Exploiting the Poor: Bureaucratic Corruption and Poverty in Africa

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Summary. — While extant research has focused on the causes and consequences of corruption at the macro-level, less effort has been devoted to understanding the micro-foundation of corruption. We argue that poor people are more likely to be victims of corrupt behavior by street-level bureaucrats as the poor often rely heavily on services provided by governments. We test this proposition using micro-level survey data from the *Afrobarometer*. Multilevel regressions across 18 countries show that poor people are much more prone to experience having to pay bribes to government officials.
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1. INTRODUCTION

Corruption constitutes a major problem in most of the developing world. It tends to hamper investment and economic growth (Sekkat & Méon, 2005; Shleifer & Vishny, 1993), aggravates problems of underground economies (Bjørnskov, 2011; Dreher, Kotsogianni, & McCorriston, 2009; Friedman, Johnson, Kaufmann, & Zoido-Lobaton, 2000), exacerbates the difference between rich and poor (Gupta, Davoodi, & Alonso-Terme, 2002; Uslaner, 2008), creates obstacles to economic and political reform (Hellman, Jones, & Kaufmann, 2003; Shleifer, 1997), and can in the long run cause considerable human welfare losses (Kaufmann, Kraay, & Mastruzzi, 2005). While popular debate often treats corruption as a problem created by greedy bureaucrats and politicians that mainly affects elites—those who presumably can afford to pay bribes—little is known about how corruption affects ordinary citizens and which groups are most likely to bear the social and economic costs of corruption. [1] Hunt (2007), one of the few papers to study this issue, finds that in Peru, victims of adverse events like crime and job losses are more likely to pay bribes than other people. Describing this phenomenon as "hitting people when they are down," she hints at a more general set of social problems related to street-level corruption that has received only little attention in the literature.

In this paper, we begin to open the black box of street-level bureaucratic corruption by asking who is actually most likely to pay bribes, and in particular how micro-level economic conditions and poverty affect people's exposure to corruption. In doing so, we make two contributions to the literature. First, we develop a simple theoretical framework showing that corrupt bureaucrats would ideally want to extract bribes from the rich, but may have incentives to mainly target the poor when asking for money in return for access to public services they control. In our model, the mechanism creating this perverse effect is the existence of costly exit options not available to the poor, a mechanism strengthened if households face credit constraints and coordinating bureaucracies. Second,

we test the theoretical implications using micro-level data from the third round of the *Afrobarometer*, which includes detailed survey information from individuals in 18 sub-Saharan African countries. We create an index capturing how often respondents have had to bribe bureaucrats controlling access to five different areas of public services. Estimates from fixed effects regressions provide robust evidence that poorer individuals more often have to bribe bureaucrats to obtain access to vital public services. In Africa, consequently, bureaucratic corruption is not only an elite problem, but also a problem that affects the poorest groups. This result sheds new light on the relationship between micro-level poverty and corruption in Africa.

The rest of the paper proceeds as follows. We first outline the theoretical considerations in Section 2. Section 3 describes the data and estimation strategy used in Section 4. Section 5 explores two possible complications while Section 6 concludes.

2. THEORETICAL CONSIDERATIONS

This section provides an informal outline of the key implications of the theoretical model linking poverty to corruption. We present the formal model in detail in the Appendix. The starting point of the model is that a key motivation for paying bribes is to get access to basic public services, such as education, water, permits and licenses, or legal enforcement of contracts. If, for example, a public water supply is not available, getting water may be difficult and highly costly. Most people—actual or potential clients of public services—therefore have incentives to protect themselves from such situations.

Street-level corruption therefore differs from standard settings of grand corruption where agents attempt to gain illegal access to special treatment (Banerjee, Hanna, & Mullainathan, 2012). Here, bribes associated with regular access to public services are functionally similar to insurance against adverse shocks to service access. In other words, the type of corruption potentially inherent in these situations is of an extortionary nature, and not collusive as is the case in, e.g., situations in which agents pay bribes in order to bypass tariffs and regulations or in other ways gain (Non-Governmental Organisations) access to illegal or extralegal treatment. It is also "corruption without theft," as defined by Shleifer and Vishny (1993), as bureaucrats demand bribes to allow access to public goods and services for which households have already paid through taxes and (legal) fees. Corrupt street-level acts are thus one-sided in the sense that they only confer benefits on the bureaucrat, compared to a situation without corruption.

As in any standard model of insurance, the willingness to pay—which in our setting is equivalent to a willingness to pay bribes—is increasing in risk and in income as long as individuals' utility functions are quasi-concave and well-behaved. Similarly, bureaucrats' willingness to accept bribes are increasing in bribe size and decreasing in the risk of being convicted of corruption. Without any further complications, wealthier individuals should therefore be more willing and able to pay bribes to get access to public services.

However, in our model, this scenario is changed by (the realistic) assumption that at least some clients can exit from corrupt public services. In particular, allowing for the existence of exit options—the possibility that clients can opt out of public services—reverses the implications. We think of such options as both alternatives within one's community and through relocating to another community: the possibility of using NGO (Non-Governmental Organization), community-based or private health facilities, moving to another neighborhood with better and/or certain public services—at the extreme a gated community—or in the case of education having the possibility of sending one's children to a private school or moving to another school district. Incorporating an exit option relaxes an important feature of the theoretical framework of Hunt and Laszlo (2012), who explicitly assume that government officials have a monopoly on service provision such that clients cannot opt out of public service provision.

If exit options are not free, i.e., when they come with some form of fixed cost, households with an expected bribe cost exceeding this cost rationally use the exit option. This has the theoretical implication that bribe propositions are more likely to be turned down by relatively well-off clients, in particular if bureaucrats realize that the attempt to extract bribes will cause clients to exit. This option generates a situation where relatively poorer households are more likely to depend on and use public services, which is the case in many developing countries (e.g., Asian Development Bank, 2013; Department for International Development, 2010; UNESCAP, 2007). This participation constraint—that households necessarily must access the public service, which allows bureaucrats to extract bribes—is less likely to hold for relatively richer households.

This situation is exacerbated if poorer households face credit constraints. If households have access to loans, fixed exit costs may be too low relative to the value of public services. In developing countries, credit constraints often bind if credit is rationed, access to financial services is limited, or standard household assets are either unacceptable as collateral or not marketable (De Soto, 2000), thus changing the role of the participation constraint.

The consequence of this more realistic scenario is that an exit option lowers bureaucrats' corrupt earnings. They face an adverse selection problem, as the most profitable clients are least likely to engage in any transactions while the least profitable clients are most likely to select into the services of the bureaucrat. The existence of an exit option therefore works as a constraint on corrupt bureaucratic behavior toward specific clients. This leads to our first directly testable hypothesis, which asserts an approximately monotonically decreasing relationship between household income and bribe payments:

H1. The risk of paying bribes to get access to public services controlled by street-level bureaucrats is decreasing in household income, given that clients have access to viable exit options.

The observable implication of Hypothesis 1 is that poor clients are more likely to pay bribes in return for public services than wealthier clients, provided that exit options are available. However, as we show in the Appendix, since very poor households are unwilling and perhaps unable to pay bribes of a size that outweigh the risks that bureaucrats face, they may be effectively excluded from access to public services if bureaucrats insist on bribes. This complication leads to the second testable hypothesis:

H2. The effect of household income on corruption risk is nonlinear.

In the model, this nonlinearity arises because corruption risk increases with income for the poorest groups due to an exclusion effect, but decreases with income above a certain threshold (as depicted in Figure A2 in the Appendix). This means that while corruption risk decreases with income, the absolutely poorest groups are less likely to pay bribes because of an inability or unwillingness to do so.

The realistic assumption of the existence of at least some exit options, either by changing the service provider or relocating to different areas, substantially changes which households are more likely to pay bribes. In the following, we test these two hypotheses on individual-level data from 18 African countries.

3. DATA AND METHODS

We test the hypotheses linking poverty to bribery using data from the third round of the *Afrobarometer* survey.[2] The survey contains individual-level data from 18 African countries. Following the wording of the *Afrobarometer* questionnaire, we use the term "government officials" to denote employees in the public sector in a broad sense, including administrative staff in government agencies and street-level bureaucrats such as teachers, medical personnel, and police officers. This ensures that we are only capturing one type of corruption (Knack, 2007).

The surveys were conducted in 2005 and 2006 using face-to-face interviews, and consist of individual-level responses to a set of standardized questions. The data were collected based on a stratified sampling procedure, producing a broadly representative sample of adult individuals in each country (Bratton, Mattes, & Gyimah-Boadi, 2004).[3] The sample size is 1,200 in most countries, but 2,400 in Nigeria, South Africa, and Uganda, which are highly fractionalized countries. Although the *Afrobarometer* countries do not differ significantly from the