slate. Thus, we ignore for now one-shot nationalizations or privatizations. In this initial discussion, we assume that the mixture of government services at each level of spending is not a decision variable for either type of ruler. Both types of autocrat face a range of opportunities for intervening in the private economy from anarchy to total state control. These options are the same for both types of rulers and reflect the limited power of even a committed kleptocrat. They cannot escape from the basic "production function" of the society that translates the size of government into a level of national income. Suppose that we can array these options along a line from the marginally most efficient policies on the far left to the most distortionary on the far right. This ranking condition is a strong one since it assumes that the order in which policies are introduced is not open to choice. Only the level of overall intervention is under the control of officials. Even the kleptocrat does not have absolute power but is constrained to pick one of the options along this line. Later in the paper we will discuss distortions in the mix of goods and services introduced by the corrupt ruler.

We illustrate this case with a simple model illustrated in figure 1. Let $Y(x)$ be the discounted present value of national income at each level of intervention in the economy, x, $0 \leq x \leq x_{max}$. Income is low under anarchy, $Y(0)$. For some low levels of intervention income rises with x as market failures are corrected, and public goods are provided. The income curve reaches a unique maximum at x_o and falls to zero at x_{max}. Thus $Y'(x_o) = 0$, $Y'(x) > 0$ for $x < x_o$, $Y'(x) < 0$

for $x > x_o$, and $Y''(x) < 0$. Assume that at each level of x the kleptocrat can extract rents equal to $K(x)$, where $K(x) = [x/x_{max}]\, Y(x)$, for $0 \leq x \leq x_{max}$. This functional form implies that the *share* of national income going to the kleptocrat increases as x increases. At x_{max} all income goes to the kleptocrat, but the ruler has been so greedy that there is nothing left to take. The private productive sector has fled abroad, into the black market, or back to subsistence production. Since the units in which x is measured are arbitrary, we can, without loss of generality set x_{max} equal to one. Maximizing K with respect to x yields:

$$K'(x) = [xY'(x) + Y(x)] = 0, \text{ or}$$

$$-xY'(x) = Y(x). \qquad (1)$$

Let x_1 be the level of x that solves (1). For (1) to hold, $Y'(x)$ must be negative.[7] This implies that $x_1 > x_o$. The kleptocrat selects a higher level of government intervention in the economy than the benevolent autocrat who seeks to maximize national income (cf. Kurer 1993, p. 270).

In economic theory, monopolists restrict output. Unless they can perfectly price discriminate, they maximize profits by producing below the social welfare maximizing level. Might the same result hold for a kleptocrat who selects too *low* a level of x, not too high a one? In the simple model developed here, we rank government interventions from most to least efficient. A low-x government is providing public goods and regulating market failures, not selling ordinary goods and services. Thus, in that range, the kleptocrat earns rents from providing contracts to high bribers and by selectively enforcing tax laws and regulations. The government is not selling private services. Therefore, the ruler benefits on the margin from

increases in taxes, public spending, and regulatory burdens. Only when these programs begin to cut into overall economic performance, will there be significant tradeoffs.

In contrast, a private monopolist underproduces output because it earns profits from the difference between selling prices and costs. If government, like a private monopolist, sold private goods to individuals and firms, it too would restrict output (Findlay 1991, Przeworski and Limongi 1993, pp. 58-59, Shleifer and Vishny 1993). For example, if the state runs the railroads and the telephone system it may set monopoly prices, restricting supply to maximize rents. However, if we assume that such industries would be more efficient in private hands, then a state with public firms of this type would operate to the right of the level of x that maximizes output.[8]

Under these strong simplifying assumptions, we can see the impact of having a corrupt ruler. The ruler selects a level of state intervention where overall wealth is suboptimal. Given a level of intervention, public services are produced efficiently, but too many of them are produced relative to private goods. Regulatory interventions are excessive, thus causing inefficiencies in private productive activity.[9]

The diagram also illustrates the wealth available to the rest of society when the ruler is corrupt, R(x). This curve is drawn under the assumption that corruption in government does not affect the overall level of output available at each x, but only affects its distribution. Thus R(x) = Y(x)-K(x). In other words, in this first version of the model, the corrupt payoffs themselves do not introduce any additional inefficiencies into the system, but the ruler's payoffs are lost to the

rest of society, let us say through overseas investments. Taking the existence of the kleptocrat as given, maximize R(x) with respect to x. The maximum occurs at the point x_2 where:

$$R'(x_2) = Y'(x_2)\,[1-x_2\,] - Y\,(x_2) = 0. \qquad (2)$$

In order for (2) to hold, $Y'(x_2)$ must be positive.[10] This implies that $x_2 < x_0$. The kleptocrat's rentseeking is a drain on the system. Citizens prefer a smaller than optimal government when the government is corrupt, but they get one that is too large.[11]

B. Government programs and revenue

The kleptocrat will support, not only a larger government than the benevolent autocrat, but also a different mixture of taxes and spending priorities. Regulatory programs, pricing of services and foreign exchange, and subsidies will all be influenced by the search for rents. Several examples will make the point clear.[12]

Taxes: A benevolent ruler who only cares about maximizing a country's income will follow the dictates of optimal tax theory and tax those goods and services that are relatively inelastically supplied or demanded. Kleptocrats will also seek a taxation system that efficiently generates revenue, but they are likely to introduce distortions. Since tax breaks can be awarded to corrupt individuals and firms in return for bribes, they may set high nominal tax rates to encourage payoffs. Furthermore, influential groups, using corruption or a high level of political influence, will seek to write special treatment into law.

Regulations: The benevolent ruler seeks to mitigate market failures such as the externalities of pollution, the costs of monopoly, and the weaknesses of markets where information is imperfect. Regulatory structures will be designed in a cost effective manner using

such devices as tradable pollution rights or other tools that focus on performance, not inputs. The kleptocrat has no concern with correcting market failures per se and views the regulatory system as a source of rents. Thus regulations and licensing requirements may be imposed that have no justification other than to create a bottleneck that firms will pay to avoid. Efficient regulatory reforms will be opposed by the kleptocrat if the reforms would convert illegal into legal pricing systems.

Spending: Although all states finance capital spending projects, the kleptocrat will differentially support projects that generate large corrupt payoffs. Thus the ruler will endorse projects with little economic justification, propose public projects that could be efficiently carried out in the private sector, and favor large projects. If revelations of corruption would destabilize the regime, the kleptocrat will favor projects where payoffs can be easily hidden. For example, for capital intensive projects specialized, one-of-a-kind designs will be favored so that no one can locate a reliable cost benchmark. Even if both benevolent dictator and kleptocrat support public construction of an infrastructure project, the scale and design of the project may be influenced by the kleptocrat's search for private gain.[13]

Subsidies: Instead of giving subsidies to support people who suffer particular hardships arising from poverty or disability, the kleptocrat will focus subsidies on those who will pay for them. Of course, even rent-seeking autocrats may need to satisfy the poor in order maintain power, but they will also promulgate programs where the wealthy will pay to obtain benefits. The ruler, for example, might institute a system of investment subsidies with discretion to

distribute these benefits. No one can obtain these benefits as a matter of right. Everyone must bid to obtain them from the ruler.

Price distortions and foreign exchange restrictions: Another source of rents is government policies that set prices below market clearing levels. In some cases, this may simply be a way for low level officials and private citizens to extract rents from a public programs. Thus, kleptocrats would not favor such policies unless they can control the allocation themselves. This may be difficult to do for items of daily use such as gasoline, bread, or fertilizer. In contrast, it may be possible to control the allocation of scarce foreign exchange from the top in a country with a small number of exporters and importers. Access to credit may be another source of top level rents when demands for credit are concentrated as well.

C. Privatization and nationalization

We have argued that the kleptocrat would support a more intrusive government than the benevolent ruler if both were starting from scratch. That analysis did not take into account the fact that no ruler writes on a clean slate, but, instead, takes over an existing portfolio of state-owned enterprises. What will the rulers' attitudes be toward these enterprises? Will they push for privatization or seek to nationalize more firms? To decide, they need to know the discounted present value of each firm as a state-owned enterprise, as a private firm, or as some mixture of the two.

The value of a firm under each ownership structure depends upon expectations about what the government will do in the future. A private firm will have little value to investors if it can be taxed on all its profits, renationalized at will without adequate compensation, or

excessively and arbitrarily regulated. Suppose that if the state is capable of credibly committing to a reasonable future policy, then the firm is worth more as a private entity. Both benevolent dictator and kleptocrat have an interest in making such commitments and selling the firm. A known kleptocrat, however, may face special difficulties. There are two reasons for this. First, no one will trust such a ruler to do anything other than seek personal enrichment. Second, investors may guess that the less responsive the ruler is to the interests of his subjects, the shorter his expected time in power. A change in regime can lead to the canceling of previous understandings.

A kleptocrat may oppose some privatizations that a benevolent autocrat would view as efficient and support others that are inefficient but produce corrupt payoffs up front. The kleptocrat's inability to make credible commitments lowers the value of the firm to private investors, tipping the scales toward continued state ownership. Furthermore, state ownership is associated with additional opportunities for rent seeking over and above the profits of the enterprise itself. If the state enterprise can be used to generate rents through sale of jobs, favorable contracting deals, special treatment for customers, etc., then the stream of benefits is higher for the kleptocrat than for the benevolent autocrat. Public control of large enterprises can itself be a way of increasing one's chance of remaining in power in spite of one's corruption. Such rulers create a web of obligations and can threaten to expose their corrupt counterparts if they are overthrown.

However, under other conditions, the kleptocrat may become an overenthusiastic privatizer. He may, for example, be able to engineer the privatization so that it involves a forced

sale to himself or his family at a below market price. Even if the sale is to an outsider, however, a kleptocrat may support some privatizations that a benevolent social wealth maximizer would oppose. By accepting present gains, he gives up a future stream of revenue. This may, however, be rational if he has a higher discount rate than private investors. An insecure ruler, whose corruption makes him vulnerable to overthrow, will have a higher rate of discount for investments in his country than a secure autocrat whose valuation reflects that of the market. Thus the kleptocrat may value the up-front benefits of selling the public firm more highly than the private market.

In some ways, a kleptocrat is like a stock broker or a real estate agent who makes money from turnover. Corrupt gains can be earned, not just from the ongoing level of government intervention, but also from one-shot changes. The ruler can extract a share of the gains from any type of transaction involving the state and thus may support the privatization of some firms while supporting the nationalization of others. The corrupt ruler can be bribed either to privatize efficient state firms at low prices or to nationalize inefficient private firms at high prices. Without credible commitments to refrain from such one-shot changes, private investors will be reluctant to enter into deals that risk being reversed in the future.

D. Corruption in the bureaucracy

How does a kleptocrat gain the cooperation of civil servants and political appointees in maximizing the ruler's income? Workers have the choice of working in the public or the private sectors. If the government wishes to attract qualified people, overall remuneration must be at least as high in the public as in the private sectors, so that workers will be indifferent between

them.[14] However, if public officials observe the peculation of their leader, they may also insist upon a share of the monopoly gains as compensation for cooperating in corrupt schemes.

In the face of such demands, suppose that the autocrat arranges to share a portion of the unofficial rent-derived revenue with underlings. For instance, the Minister of Mines could share in the rents from the Mining Industry, and the Minister of Agriculture could share in the rents arising from the Agricultural Marketing Boards (AMBs). If there is no interaction between these ministries, an efficient way for the dictator to maximize rents would be to auction off the various positions. In competitive bidding, the successful bidder for the post of Minister of Mines would be willing to pay the present discounted value of the expected rents from the mining industry (say for a one year post as Minister), and the Minister of Agriculture would be willing to pay the present discounted value of the expected rents from the AMBs. The ministers, in turn, could staff their ministries by similarly auctioning off subordinate positions (see Wade, 1982, 1984 for an example from India).

However, there may be interactions between mining and agriculture--for example, the phosphorous that comes from the mines might be used as fertilizer in agriculture. The higher, monopolized prices would lead to lower use of fertilizer in the agricultural sector, higher costs, and lower output, which would most likely lead to lower profits for the AMBs. Similarly, the monopoly over the AMBs could lead to higher food prices (even in the case of rationing, black market food will be relatively expensive), so that mine workers are less well fed and less productive. This, in turn, would reduce the rent-earning potential of the mines.

The bids for the positions of Minister of Mines and Minister of Agriculture should reflect these interactions. With complete control, the kleptocrat would try to optimize the levels of intervention (and resulting prices) jointly. With the ministerial posts in two different hands, however, the ministers would simply try to maximize their own rents, even though their disjoint efforts would reduce the total level of rents available. The ministers treat the economy as a commons, and push their rent-seeking interventions to the point where the average product of intervention is zero, although by then, the marginal product of intervention is already strictly and significantly negative (Hardin 1968, Shleifer and Vishny 1993, Rodrik 1994).

If our hypothetical dictator has relatively little day-to-day control over state ministers, their free lance rent seeking can be costly for the ruler. If he has more control, he may be interested in limited "liberalization" and perhaps accompanying civil service reform to strengthen his control. However, he is unlikely to be interested in a major reform or liberalization program that would take the economy to the level of intervention associated with maximum output, but he will only back reform up to the level associated with his own income maximization. Countries with a high degree of corruption that are, however, tightly controlled from the top may suffer from fewer static inefficiencies that those with uncoordinated rent seeking.[15]

Figure 2 illustrates the case where the corruption of subordinates has efficiency costs. Both types of autocrats could accomplish their goals with well paid civil servants given legal financial incentives to perform well. Suppose that such a system is incorporated into the functions Y(x) and K(x) from figure 1. Recall that Y represents total national income as a

function of the size of government given a benevolent ruler, and that K represents the returns to the kleptocrat under the assumption that overall productive efficiency can be maintained.

Now suppose that the kleptocrat faces additional problems of bureaucratic control not faced by the benevolent ruler. Corruption at the top creates expectations among bureaucrats that they should share in the wealth. Thus situations where low-level malfeasance could be kept under control with an honest ruler may become corrupt with a dishonest ruler. Corruption involves not just the substitution of illegal for legal incentive payments, but may also affect the way officials do their jobs. We have already pointed to the problem of interagency complementarities, but additional problems can arise as the bribe takers give benefits to the unqualified, overlook violations of the law, and introduce delays and red tape of their own. If the corruption of top rulers reduces the moral and psychological constraints on lower level officials, then kleptocracy has a second set of costs. These costs may be very large if they produce a "corruption trap" where the corruption of some encourages the corruption of others until most people are taking payoffs (for models that produce this result see Andvig and Moene 1990 and Lui 1986). In short, corruption affects the productive efficiency of the economy for any level of government intervention, x.

The function W(x), where W(x) =Y(x) [1-x], illustrates this situation. At each x, the overall level of national income, W, is lower than at Y. In addition, the distortionary effect of a corrupt bureaucracy is worse the larger is x. The function S(x) is the analogue of K(x). It illustrates the ruler's returns under the assumption that returns are an increasing fraction of W(x).

$$S(x) = xW(x) = [1-x]\,[x]\,Y(x).$$

Maximizing S(x) with respect to x yields:

$$S'(x) = Y(x)[1 - 2x] + Y'(x)\,[x - x^2] = 0,$$

or

$$Y(x)[1- 2x] = -xY'(x)\,[1 - x]. \qquad (3)$$

Let x_3 be the x that solves (3).[16] If $x_3 < ½$, the left hand side is positive and this implies $Y'(x) < 0$ which implies $x_3 > x_0$.. If $x_3 > ½$, this implies $Y'(x) > 0$ which implies $x_3 < x_0$. It is straightforward to show that x_3 is less than x_1 in both cases.[17] In other words, the presence of corrupt civil servants has the beneficial effect of making the corrupt ruler less enthusiastic about increasing the size of the state. The kleptocrat with corrupt inferiors selects a lower level of government intervention than one who faces no such difficulties. The efficiency with which the ruler can extract rents from society has fallen because of the existence of a corrupt bureaucracy not completely under control from the top. If the ruler can develop an honest civil service and share the gains with only a small number of trusted subordinates, he or she will be better off (see Mehmet's [1994] discussion of Indonesia).

Since the corruption of subordinates generates efficiency losses, however, national income net of the ruler's rake off, N(x), will be lower than R(x) even if we include in the total the incomes of civil servants both honest and corrupt. This is so because of the inefficiencies introduced by corrupt officials in the form of additional delays and red tape and cross agency complementarities. At least some of the efficiency losses of having a corrupt civil service are shifted to citizens. Systemic corruption in a kleptocracy can produce higher or lower levels of net income for the rest of society, respectively, depending upon the relative costs of low level

corruption for the ruler and for ordinary citizens and businesses. Would ordinary people prefer a kleptocrat able to insure an honest bureaucracy or one that must contend with a corrupt one? No clear answer is possible. It depends upon the losses from systemic corruption at every x, compared with the ruler's incentives to select an inefficiently large government.[18]

As we pointed out above, kleptocratic rulers may simply be unable to create the conditions needed for an honest bureaucracy to flourish. For example, a kleptocrat has an incentive to increase the number of bureaucratic obstacles to business activity in order to increase the bribes from business people seeking to overcome those obstacles. However, staff must be available to enforce the obstacles and collect the bribes. A principal/agent problem exists.[19] Alternatively, if no cooperation is required from subordinates, the kleptocrat will try to keep his or her own peculation secret and pose as a benevolent autocrat in order to avoid having to share the gains. Since a corrupt ruler will not want the same level of state intervention as a benevolent ruler, corruption might be inferred from the rent generating options selected. The need, at least, to appear honest may constrain the venal ruler. Of course, even honest rulers may have to contend with corrupt subordinates. But the task of motivating and retaining honest and competent officials is surely more difficult for a corrupt ruler than for an honest one.

E. Corruption and growth

The cross-country studies cited above suggest that high levels of corruption are associated with lower rates of investment and growth. Does our discussion of autocratic rulers shed any light on the mechanisms behind this result? To proceed we need to introduce a temporal

dimension. There are three aspects to this issue. Two concern the ruler's preferences, and the last involves the calculation of outside investors.

First, the flow of net corrupt benefits may be distributed over time quite differently from overall net benefits. Suppose, as seems likely, that bribery benefits are relatively more concentrated in the present than overall project benefits and that the kleptocrat's costs are more heavily bunched in the future than overall social costs. Then even if the ruler and the populace share the same discount rate, the ruler will support projects and policies that have an inefficient time path of net social benefits. For example, for major construction projects the kleptocrat extracts rents in the present from contractors and may experience few of the future costs of shoddy workmanship or an excessive debt burden. The newly privatized firm might be turned over to the investor who will pay the highest bribe up front but that is not the most efficient manager in the long run.

Second, the ruler's time rate of discount may not equal society's. The ruler's very venality may make him insecure and subject to overthrow. If so, he or she will have a relatively high rate of time preference for government projects and will support projects with quick payoffs. Third, the ruler's corruption introduces an additional element of uncertainty into the investment climate. How can the ruler make a credible commitment to stay bought, and how likely is it that the present ruler will remain in office over time? Corruption may indicate that the rule of law is not well established so that investors may experience an arbitrary and uncertain environment. It may also mean that the state is open to domination by criminal interests that can impose additional costs on legitimate business in the form of demands for protection money. Even a kleptocrat

who has good control over society at one point in time will face difficulties in attracting capital to stimulate economic growth. He or she may not have secure long term tenure in office, and even if there are no external political threats, the ruler, as sovereign, can be entirely arbitrary. Lacking credible commitment mechanisms, such as independent law enforcement institutions, the corrupt autocrat may have difficulty convincing investors to make capital investments since they may fear expropriation or confiscatory tax and regulatory systems. They may fear that promises of monopoly access to a market will be broken when new potential investors arise in the future. Thus even if the kleptocrat does not favor a distorted net benefit stream and does not discount the future differently from the nation's citizens, the very existence of such a person as head of state influences the calculations of investors. Even if the kleptocrat would be happy to attract long term investment, the only investors willing to commit funds may be those with a short term, get-rich-quick attitude.

Therefore, in a kleptocracy the problem is not just the overall size of government, but the inefficient time path of benefits and costs. The ruler may demand a pattern of public spending that is inefficiently oriented toward the his or her own short run benefits, and private investors may only be willing to finance projects with quick payoffs. Thus autocratic countries whose rulers are close to the kleptocratic end of the spectrum should grow more slowly than autocracies at the other extreme. Highly capital intensive projects may be supported by the state if they are a source of payoffs, but *productive* long term investment will be undersupplied. Private investors will only put their own funds at risk in projects with little fixed capital and short payback periods. The exception are countries where the autocratic ruler has been able to make a credible

commitment to stay bought thus giving investors confidence. Such countries can experience high levels of investment and growth although the pattern of investments across sectors is likely to be distorted by the factors outlined above.

II. On Natural Resources and Foreign Donors

A secure source of foreign aid is a little like a diamond mine or an oil deposit. Countries with access to such largesse have a cushion that others' lack. Reliance on these sources of wealth, however, is risky over the long haul. The world markets for basic commodities are notoriously fickle with large prices swings translating into cycles of boom and bust in countries dependent on such products. Foreign aid is similarly unpredictable although the year to year swings are likely to be less dramatic. What is perhaps more unpredictable than the level of aid are the particular preferences of lending and granting agencies that set priorities. Nevertheless, whatever their costs, both sources of foreign exchange are viewed as highly desirable by developing countries.

This largesse can, however, be used for good or for ill. Returning to our benevolent and kleptocratic rulers, we can view these benefits as additional sources both of rent and of economic opportunity. The more resources a country has available, the more wealth it can produce for its citizens and the more corrupt payments the ruler can extract. In the extreme, the most effective kleptocrat will extract all the rents with no benefits being provided to the populace. If a new

foreign aid project is begun or a new source of mineral wealth is discovered, Y(x) and K(x) both increase by the level of the gain.

In other cases, however, the new source of wealth might influence both the efficient level of government intervention and the level of x that maximizes the gain to the ruler. Foreign aid might permit construction of a dam that can be a source of bribes. Conversely, an honest ruler might support aid projects that focus on less capital intensive and more welfare-enhancing improvements such as advances in education and health. Of course, not all capital intensive projects are ill-advised, and self-dealing is possible in human resources projects (procurement of pharmaceuticals being a notorious example). Nevertheless, the basic point is that the mixture of projects supported by a government may be a function of the ruler's goals.

Similarly, natural resources can be exploited in different ways. Both types of rulers will favor productive efficiency and both may take steps to isolate the operation of public enterprises in these industries from every day politics. Even a kleptocrat may try to establish a meritocratic system in state enterprises that provide foreign exchange. The ruler will trade off the efficiency losses of patronage and petty favoritism against the benefits of the rents generated by a well run natural resource business.

Weak states may face a paradoxical situation where increases in resources undermine political stability. So long as the state is poor, few may care about controlling the levers of power. If, however, the state acquires a large foreign aid package or gains control over a newly valuable mineral, new political figures may arise seeking to claim a share of the benefits or even outright control of the state. The political struggle becomes a fight to control the state's wealth

for a period of time. Insiders try to prevent outsiders from benefiting except to the extent payoffs are needed to buy their assent to the status quo. In such unfortunate situations increases in wealth are destabilizing and can lead to subsequent falls in the wealth of ordinary citizens. This possibility suggests the importance of designing aid programs to spread the benefits widely and of supporting projects that increase overall productivity. It argues against projects that increase the value to individuals of controlling the government. It also suggests the need for programs that not only improve the performance of state institutions, but also increase the accountability of the public sector. We can speak of the "absorptive" capacity of a state as the state's ability to use additional resources for social benefit rather than for the private gain of the rulers.

III. African Case Studies

We turn now to a brief consideration of four contrasting African cases that illustrate both the power of autocratic rulers and the practical limits they face.[20] The first concerns Somalia. It shows how a kleptocratic state can degenerate into uncoordinated, competitive rent seeking. Second, we consider Nigeria, a case where corruption is so deeply embedded in state/society relations that our simple model cannot capture all the complexities. Next we consider two cases that provide some grounds for hope. Botswana and Uganda both have democratic structures, but are dominated by a single political party or ruler. Botswana is frequently cited as a country with a well-functioning civil service and a relatively enlightened political class. We show that, although some corruption exists, Botswana has avoided many of the pathologies outlined above. Finally, we consider Uganda a country emerging from past dominated by a series of kleptocratic rulers. The current ruler, President Museveni, is attempting to break this pattern. Uganda presents an

opportunity to see what a powerful growth-oriented ruler can do when faced with conditions much less hospitable than those in Botswana.

A. Somalia

The case of Somalia represents an extreme, but instructive, example of how kleptocracy can degenerate into uncoordinated rent-seeking.[21] It shows how efforts to concentrate rent seeking at the top can break down as the ruler seeks to accommodate competing factions. Both economic development and the legitimacy of the state suffered.

Immediately after independence, Somalia had a multi-party democracy and a mixed but market-oriented economy. When Siad Barre came to power in 1969, however, he quickly declared a revolutionary socialist one-party state. Banks and large commercial enterprises (mostly in agribusiness) were nationalized. There was initially a reasonable degree of sincerity in the new socialist government, and new resources were devoted to health and education: the written language was standardized with Roman script, teachers and health practitioners were recruited and trained, and women's equality was encouraged.

However, the socialist regime fell into the trap of promising public sector jobs to all secondary school (and higher) graduates (Gregory 1994, p. 51). This was a burden that Somalia could ill-afford fiscally. Public sector employment grew faster than the revenue base could support, leading to growing public sector deficits that couldn't be properly financed. As inflation accelerated, the real value of public sector wages fell steadily and morale flagged.[22] At first, private individuals found that modest bribes could speed up lethargic civil servants as they plodded through the growing tangle of regulatory and licensing procedures. Over time, however,

government officials learned that the more obstructions they could create for private business, the more money they could earn in bribes. This in turn led to a vicious circle of an eroding tax base (as investors fled and the productive sector shrank), mounting budget deficits, billowing inflation, stagnant nominal wages for the public sector, and competition within the ranks of the civil service for positions that could bring in enough income (licit or illicit) to feed an urban family.

What was left of the private sector was dependent on President Barre and his inner circle, who could easily use the myriad, contradictory regulations entangling commerce and industry to extort money from private entrepreneurs.[23] Many of the regulations, in aggregate, were mutually inconsistent.[24] In the public sector, since the Somali civil service didn't pay a salary that could support an urban family at even a subsistence level, civil servants had either to moonlight or take bribes just to survive. For civil servants, moonlighting in the private sector usually involved corrupt deals between their own private firms and other government officials - either for government contracts or promises of protection from potential competitors.[25] Since civil servants had to break the law in order to survive, they were forever vulnerable to prosecution. In this way, President Barre's inner-circle could control the public service as well as the private sector. This degree of control in turn bred resentment among those who felt exploited by the corrupt demands of others.

Some civil servants gained access to the most lucrative positions by “bidding” and paying for them in some fashion (e.g., either a lump sum, presumably reflecting the present discounted value of the expected flow of rents, or a periodic fee or some rough proportion of the “take”).[26]

Thus high level government officials could behave as "*rentiers.*" However, a sense of civil service discipline that could keep rent-seeking under control, as in some East Asian countries, was notably absent in Somalia. Here, the Barre regime granted, in essence, fiefdoms to various political factions in the form of government ministries, agencies, or departments.[27]

The role of foreign aid probably exacerbated the situation further. Early in his political career, President Barre launched a war against neighboring Ethiopia to incorporate the ethnic-Somali province of the Ethiopian Ogaden into "Greater Somalia." At the beginning of this conflict, Somalia was allied with the Soviet Union, and Ethiopia was allied with the west. After Ethiopia had its own Marxist revolution, the two combatants switched geo-political sides, and Somalia began to receive growing amounts of aid from the U.S., Italy and other OECD nations, especially after giving up the war effort.

Positions of control over foreign aid and foreign financed projects were some of the most profitable ones available in Somalia. As early as 1984, it was common knowledge in Somalia that officials at the Mogadishu Port Authority (MPA) were routinely demanding deposits of $10,000 in foreign bank accounts from shipping lines bringing in food aid before they would be allowed to unload. In 1988, the World Bank financed a technical assistance project to improve port operations in part through proper accounting systems and inventory control. Whether this effort, where limiting corruption was a clear concern, ever had much chance of succeeding is uncertain, as the project was frozen when Siad Barre's regime collapsed at the end of 1990.[28]

Refugee aid in general in Somalia was a notorious "industry," with refugee numbers inflated by almost 50%. Surplus aid was then shared between Somali government officials and

favored members of the refugee community.[29] Bribes and kickbacks associated with aid-financed contracts (usually carefully hidden from the donors) were only the most blatant forms of corruption. Internationally financed project budgets were themselves distorted due to rent-seeking. For example, Coolidge's experience in Somalia provided examples of contractors being pressured by Government officials to find the cheapest possible personnel to provide technical assistance, in order to create room in the budget for more and fancier vehicles for the officials themselves.[30] Another case involved a donor-financed long-term expatriate advisor who allowed a cabinet minister to steal an expensive donor-financed generator in return for an official government request to the donor to renew the advisor's contract. These distortions should have been readily apparent to the donors, had they scrutinized contracts and project accounts, compared unit costs with local market prices, carried out occasional physical audits, and vigorously followed up cases of outright theft.

A World Bank Public Expenditure Management Review carried out in 1989 concluded that the Public Investment Program (PIP), which was almost entirely donor financed, was so poorly accounted for that there was a "lack of any systematic and integrated knowledge in the Government of expenditures under the PIP. Even for domestically-financed expenditure, "the structure of the budget in Somalia renders it essentially useless as a tool for analyzing government expenditures" (World Bank 1991).

The Somali banking system was supported in the early to mid 1980s with lines of credit from international financial institutions intended for on-lending for agricultural and industrial development. As happened elsewhere in Africa, applicants for a loan had to bribe bank officials

in order to get a loan, but once they had received it, they were never expected to repay it. By 1990, in combination with the slow collapse of the monetary regime, these same ethics pervaded all commercial bank services: one would have to pay up to 50 percent as a bribe just to cash a check.[31]

There was a period in the mid-1980s when foreign assistance accounted for over 50 percent of Somalia's GNP, but real growth was minimal.[32] With hindsight, it is clear that much of this aid was siphoned off for private use and utilized by Siad Barre's regime to strengthen his private hold on power.[33] The money and other aid resources bought internal allies while the arms that came with foreign military assistance were used to intimidate, harass or eliminate opponents (Shaw 1985, p. 28). It is also quite likely that some economic aid funds were diverted to finance additional arms purchases.[34] Neither Barre nor his inner circle lived opulently, but the international community was unpleasantly surprised to find the nation apparently awash in small arms by the time Siad Barre fled.

Somalia has no significant ethnic, religious, linguistic, cultural, political or ideological differences between the various combatants, and the domestic asset base is undeniably meager. Why then was the civil war that has followed Siad Barre's ouster so fierce? One explanation is that the different war-lords were competing for the chance to control a government that would receive generous reconstruction assistance from the international community with the goal of re-creating the system that Siad Barre built.[35] As De Waal (1993, p. 28) puts it:

> Just as in the 1980s, the diversion of food aid remains an important source of income for armed groups--only this time without the tacit consent of the donors. Meanwhile, competition for the possible future benefits of state power intensified.... It is now widely understood that the

politics of warlordism in Somalia is no more than a logical extension of Siad Barre's methods of wielding power. ... Aid to Somalia has been part of the problem, not part of the solution.

Even in the mid 1990s after the majority of international peace-keeping forces have pulled out and only relief agencies and NGOs are active in Somalia, aid workers admit that the lion's share of the commodities brought into the country for humanitarian purposes have either been stolen or extorted by armed gangs who use the resources to finance the military efforts of their patron war-lords.

B. Nigeria

In Nigeria corrupt actors in both the public and private sectors interact to undermine public institutions. These political dynamics have not been incorporated into our model which assumes that the ruler is the only independent actor and which does not assess the strategic links between state and society. Thus the Nigerian case suggest how the current paper might be extended in future work to incorporate other features of the political-economic environment.[36]

As in many post-colonial societies, the Nigerian state inherited from the colonial power lacked sufficient legitimacy to ensure the cooperation of the citizens and the civil service. This made it easy to justify rent seeking at all levels including the top of government.[37] Each government that comes to power, whether elected or imposed by military force, tends to view its hold on power as precarious.[38] There are good reasons for this. Nigeria is a large country with a population of about 100 million people divided into several competing ethnic, tribal and religious groups. A stable majority coalition of groups has proved difficult to maintain and few politicians have tried to develop a national cross-group appeal.[39] Nigeria has a history of constitutional

engineering seeking to create the conditions for a stable democracy, but none has produced this result (Herbst and Olukoshi 1994, Diamond, 1993, 1995). Those in power have used the machinery of the state both to enrich themselves personally and to aid the groups that support them. Patron-client relationships have characterized all post-colonial regimes, military and civilian (Herbst and Olukoshi 1994, p. 455). Jeffrey Herbst (1996, p. 157) argues that clientalism in Nigeria is not merely theft by individuals seeking "to raid the coffers of the state," but is legitimated by political norms that view it as satisfying the short term objectives of the winning coalition. Richard Joseph (1996, p. 195) argues that even under the Second Republic, between 1979 and 1983, "the state was a national cake to be divided and subdivided among officeholders." High levels of rent seeking and clientalism then contribute to the very insecurity of tenure that fueled such behavior in the first place. An unstable spiral can arise in which a regime's coming downfall encourages the rulers and their clients to extract rents at a more rapid rate thus hastening its own fall.[40]

The situation in Nigeria is exacerbated by the presence of massive petroleum deposits (Herbst 1996, pp. 157-158, Olowu 1993, p. 94). Oil represents 90 percent of Nigeria's exports and most of the government's revenue (Herbst and Olukoshi, 1994, p. 453). The oil reserves are under state control and provide huge windfall gains to those who control them and their political allies. Especially during the years of the petroleum crisis, Nigeria profited handsomely. Thus control of the state became a valuable prize worth fighting for. Those who sought to get rich struggled for a share of the rents, instead of engaging in productive entrepreneurship (Diamond

1993, p. 220; 1995, p. 474, Herbst 1996, Lewis 1996, p. 81).[41] As Diamond (1993, p. 218) writes, "plainly, the stakes of politics are too high."

An important issue in trying to understand the impact of corruption and rentseeking in Nigeria is the ultimate incidence of payoffs. Do they simply reduce the profits of multinational corporations or do they also impose costs on the country as well? Although definitive data are lacking, the costs appear to have been severe. In 1984, after ten years of oil boom, the per capita income of the average Nigerian was no higher than in 1974. During the 1980s the economy declined at a rate of 0.4 percent annually, and in 1990 Nigeria was the seventeenth poorest country in the world with a per capita income lower than that of India or Kenya (World Bank data cited in Herbst and Olukoshi, 1994, p. 453). The 1996 Human Development Report of the United Nations Development Program ranks Nigeria 137th out of 174 countries in its index of human development (UNDP 1996, p. 137). Foreign direct investment is relatively high compared to other developing countries, but it is heavily concentrated in the oil industry (Jun 1996, Lewis 1996, p. 98). By contrast, Indonesia, another country with large petroleum reserves, is currently attracting foreign direct investment in a wide variety of sectors .

Although we cannot assess the overall cost in lost economic growth, in particular cases, the inefficiencies seem large. An aluminum smelter was built that was widely perceived to serve no valid development objective yet cost $2.4 billion dollars. Its cost was reported by some observers to be 60-100 per cent higher than similar plants elsewhere in the developing world (Diamond, 1993, p. 217). If correct, this figure suggests the magnitude of the nation's loss and makes it unlikely that the costs of corruption were borne by the international contractors. A steel

mill originally budgeted at $1.4 billion ended up costing $4 billion (Herbst and Olukoshi 498). In the middle seventies government purchasing agents accepted bribes to contract for deliveries of cement that were five times above the country's needs. The port of Lagos was clogged with ships waiting to unload the excess supplies (*New York Times*, December 4, 1975). Faraqee (1994, pp. 250-251) mentions as uneconomical or excessively costly a pipeline, several irrigation projects, an export terminal, and a petrochemical plant.

The regime in power in the early 1980s resisted free trade reforms favored by the IMF apparently because the existing system of import licensing was a major source of payoffs and patronage (Herbst and Olukoshi, 1994, p. 465). The fact that such licenses were valuable indicates the costs of maintaining the system in the form of higher prices for ordinary consumers. The successor regime did crack down on some individual corrupt officials and private business people, but the lack of any reform in the basic, highly regulated structure meant that the fundamental causes of rent seeking were not addressed (Herbst and Olukoshi, 1994, pp. 469-470). By the late 1980s the import licensing system had become so discredited that it was possible to abolish it. Apparently the Manufacturers Association of Nigeria, whose members had paid bribes without complaint in earlier years, began to see that they would be better off if the system were abolished. Furthermore, at the same time as the import licensing system was eliminated, other new rent seeking opportunities were introduced (Faraqee 1994, p. 246; Herbst and Olukoshi 1994, pp. 481-482).

The changes introduced under structural adjustment limited the rents available through government contracts and restrictive regulation. However, new opportunities emerged in such

areas as privatization, financial services and access to foreign exchange (Ihonvbere 1993, Lewis 1996, pp. 89-90). In addition, the smuggling of petrol across national borders by people working with compliant public officials was a lucrative business for people up and down the economic and political spectrum. The official domestic price had been set far below the market price in neighboring countries and in the world market, thus encouraging the diversion of supplies from the domestic market. Although such activity could be seen as enhancing efficiency, it represented a very costly method of clearing the market since it had to be done with secrecy and stealth.[42]

Naturally enough, ordinary citizens were not blind to the siphoning of public funds into private pockets. The scandals led to the downfall of several governments, but the new rulers were seldom able to contain corruption within their own governments and often did not even try (Faraqee 1994, pp. 244-247). Instead, the new group of rulers and their allies shared the benefits of power. Nigeria has laws against corruption, but they have had little impact (Diamond 1993, pp. 221-222). The Nigerian experience demonstrates how deep divisions in society that are reflected in strong patron-client links can, when combined with natural resource wealth, produce a pathological situation that feeds on itself.[43]

The Nigerian case suggests that when corruption is endemic, a country's rulers may not be as powerful as our model assumes. In our formulation, the ruler is the only independent actor. He or she is constrained by the institutions of society but does not have a strategic relation with powerful actors in the rest of society. In Nigeria this condition does not appear to hold. Nigeria has had its share of corrupt rulers, but its history suggests that removal of a head of state is not

sufficient to generate meaningful reform (Herbst 1996). Powerful private actors and groups are an important constraint on government action. Embedded wealth-sharing practices resist reform.

C. Botswana[44]

At the other end of the spectrum is Botswana, which has not been plagued by the systemic corruption so prevalent elsewhere in Africa (Charlton 1990, p. 6). Botswana has enjoyed relatively good governance since independence (Raphaeli et al. 1984, Wescott 1994). Patronage is important, but graft is not. Private business people do not need to bribe government officials to carry on normal business activities; civil servants are paid sufficient (though by no means lavish) salaries so they do not need to solicit bribes in order to survive.

The lack of systemic corruption, along with the high levels of political and macro-economic stability, has earned Botswana the confidence of foreign investors. Botswana has the lowest "political risk" factor of any nation in sub-Saharan Africa, including South Africa, as revealed in surveys of risk analysts, risk insurance brokers, and bank credit officers published *Euromoney*.[45] The country has one of the highest rates of foreign direct investment per capita in Africa.

Although organized democratically, one party has held power for thirty years. The Botswana Democratic Party has delegated substantial power to the bureaucracy, and creation of a competent, efficient civil service was an important goal of the early independence period (Charlton, 1991). The country has abundant mineral resources with over 50% of its GDP accounted for by mining, mostly diamonds, copper, and nickel (Mhozya 1992). However, unlike

Nigeria or Zaire, Botswana has invested the proceeds in basic physical and social infrastructure, including roads, water, schools and clinics throughout the nation (World Bank 1993, pp. 2-8).

Botswana's success is tied to the country's political stability. Stability encourages a long run perspective among politicians, and the economic success produced by this perspective, helps maintain political stability, generating a "virtuous cycle." There appear to be two important reasons for Botswana's combination of political stability and economic growth. First, unlike Nigeria, the country is not divided into ethnic factions (Murray and Parsons 1990), and unlike Somalia, the government has managed to share the benefits of growth widely enough to keep the population reasonably satisfied. Second, Botswana is a small, land-locked country that is largely dependent upon foreigners for private investment and international aid to help alleviate poverty. Thus it has an especially strong incentive to develop enough state capacity both to encourage outside investment in its mineral wealth and to avoid being taken advantage of my these same investors. Thus stable, good quality government is both politically possible and economically useful.

Economic pragmatism has always taken priority over political ideology or factional favoritism. The first president, Seretse Khama, made a point of avoiding unnecessary projects in or near his home town and family base of Serowe. Although the town of Serowe was one of the largest in the country, the one major road to it was not paved until after Khama died. Similarly, government officials have routinely recruited the best talent available for key positions in the civil service, including expatriates for as long as they were needed until qualified nationals were available (Raphaeli et al. 1984).

Corruption, however, does exist in Botswana, as in all countries. Prominent instances have implicated a handful of highly-placed government officials in control of major government procurement, parastatal corporations, or industrial incentives programs.[46] Several scandals in the 1980s involved Botswana's economically and socially important cattle industry (Charlton 1990). In 1985 the management of the Botswana Meat Commission, a parastatal, was accused of mismanagement and corruption. Earlier, another official was accused of illegally enriching himself through a cattle related business, and a relative of a top official was accused of illegally obtaining cattle ranches under a government grazing land policy. Other serious scandals investigated by the Presidential Commission of Inquiry included a $10 million procurement fraud involving teaching materials for primary schools, illegal land transactions, and manipulation of the Botswana Housing Corporation for private benefit (Good, 1994, pp 501-504).[47]

Despite these examples, rent-seeking in Botswana is viewed as "relatively pale and restricted ... [and] not systemic to the whole of the political economy" (Good, 1994, p. 516). Rather than denying allegations exposed by the media, the government has generally carried out thorough investigations. However, until recently, penalties were low. Key players were usually merely moved (without demotion) to other posts in government; others were later re-elected by the ruling party "to their former positions on the central committee, with commanding majorities." (Good, 1994, p. 506).

These practices may be changing. In 1994 Botswana established a Directorate on Corruption and Economic Crime (DCEC) modeled after a similar organization in Hong Kong and staffed by former members of the Hong Kong agency along with local people. The DCEC

can investigate and prosecute offenders, design strategies to prevent corruption, and engage in public education. It is officially under the president but is operationally independent and can prosecute whomever it wishes. Although hampered by a slow court system, it has obtained a high rate of convictions and has collected fines that exceed its operating costs. It is becoming an example of good practice in the region.[48]

D. Uganda

Uganda has been plagued by systemic corruption in the past but has launched what appears to be a serious battle against it. In this effort, Uganda enjoys strong leadership from the top of the governmental structure, which seems sincere in its commitment to the goal of sound governance.

Uganda in the immediate post-colonial period has been described in terms that echo the kleptocratic state described above. E.A. Brett (1992, 1993) views the immediate post-colonial period as one where a new elite used its newly acquired monopoly powers to extract rents. The result was "a decline in service provision and economic activity and a increase in non-productive military expenditure (Brett 1992, 1993)." By 1967 the regime ruled without holding elections (Brett 1993, p. 10). These beginnings set the stage for Idi Amin's rise to power in 1971. According to Brett, "government thereafter became little more than a system of organised crime" used to extract rents from the public (Brett, 1993, p. 10). Predation continued even after Amin was overthrown in 1979. The forms of rent seeking were many, but Brett points, in particular, to support of economically irrational projects, excessive military expenditures, expropriation of

Asian properties which were transferred to private sector cronies, kickbacks on state contracts, and import controls (Brett, 1992, 1993).

The end result of this exercise in state delegitimation was civil war. Brett argues that the overthrow of the kleptocrat rulers was hastened by their own greed. By making any interaction with the state costly and dangerous, they encouraged people to find ways to operate in the black economy thus avoiding the state altogether. Even some services, such as primary education, that are provided by the state in most countries were largely supplied by voluntary contributions of money and time (Brett, 1992, 1993).

Emerging from civil war in 1986, the new Ugandan government under President Yoweri Museveni inherited a weak, underpaid, and over staffed civil service (including thousands of "ghost-workers") with a thin and porous tax base. Corruption was a survival strategy for civil servants, and this had been the case for about a generation.[49] President Museveni expressed a strong commitment to reducing corruption, but the task he faced on taking office was a large one. Civil servants, who still received little in the way of official remuneration, had become used to taking what opportunities they could to enrich themselves as quickly as possible (Oume 1991). As in the case of Somalia, a vicious cycle of rent-seeking (including access to foreign aid) and political violence had taken over the country. Rent-seeking had become quite subtle and well-organized. For example, bureaucrats performing complementary activities within a single agency might coordinate their activities for personal gain, and officials in a position to collect bribes sometimes sold their positions to newcomers. Although hard evidence of the extent of such

practices is difficult to come by, examples of both were evident to most travelers passing through the Entebbe airports in the 1980's.[50]

Cleaning up the civil service will be a long term process, but Uganda has begun to make progress in rolling up corrupt bureaucratic networks, working with Transparency International and the World Bank's Eastern Africa Department and Economic Development Institute. This is a multi-pronged effort including: policy reform and deregulation to remove unnecessary opportunities for rent-seeking; civil service reform to streamline the civil service, improve remuneration and provide training and a code of ethics; a public relations campaign; and vigorous prosecution of corruption under the authority of an Inspector General with extensive powers of investigation and prosecution. The anti-corruption campaign is considered a critical component of the larger reform effort that has earned Uganda the renewed interest of domestic and international investors, and one of the highest sustained rates of economic growth in Africa over the past five years (Langseth, 1995, describes the civil service reform program).

However, there is still a long way to go before Uganda can feel that corruption is under control. A discussion of corruption in health and education provides evidence of continuing problems even under the new regime (Munene 1995). Civil service salaries were still low as of 1990 (Chew 1990). Many markets are still dominated by a few operators with monopoly power and privileged access to public officials. Such firms frequently obtain special subsidies and tax exemptions. Procurement processes need to be improved to enhance the competitive environment. Continuing corruption in the military and in the banking sector are pointed to by some observers.[51] The regime's efforts to privatize state firms have been criticized by opposition

politicians as providing windfall benefits to insiders and foreign firms.[52] A paper prepared by the Inspector General, however, reports some significant prosecutions against fairly common and obvious cases of rent-seeking, e.g., customs and procurement fraud, which should have a deterrent effect (Ruzindana 1995). According to the government, subsequent privatizations will involve auctions or stock sales on the soon to be established bourse (Reuters, April 9, 1996).[53]

IV. Autocracy and Reform

Scholars are divided about the relationship between the form of government and the level of corruption. Democracy is neither necessary nor sufficient for the control of corruption. However, popular checks on the behavior of rulers are clearly desirable whether they come through the ballot box or through private sector institutions such as voluntary organizations, business groups, or the press and media. Chaos creates a fertile ground for corruption, and democracies can be chaotic. However, when they operate within a system where the rule of law prevails, the background set of rules can limit incentives for payoffs.

The disorganization of a democracy, even a new and poorly institutionalized one, pales beside states beset by warlords fighting for a slice of the country's wealth. A program to stamp out corruption in Somalia would be pointless absent a more general effort to reconstruct the state (although it would be interesting to consider how a credible pledge by the international donor community to *refrain* from providing large volumes of aid might reduce the incentives for the war-lords to continue fighting each other).

Countries with a tradition of autocratic rulers or one party rule can be corrupt with impunity, but they sometimes produce reformers as heads of state. Although outside observers might prefer a more democratic polity, it is not absurd to suppose that such rulers are genuinely concerned with reducing corruption and promoting shared growth. Furthermore, as we pointed out above, even a single-minded kleptocrat would like to control the peculation of subordinates. Thus some reform strategies will be supported by all kinds of rulers.

For example, reforms that improve the revenue collection capacity of the state by limiting the corrupt dealings of subordinate officers are likely to be uniformly popular with top politicians. In the Gambia, before the 1994 change in regime, foregone customs and tax revenues amounted to 8 to 9 per cent of gross domestic product, and losses from income tax evasion alone were 70 percent of revenues due. Experienced African observers believe that this case is not exceptional. A survey of Gambians indicated that corruption was one of the major causes of the shortfall, and the regime then in power supported a reform program (Dia 1996, pp.46-47, 94-100). The current military regime also appears to be following an anticorruption strategy. Tax and customs reform have been supported by such autocratic rules as Ferdinand Marcos in the Philippines (Klitgaard 1988) and Suharto in Indonesia. Suharto contracted with a Swiss company to take over its customs service, thus cutting out corrupt Indonesian officials, at least for a time (GATT 1991, 1995). Given the World Bank's concern that lending programs be "owned" by borrowers, tax and customs reform look promising if the Bank seeks a trouble free relationship with top political leaders. However, a policy of following the line-of-least-resistance raises the question of whether economic growth will be furthered by permitting rulers operating

with little popular accountability to develop more efficient revenue collection systems. A military regime may simply purchase more equipment for the armed forces. An autocrat may search for expensive capital projects that can be a source of kickbacks.

Our analysis suggests that in helping borrowers set priorities, governance reform cannot be carried out without an overall view of the relationship between the public and the private sectors. Simply encouraging a ruler to develop institutions that permit him to engage in more efficient predatory behavior ought not be a high priority for the World Bank. This means that even if the Bank has developed "best practices" for tax and customs reform, it should not finance such projects in countries that are otherwise thought to be very corrupt at the top.

A similar irony of reform can occur in procurement. Lower level officials may sell inside information on the bidding process, and they may provide favors to winning bidders in return for bribes. Rulers of all sorts will want to reduce such low level payoffs except to the extent that they buy the complicity of lower level officials. In a kleptocracy, however, reducing lower level corruption can simply shift it up the hierarchy. Although some argue that this result is desirable (Shleifer and Vishny 1993, Rodrik 1994), that conclusion ignores the possibility that the top ruler can redesign public programs to extract rents. The benefits of reform for the country at large will be overstated if one only considers the reduced corruption of subordinates. Recall that one consequence of corrupt subordinates was the kleptocrat's reduced appetite for expanding the size of the government. With that constraint eliminated, he can be expected to seek higher levels of intervention.

Privatization, as we pointed out above, can contribute to a more efficient, market-oriented economy. However, the efficiency of the process itself and the effectiveness of the post-privatization regulatory system can be undermined by the corruption of the officials involved. If such corruption can be reduced in connection with a shift to more transparent bidding procedures, the efficiency of the outcome should be enhanced. Reforms, however, must constrain, not only subordinates, but also top officials. Otherwise the risk of an outcome that favors wealthy, well-connected insiders is increased.

Isolated reforms in a system that is corrupt at the top or that favors a narrow group of insiders may be counterproductive. Reforms within the state sector may need to be combined with efforts to improve the independence, access to information, and organizational capacity of outside groups such as the media and private nongovernmental organizations. However, to be effective, reforms both inside and outside the government must be sensitive to the distinctive features of African culture.[54] Thus the role of outside groups might well differ in Africa compared with countries in the developed world. Several reform projects in Africa illustrate how indigenous and transplanted institutions can each be modified to produce successful change (Dia 1996). In presenting these success stories, Mamadou Dia deplores the "patrimonial privatization of the state" and "the lack of a service orientation" in some African countries (id., p. 44) and points to the problems of corruption and favoritism. He argues for procedural innovations that increase citizen participation in a way that strengthens the legitimacy of the state and empowers clients and beneficiaries (id., pp.243-247). Such reforms are premised on a fundamentally nonauthoritarian relationship between rulers and citizens and are thus a challenge to authoritarian

rulers, benevolent or not. Nevertheless, given the difficulty of assuring that only "good" autocratic regimes survive, reforms, such as these, that require a more fundamental rethinking of the relationship between the national government and its citizens need to be seriously considered. Given the deeply ingrained nature of corruption in some countries in Africa and elsewhere, reform will not be easy. It requires a long term commitment to fundamental change.

Conclusions

Under the conditions of our model, several conclusions follow. (1) A kleptocrat whose decision variable is the level of government intervention in the economy will select an excessive level of intervention where national income is less than optimal. (2) Like all monopolists, the kleptocrat seeks productive efficiency except in those cases where inefficiency creates extra rents. (3) Facing a kleptocrat, citizens prefer a smaller than optimal-sized government but get one that is too big. (4) A kleptocrat may need to permit lower level officials to share in the corrupt gains thus introducing additional costs over and above the problems faced by all rulers seeking to control subordinates. He or she will then favor a smaller government than if subordinates could be perfectly controlled. (5) Dropping the assumption of a single dimension of government intervention, the kleptocrat will favor a different mixture of tax, spending, and regulatory programs than a benevolent autocrat. (6) Dropping the assumption that rulers are writing on a clean slate, decisions to privatize or nationalize firms can differ across autocratic systems. In particular, although kleptocrats will often be reluctant to privatize, they may, in some cases, support privatizations that a benevolent ruler would oppose. (7) Investment in countries

with kleptocratic rulers may have an overly short-run orientation. (8) When rent seeking at the top is pervasive, both natural resources and foreign aid under control of the state may hamper growth, not encourage it.

The implications of this analysis for international aid and lending institutions are both to counsel caution in supporting low levels reforms in systems with kleptocratic rulers and to encourage such reform efforts when rulers are autocratic but credibly committed to goals of growth and efficiency. High priority should not be given to tax, customs and procurement reform in systems where a substantial proportion of state resources flow into the pockets of top rulers and their close allies. Unfortunately, data on the actual magnitude of such flows is poor. Our case studies present some troubling cases but suggest that good governance is possible under the right conditions. They do not, however, provide hard data on the extent and consequences of high level rent seeking. Nevertheless, we hope that these suggestive examples will encourage additional in-depth work in this area.

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Endnotes

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'or reviews of the literature on democracy and growth see Przeworski and Limongi (1993) and Barro (1994).

lthough the methodology behind these data series is not always transparent, they are generally based on the opinions of people knowledgeable out the countries in question such as investors, scholars, bankers, financial analysts, etc. The use of such data by scholars is justified by the cla t they have withstood a market test, but the proprietary nature of the information does mean that it not as well documented or as replicable as st social scientists would like. Nevertheless, it is the best macrolevel data we have at present.

'aolo Mauro (1995) using a corruption index from the early eighties demonstrates that high levels of corruption are associated with lower levels 'nvestment as a share of GDP. The index, developed by Business International, ranks countries on a scale of 0 to 10 based on a judgment of ho quently corruption was required in business transactions. High numbers indicate low levels of corruption. In a recent paper Mauro combines t siness International data with an index for 1982-1995 derived from the International Country Risk Guide prepared by Political Risk Services, :. (Mauro 1997). Statistical tests can then be run for a group of 106 countries. The two indices are very highly correlated (r=0.81). When both a ilable, Mauro averaged them together. Otherwise he used the value of the single available index. The results are similar. In the 1997 study, a : standard deviation (2.4) improvement in the corruption index is associated with over a 4 percentage point increase in the investment rate and r a half a percentage point increase in the annual growth rate of per capita GDP.

Because the corruption indices are highly correlated with other measures of bureaucratic efficiency, such as the level of red tape and the ility of the judiciary, Mauro was unable to measure the marginal effect of any one of these measures holding the others constant. The data are, vever, consistent with the claim that the level of red tape is not reduced by the payment of bribes and even be higher when corruption is nmonplace. Corruption is a symptom of other underlying problems rather than an independent variable. An overall index of the riskiness of esting in a country based on eleven factors from the Business International index (one of which is the corruption index) was associated with bo er investment rates and lower growth rates (Mauro 1995). Putting the separate indices together in a measure of bureaucratic efficiency, "if ngladesh [with a score of 4.7] were to improve the integrity and efficiency of its bureaucracy to the level of that of Uruguay [score 6.8]..its estment rate would rise by almost five percentage points and its yearly GDP growth rate would rise by over half a percentage point (Mauro 199 705)." The results suggest that corruption's main impact on growth in through its impact on the level of investment, not on the composition of physical investment portfolio. However, Mauro also demonstrates that highly corrupt countries tend to underinvest in human capital by nding less on education (Mauro 1997).

A complementary study by Philip Keefer and Stephen Knack (1995) uses the International Country Risk Guide index as well as one npiled by Business Environmental Risk elligence. The authors' primary focus is on the importance of strong property rights regimes in facilitating investment and growth, but as part s effort they examine the importance of government institutions, including the measure of corruption included in the ICRG data. Like Mauro, y discovered that the corruption index was so highly correlated with other measures of government quality that it could not legitimately be used ne. Instead, they averaged it in with expropriation risk, rule of law, risk of contract repudiation by the government, and the quality of the eaucracy. The study examined rates of economic growth for 97 countries over the period 1974 to 1989. The authors show that indices of the ility of government institutions do at least as well as in explaining investment and growth as measures of political freedoms, civil liberties, and frequency of political violence. An improvement of one standard deviation in the ICRG index leads to an increase in growth rates that would ke Honduras equivalent to Costa Rica or Argentina equivalent to Italy.

Finally, Alberto Ades and Rafael Di Tella (1994), using the Business International corruption index from early eighties supplemented by litional information from the early nineties, ask how the competitiveness of the economy affects a country's corruption ranking. They argue th re competitive countries should be less corrupt. Lacking a direct measure of competitiveness, they use various proxies and obtain results sistent with their theory. Their competitiveness measures include some under control of the state and some, such as distance from world rkets, that are not.

)ne of us (Rose-Ackerman 1996) has begun to consider this issue.

n other words, the benevolent autocrat not only espouses the goal of GDP maximization, but has also learned the lessons of neoclassical nomics. He is neither a Marxist nor a socialist.

'his is a maximum since $K''(x_1) = x_1 Y''(x_1) + 2Y'(x_1) < 0$.

'his case would, however, require another modification of the model. Public control by a kleptocrat would imply a lower level of overall output, :), than control by a benevolent autocrat who engages in marginal cost pricing. Only if the corrupt ruler could engage in perfect price crimination, would overall output be equivalent.

ohn Mukum Mbaku (1994, pp. 31-37) argues that when autocrats or narrow interest groups win control of the state in Africa, many have used state apparatus to expand the role of the state in an effort to enrich themselves. He argues that military coups are often motivated by rent-king.

Equation (2) defines a maximum since
$(x_2) = Y''(x_2)[1-x_2] - 2Y'(x_2) < 0$.

Our result is limited to autocracies, but it is inspired by work in public choice. Brennan and Buchanan (1980) argue that even democratic stat uld be modeled as budget maximizing Leviathans. In their model, rulers seek to maximize, not "net profits", but the overall size of the budget. also Niskanen (19711) who makes the same assumption about top bureaucrats.

nce these types of distortions have been well documented by other authors, we simply list them here. See, for example, itgaard (1988), Rose-Ackerman (1978, 1997), Ayittey (1992). We discuss some specific African examples below.

.A study of structural adjustment lending in seven African countries concluded that much precrisis investment spending wa dubious worth. "'White elephant' projects, inflated contracts, flight capital, and other associated ills became rampant befo and eventually contributed to -- the crisis in each case. A major aim of adjustment programs has been to weed out these desirable investments (particularly in the public sector) and to improve overall efficiency (Faruqee and Husain 1994, p. 6)

.In most developing countries official remuneration packages for civil servants (even including special allowances and in - nd contributions such as housing) are significantly lower than those prevailing in the private sector. Job security is usually rceived as much higher in the public sector than the private, but the attraction of public sector employment would be zzling if we looked only at the expected value of the stream of official remunerations.

.See, for example, "Indonesia: When Trouble Brewed," *The Economist*, February 10, 1996, p. 37 for an example of how ch conflicts have been handled in Indonesia in a controversy involving Suharto family members with interests in the beer a tel industries.

.Equation (3) is a maximum if:

$$\text{sign } S''(x_3) = 2Y'(x_3)(1- 2x_3) - 2Y(x_3) + x_3Y''(x_3)[1- x_3] < 0.$$

e second and third terms are clearly negative. When $x_3 < ½$, $x_3 > x_0$ so, $Y'(x_3) < 0$ and the first term is negative. When $x_3 >$ $x_3 < x_0$, $Y'(x_3) > 0$ and $1- 2x_3 > 0$ so the first term is negative. Thus the sign of $S''(x)$ is negative whatever the value of x_3.

. Clearly, if $x_3 \leq x_0$, it follows that $x_3 < x_1$ .In the case where $x_3 > x_0$. and $x_3 < ½$ we can demonstrate the result by assumir
contrary. If $x_3 > x_1 > x_0$, then $Y(x_3) < Y(x_1)$, and $-Y'(x_3) > -Y'(x_1) > 0$. Thus $Y(x_3)/[-Y'(x_3)] < Y(x_1)/[-Y'(x_1)]$.
bstituting from (1) and (3) yields:

$$x_3[1- x_3] = x_1 [1- 2x_3].$$

t if $x_3 > x_1$, (4) can only hold if : $1-x_3 < 1- 2x_3$, but that is not possible. Thus x_3 must be less than x_1.

.To see this we must compare $R(x_1)$ with $N(x_3)$, given $x_1 > x_3$. $N(x_3) = W(x_3) - S(x_3)$. Substituting for W and S and using tl
finition of R, yields $N(x_3) = [1 - x_3] R(x_3)$. Clearly $N(x_3)$ can be greater than, equal to or less than $R(x_1)$ depending upon th
ative ability of the kleptocrat and subordinate officials to extract rents from the system.

.This type of principal\agent problem is another area ripe for further research. The kleptocrat's problem is not only to give
agent incentives to maximize the kleptocrat's bribe revenue, but also to manage the constraints imposed by complementa
onopolies.

ase study material is also available for many other Sub-Saharan African countries . See, for example, Amuwo (1986), Ayitt
992), Caiden (1993), Gould and Mukendi (1989), Kpundeh (1994), LeVine (1975), and Szeftel (1983). Our discussion
mplements other work done at the World Bank by Dia (1993) and (1996) and by Adamolekun and Bryant (1994).

.The discussion of Somalia is based, in part, on Coolidge's experience living in the country as an independent consultant ir
84-1985 and frequent return visits as a representative of a private contractor between 1985 and 1990.

.De Waal (1993) notes "While prices rose by a factor of 35 between 1970 and 1986, government salaries hardly rose at all.
27). According to Gregory (1994, p. 44) real civil service salaries in 1989 were 3 to 4 percent of 1975 salaries depending
on the grade.

.A reporter who spent four weeks in Somalia in 1985 reported widespread frustration with corruption and mismanagement
omalia: Military Regime in Mogadishu Shows Sign of Fatigue," *Christian Science Monitor* September 5, 1985.

.Coolidge recalls, for example, that there was a period of time in the mid 1980s when arriving passengers at the airport wer
quired to pay a fee, in Somali shillings, for a currency declaration form. This form was required before one was permitted t
ange foreign currency into local. If one did not have the official Somali Shilling fee (equivalent to about US$ 0.10), or a
cal expediter on hand with shillings, the unofficial bribe needed to cut through the impasse was usually about US$20.

.De Waal (1993, p. 25). A World Bank survey of civil servants' household budgets carried out before 1990 reported that
vernment pay constituted 7.9 % of household expenditures. For employees in the three ministries surveyed (livestock,
nning, and health) household expenditures exceeded reported income from all family members by 20,000 Somali shillings
r month. This discrepancy, which is almost thirty per cent of the 1990 median monthly salary for middle level government
ofessional workers (mechanics, accountants, skilled clerks, cashiers) is likely partly to represent bureaucrats' illicit receipt
regory 1994, p. 55).

.The situation was similar to that described in Wade's (1982, 1984) study of the Indian Public Works Departments. In malia, however, some positions, particularly in the military or police force were "paid" for in terms of political loyalty rath ın financial obligations. Over time, however, it appeared that Barre's concerns about security and loyalty caused him to rel ;reasingly on his own family and clan.(Simons 1995).

.In the uni-ethnic Somalia, these factions were usually based on clans or sub-clans (Simons 1995, p. 48).

.This paragraph is based on Coolidge's experience in Somalia. The Mogadishu port is still a strategic asset in terms of its ʼenue generating potential - the ability to assess import and export "tariffs" there is an important source of revenue for the :tions in control of the port.

e Waal (1993, p. 26), Simons (1995 p. 53), Tucker (1982).

.The notorious "technicals"-- the large four-wheel-drive vehicles outfitted with machine guns, grenade launchers and other ht arms that featured so prominantly in the civil war--were, for the most part, originally "technical assistance vehicles" ɔught in with aid projects in the 1980s.

.These observations are based on Coolidge's personal experience.

."Somalia Starts Off on the Long Road to Economic Stability," *Christian Science Monitor*, October 7, 1985.

.For example, an opposition political group in Italy charged in 1988 that the Italian government gave $70 million to Somal · a fertilizer plant that was never built. According to a dissident Somali politician living in exile, the sum enriched the tion's rulers. "Italy Is One of the Few Nations to Have Increased Its Aid Programme," *Financial Times* April 18, 1988.

.Garrett Hardin claims that 70% of donated food went to the army in the 1980s. Garrett Hardin, "The Folly of Feeding the ird World," *Newsday* July 26, 1989.

.According to Mbaku (1994, pp. 37-38), the high levels of political violence in some African countries should not be ributed to diverse ethnic and religious groups. "In the absence of these groups there would still be violence, as rent-seekin ɔups would find other traits to identify themselves and mobilize to capture the apparatus of government. In addition, milita tes and leaders of ethnic, clan or religious groups are not buffoons or maladjusted individuals as has been suggested by son alysts, but rational beings attempting to capture the apparatus of government and secure privileges for themselves and their ɔporters [footnotes omitted]."

. For one preliminary attempt along these lines see Kurer (1993).

ıseph (1996, p. 195), Mbaku (1996). For a general discussion of this issue in the African context see Dia (1996, pp. 28-35, -44). Dia argues that the disconnect between formal state institutions and indigenous structures meant that: "Beating the ·mal institutional system becomes the favorite game. Lawlessness, rent-seeking behavior, and free-riding become generaliz *id.*, p. 32).

or reviews of the post-colonial political history of Nigeria see Diamond (1993, 1995), Herbst and Olukoshi (1994), Josepl 996), and Lewis (1996).

iamond (1995) describe the situation and discusses the different political solutions that have been tried and explains why ey failed.

erbst and Olukoshi (p. 456) state that: “The expectation that at any given time the current government was transitory made e continual pledges to reduce corruption meaningless. Indeed, the rapid turnover of regime reinforced the tendency of civili d military holders of public office to raid the state’s coffers to buy support.” Diamond (1993, p. 219) claims that: “Both the te and the masses have split personalities: the politicians want to make democracy work and to get rich doing so, even ough their corrupt enrichment will quite likely bring democracy down. The masses, meanwhile, retain their profound nicism regarding politics, but remain ready to join in the scramble for whatever morsels can be had.” Lewis (1996, pp. 91-) argues that the at the end of the Babangida regime in the early 1990s “the accumulation of illicit revenue [was seen by the ers] as a hedge against ... instability.” Faruqee (1994, p. 238) argues that one reason World Bank Structural adjustment ms did not have the desired impact was the short run
tlook of the political leaders.

his was not just an enterprise engaged in by those at the top of government. The government did share some of its wealth b ting low domestic prices for petroleum. Fertilizer was also heavily subsidized. In both cases smuggling was common. orld Bank, 1994, pp. 57, 67 and “Camel Through a Needle’s Eye,” 1991.

ewis (1996, p. 90) and “Camel Through the Needle’s Eye.” The World Bank (1994, p. 57) reports that in 1991 prices in nin were 625% of the Nigerian price and in Chad were 1480% higher.

ccording to Dele Olowu (1993, p. 93), a Nigerian professor of public administration, the Nigerian public sector represents most a pure form of institutionalized corruption.”

nathan Rodden , a graduate student in the Yale Political Science Department, contributed to the research on this section of e paper.

otswana’s score was 15.06 in 1996 out of a possible 25. South Africa had a score of 14.76, Nigeria had a score of 4.25, malia, 0.0, and Uganda, 5.95 (Piggott 1996). In overall riskiness for investors Botswana ranked 55th in the world, just hind South Africa at 49. Uganda ranked 96th, a big increase over 1995; Nigerian ranked 126, and Somalia, 170 out of the 8 countries included in the ranking.

xamples of industrial incentive schemes with a high degree of discretion on the part of the government decision-makers clude the Financial Assistance Policy (FAP), which provides subsidies to new and expanding businesses and the Selebi- ikwe special incentive package, intended to promote industrial development near the copper/nickel mines.

he land and housing scandals appear to have been closely linked, and although limited in scope, represented cases of liberate official interference with critical markets. The Ministry of Local Government froze land allocations in an importan

ri-urban market and slowed the servicing of plots, while granting illegal allocations to a few individuals closely connected th senior ministry officials. Meanwhile, the Botswana Housing Corporation was found to be investing in high-cost housing volving unsecured loans and procurement irregularities. “The subjects of the (Presidential Commission of Inquiry) reports re closely interrelated, and the identified problems stemmed from housing and land shortages which had been unreasonabl olonged by those in power.” (Good, 1994, p. 504).

The other major instance of corruption disclosed during this period in Botswana involved the parastatal banks - the tional Development Bank and the Botswana Cooperative Bank, each of which made a rash of loans to well-connected lividuals who never bothered to repay. (Good, 1994, pp. 509-512).

Xinhua News Agency, February 28, 1995 and summaries of Radio Botswana broadcasts from BBC Summary of World oadcasts, September 14, 1994; March 21, 1995; September 12, 1995 (available on NEXIS). Following Botswana’s lead, alawi has established an Anti-Corruption Bureau, but it is too new for its effectiveness to be judged (“Malawi Targets rruption in High Places,” *Agence France Presse*, September 9, 1996 (NEXIS).

hew (1990). A census of civil servants in 1987 revealed that over 10% of those listed on Ministry of Finance payroll recor re “ghosts” (ibid. p. 1009). Stephen Ouma (1991, p. 485) noted the following pattern:

> Thus departments that deal in material products, such as rehabilitation or stores, or those involving interaction with business communities and other wealthy groups such as Inland Revenue and Customs and Excise departments, attract some of the ‘luckiest’ citizens and they will buy their way into them. By contrast, such departments as Labour or Education, which have nothing to do with cash, have increasingly tended to lose their talented personnel to more lucrative departments, precisely because they do not offer extra-legal opportunities for enrichment ...This has not, however, necessarily increased efficiency in the first group of departments, since if one cannot pay ‘speed money’ or ‘urgency fee,’ the main reason the particular member of staff is there anyway, one is sure to run into insurmountable bureaucratic obstacles in one’s way.”

one point there was close coordination between the immigration officers for the in-bound flights and those for the out-bou ghts. The immigration officers for inbound flights would ask visitors how long they intended to stay in Uganda and would metimes deliberately write in fewer days. If the visitors never checked before proceeding to immigration control for the ght out, they would be accused of over-staying their allotted time, an offense that could only be dealt with officially in mpala, almost an hour away by car. As an alternative, $50 - $200 in cash would settle the matter in minutes.

Another variation on the theme of coordinated bureaucracy flourished briefly at the airport until it was eliminated in 90. Outbound international passengers first checked in, then proceeded to immigration control, foreign exchange control, d customs before the final security check and boarding. Not infrequently, one of the officials would demand a bribe from a ssenger to be let through. After several months, a new bureaucrat was added to the gauntlet to "double-check" immigration cuments. Later another one appeared to double-check foreign exchange certificates, and awhile later, yet another one was ded to double-check customs. In each case, it was the new bureaucrat who was most likely to demand a bribe to let the ssenger through, and the longer-established bureaucrats began to leave passengers alone. The new bureaucrats at the airpor

ıppears, were buying their positions from established bureaucrats and then trying to recoup their expenses by demanding bes from passengers.(Both these cases are based on Coolidge's personal experiences.)

Rendezvous for Donors," *The Indian Ocean Newsletter*, September 7, 1996 (NEXIS); "Economic Reforms Help Restore ;anda," *The Houston Chronicle*, August 15, 1996 (NEXIS).

Jganda Sees State Firm Sell-Off Completed in 1997" Reuters, April 9, 1996. According to the article, a fish-canning factor ıs sold for $1.1 million after being built with a $6 million loan, and a hotel was sold for $6.5 after a $16 million face lift. C ırse, these examples do not necessarily indicate that the selling prices were too low. Perhaps the level of investment was cessive given Uganda's economic conditions.

n illuminating case of the way corruption favors insiders involved a construction company which submitted a claim for nost $5 million from the government due to delays. The law firm that represented the construction company in court, wever, "also happened to belong to the then minister of justice and attorney general. The attorney general's chambers ickly admitted liability on behalf of Government. The IGG (Inspector General) objected and ... advised the Attorney Gener what the correct sum due to the company should be....(Ruzindana, 1995, p. 200)" After a cabinet reshuffle that removed th torney General, the case went to the Supreme Court, where the Chief Justice ultimately awarded the amount recommended the Inspector General. In his concluding remark, the Chief Justice said:

> I must express my dismay at the manner in which this suit was conducted in the lower court. I get the impression that the chambers of the appellant put in a half-hearted defense so as to press the expected result with the stamp of a decision of the court ... I take exception to the courts being used to stamp deals already worked out by the parties as decisions of the court. (Quoted by Ruzindana 1995, pp. 200-201).

Had it not been for the removal of the Attorney General, however, it is not certain that the case would ever have been brought to the Supreme Court.

Other, more complex cases taken up by the office of the Inspector General have had less successful outcomes. Some of these cases are suggestive of the struggles taking place within government between those who perceive their livelihoods to depend on rent-seeking opportunities and those who see the need to remove such opportunities. For example, until recently, the Government of Uganda contracted with a pre-shipment inspection service to regulate customs. Due to complaints from the business community, the Uganda Revenue Authority (URA) was given permission to license competing pre-shipment inspection services. However, according to the Office of the Inspector General, "it was established that one of the tenderers had manipulated the tendering process from within the URA and other institutions with influence on the awarding of the tender to make sure that their position in Uganda is consolidated (Ruzindana 1995, p. 203). The Inspector General recommended retendering, but this time through the Central Tender Board. No retendering was done; and no tender award was given. As Ruzindana notes (1995, p. 203), "when a situation like this happens it indicates collusion by the

ministry in the malpractices which take place in the tendering process." Uganda's Inspector General concluded:

> Corruption leads to discriminatory dispensation of government services and to the distortion of the economy through mis-allocation and wastage of resources. It introduces discrimination and arbitrariness in decision making so that rules, regulations and procedures become unimportant. In the extreme cases, decision making is not only transferred to the corrupters but it is hijacked by, or arrogated to them....
>
> Corruption can only be eliminated when both the political leadership and the public make a concerted effort not to tolerate it any more. But where the State is soft on corruption, people may be reluctant to uphold laws which get in the way of their personal or sectional interests. The burden therefore, must fall on the political actors who are the only individuals with the power to bring about a stronger allegiance to the state and, hence, a commitment to the national interest. (Ruzindana 1995, p. 27).

uanced discussions of reform of African government structures in ways that take account of the distinctive features of the rican context are found in Dia (1993, 1996) and Adamolekun and Bryant (1994).