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Editorial

Said Adejumobi

This edition of the *Journal of African Transformation* presents interesting but critical articles, mostly focused on the problem of corruption in Africa, from different perspectives. Corruption remains heinous to Africa's development prospects. It undermines the capacity of public institutions and their ability to deliver services efficiently and effectively, increases the cost of doing business, promotes rent-seeking behaviour, distorts resource allocation, detracts investments, deepens social inequalities, and systematically erodes the credibility and legitimacy of governing institutions and authorities. While it may be difficult to measure the actual cost of corruption, its monumental impacts are quite palpable in Africa's continued underdevelopment.

A number of articles in this edition of the *Journal* therefore address the issue. Amos Sawyer, in his article, offers a practical view, from the vantage point of being a former interim President of Liberia, on how the scourge of corruption can be tackled. According to him, while weak institutions and state processes produce perversities, among which is the phenomenon of corruption, institutions cannot become strong by themselves. Leadership is key to social transformation through rebuilding and strengthening institutions and providing new strategic direction for state and society. Leadership in discourse transcends that of political authority, to also include political parties, legislatures, civil society and the business sector.

The article by Benjamin Mattondo Banda looks at the relationship between governance institutions and development outcomes. In his view, specific budget allocations to governance institutions, especially anti-corruption institutions, could contribute to reducing corruption and enhancing the development impact of government expenditure. As such, high-quality institutions provide an enabling environment for reducing corruption; while
economic development, on the other hand, may be good for corruption control, as wealth creation becomes dispersed, and institutional capacities are strengthened.

The article by Pasali and others on corruption, gender and firm growth, uses the experience of Southern Africa to explore the relationship between corruption and firm growth from a gender perspective. Their interesting finding is that there is a negative relationship between firm growth and subjective perceptions of corruption, particularly for male-owned and male-managed firms. However, the focus of their study was only on registered enterprises operating in the non-agricultural sector.

The article by Jack Jones Zulu, which focuses on the determinants and impact of corruption in Southern Africa, builds on the arguments of Amos Sawyer. In his view, there is a need to take on board the role of both formal and informal institutions, community actions and gender approaches in the fight against corruption in Southern Africa. Unwritten codes and rules, which sometimes structure conduct and behaviour in the public sphere, derive their meaning and expression from informal institutions.

The article by Chilombo Musa and Oliver Maponga examines corruption-related issues and challenges in large-scale land acquisitions and the need for policy reforms, using a Zambian case study. They argue that ambiguities in the legal and policy frameworks, and the complicated processes involved in land acquisition, disadvantage the poor and the marginalized in society. The increasing demand for land – both from international and domestic actors, for different reasons, especially large-scale land acquisitions, and the associated rising costs – makes the land sector more susceptible to the vagaries and vulnerabilities of corruption. The role of land as an instrument for poverty reduction and economic transformation requires that the state takes more proactive steps and interventions in addressing the issue of land rights and corruption in the land sector in the country.

The article by Innocent Bayai focuses on the commercialization of microfinance institutions in Southern Africa and their implications for access,
affordability and repayment of financial loans by the informal sector and micro-businesses in Southern Africa. He noted that, in serving the poor, the social mission of microfinance institutions is important, requiring continued state and international capital support for microfinance institutions. Adopting both cost-efficiency strategies and advancing default risk management will go a long way in making microfinance institutions sustainable financially.

The article on corruption by Clare Cheromoi and Richard Sebaggala examines how access to information on corruption and its consequences affects corrupt and anti-corrupt behaviour. Based on a random selected sample of university students, their major finding is that exposure to information on the consequences of corruption does not significantly affect the level of permissiveness towards corruption, hence the tendency to corruption and anti-corrupt behaviour. Issues of environmental factors, institutional restraints and sanctions regimes are key to the deterrence of corruption; information and anti-corruption propaganda may not be enough.

The closing article is a commentary by Paul Tiyambe Zeleza, an insider and leader in university administration in Africa, who reflects on the challenges and opportunities of the fourth industrial revolution for universities in Africa. The fourth industrial revolution will have a transformative impact on the form and nature of higher education learning – of a new digitalized world, of artificial intelligence and instant information flow. Higher education in Africa will therefore have to reinvent itself in order to be relevant in the brave new world of the fourth industrial revolution.

These articles will no doubt provide fascinating reading, and of course may provide new insights in knowledge and policy discourses. I therefore invite our readers to enjoy this edition of the Journal.
La présente édition de la revue présente des articles intéressants, critiques, particulièrement centrés sur le problème de la corruption en Afrique, analysé suivant différentes perspectives. La corruption reste haineuse pour les perspectives de développement du continent. Elle sape la capacité des institutions publiques et leur aptitude à fournir des services de manière efficace et efficiente, augmente le coût des affaires, favorise le comportement de recherche de rente, fausse l’allocation des ressources, nuit aux investissements, aggrave les inégalités sociales et érode systématiquement la crédibilité et la légitimité de la gouvernance des institutions et des autorités. S’il peut être difficile d’en mesurer le coût réel, ses impacts monumentaux sont assez palpables sur le sous-développement continu du continent.

Un certain nombre d’articles de cette édition de la revue abordent donc la question. Amos Sawyer, dans son article, offre une vue pratique depuis une position avantageuse, étant un ancien président intérimaire du Libéria, sur la façon de lutter contre le fléau de la corruption. Selon lui, alors que la faiblesse des institutions et des processus étatiques produit des perversités, parmi lesquelles le phénomène de la corruption, les institutions ne peuvent pas devenir fortes par elles-mêmes. Le leadership, en reconstruisant et en renforçant les institutions, tout en fournissant une nouvelle orientation stratégique à l’État et à la société, est essentiel à la transformation sociale. Le leadership dans le discours transcende ceux qui détiennent l’autorité politique, pour inclure également ceux des partis politiques, du pouvoir législatif, de la société civile et du secteur des affaires.

L’article de Benjamin Matrondo Banda examine la relation entre les institutions de gouvernance et les résultats de développement. À son avis, des allocations budgétaires spécifiques aux institutions de gouvernance, en par-
ticulier aux institutions de lutte contre la corruption, pourraient contribuer à réduire la corruption et à renforcer l’impact des dépenses publiques sur le développement. En tant que telles, les institutions de qualité crée un environnement propice à la réduction de la corruption, tandis que le développement économique peut être bon pour le contrôle de la corruption, car la création de richesse se disseperse et les capacités institutionnelles sont renforcées.

L’article de Pasali et coll. sur la corruption, le genre et la croissance des entreprises, inspiré de l’expérience de l’Afrique australe, explore la relation entre la corruption et la croissance des entreprises dans une perspective de genre. Leur conclusion intéressante est qu’il existe une relation négative entre la croissance des entreprises et les perceptions subjectives de la corruption, en particulier pour les entreprises appartenant à des hommes et gérées par des hommes. Cependant, leur étude ne porte que sur les entreprises enregistrées opérant dans le secteur non agricole.

L’article de Jack Jones Zulu, qui se concentre sur les déterminants et l’impact de la corruption en Afrique australe, s’appuie sur les arguments d’Amos Sawyer. Selon lui, il est nécessaire de prendre en compte le rôle des institutions formelles et informelles, des actions communautaires et des approches de genre dans la lutte contre la corruption en Afrique australe. Les codes et règles non écrits, qui structurent parfois les conduites et les comportements dans la sphère publique, tirent leur sens et leur expression des institutions informelles.

L’article de Chilombo Musa et d’Oliver Maponga examine les problèmes et les défis liés à la corruption dans les acquisitions de terres à grande échelle, ainsi que la nécessité de réformes politiques, dans une étude du cas zambien. Ils soutiennent que les ambiguïtés relevées dans les cadres juridiques et politiques et les processus compliqués rencontrés dans l’acquisition des terres désavantage les pauvres et les marginalisés de la société. La demande croissante de terres, tant des acteurs internationaux que nationaux, pour différentes raisons, en particulier les acquisitions de terres à grande échelle, et la hausse des coûts qui y est associée, rend le secteur foncier plus sensible aux aléas et aux vulnérabilités de la corruption. Le rôle de la terre en tant
qu’instrument de réduction de la pauvreté et de transformation économique exige que l’État prenne des mesures et des interventions plus proactives pour résoudre le problème des droits fonciers et de la corruption dans le secteur foncier du pays.

L’article proposé par Innocent Bayai se concentre sur la commercialisation des institutions de microfinance en Afrique australe et leurs implications pour l’accès, l’accessibilité financière et le remboursement des prêts financiers par le secteur informel et les microentreprises. Il a noté que pour servir les pauvres, la mission sociale des institutions de microfinance (IMF) est importante, ce qui nécessite un soutien continu de l’État et du capital international aux institutions de microfinance. L’adoption à la fois de stratégies de minimisation des coûts et de gestion approfondie des risques de non-remboursement contribuera grandement à la viabilité financière des IMF.

L’article sur la corruption de Clare Cheromoi et Richard Sebaggala examine comment l’accès aux informations sur la corruption et ses conséquences affectent les comportements corrompus et anticorruption. Sur la base d’un échantillon aléatoire d’étudiants d’université, leur principale conclusion est que l’exposition aux informations sur les conséquences de la corruption n’a pas d’incidence significative sur le niveau de permissivité à la corruption, d’où la tendance à la corruption et les comportements anticorruption. Les questions des facteurs environnementaux, des contraintes institutionnelles et des régimes de sanctions sont essentielles pour dissuader la corruption ; l’information et la propagande anticorruption peuvent ne pas suffire.

Ces articles fourniront sans aucun doute une lecture fascinante et, bien sûr, pourront fournir de nouvelles perspectives sur les connaissances et les discours politiques. J’invite donc nos lecteurs à profiter de cette édition de la revue.
Exorcising the scourge of corruption in Africa

Amos Sawyer

Abstract

Corruption remains a scourge to Africa’s development process, undermining its potential for socioeconomic and political transformation, along with its capacity to compete with other regions of the world. The paper analyses the challenge of corruption in Africa, and argues that weak institutions and processes of state governance produce perversities, among which are corrupt acts. But weak institutions and governance processes do not become strong all by themselves; they require deliberate actions, interventions and strategic direction from leadership to reinforce their capacity, especially in eschewing the vices of corruption. Key institutions such as political parties, legislatures, judiciaries and civil societies are central in the fight against corruption in Africa, as elsewhere in the developing world.

Key words: corruption, institutions, state governance, transformation, Africa
Résumé

La corruption reste haineuse pour le processus de développement de l’Afrique, tant elle sape non seulement son potentiel de transformation socio-économique et politique, mais aussi sa capacité à compétir avec les autres régions du monde. Le présent article analyse le défi de la corruption en Afrique et soutient que les actes de corruption sont l’une des perversions qui résultent de la faiblesse des institutions et des processus de gouvernance étatiques. Mais les institutions et les processus de gouvernance faibles ne deviennent pas forts par eux-mêmes ; ils requièrent des actions délibérées, des interventions et une direction stratégique du leadership pour renforcer leur capacité, en particulier, à esquiver les vices de la corruption. Des institutions clés comme les partis politiques, le pouvoir législatif, le pouvoir judiciaire et la société civile sont indispensables à la lutte contre la corruption en Afrique, comme ailleurs dans le monde en développement.

Mots-clés : Corruption, institutions, gouvernance de l’État, transformation, African.
Introduction

Over the past 20 years, we in Africa have become preoccupied with the question of quality of governance in the various countries on our continent. We have struggled to end autocratic government, entrench constitutionalism, establish independent legislatures and judiciaries, introduce electoral democracy, and allow space for civil society. We have introduced market reforms, and are now seeking to transform our economies through industrialization to raise the living standards of our people.

The results achieved thus far have been positive, though uneven. In Southern Africa, as elsewhere on the continent, multiparty electoral democracy has been established in many countries and through subregional cooperation, and a strategy for transformation through industrialization has been agreed to and is being implemented.

We are very pleased that our African regional organizations are playing an indispensable role in the enhancement of democracy and development on our continent. With the support of these organizations – especially the African Union, the Economic Commission for Africa (ECA) and the African Development Bank, among others – we have been able to review and revise our orientation and strategies for democratization and development in the face of changing global realities, and have developed new regional frameworks for both. We have shifted our thinking about cooperation among African countries from a principle of non-interference and absolute sovereignty to a principle of non-indifference and interdependence. Our development strategy has shifted from exploiting our comparative advantage in natural resource production to exploring our competitive advantage in industrialization through regional integration. We are striving to unleash the human resources of our people, and to make our people meaningful participants in the development and democratic processes in our various countries and subregions.

At the continental level, Agenda 2063: The Africa We Want is such a simple but powerful expression of aspirations that all Africans can understand and be made a part of.
As such, it is important to build upon our progress by examining one of the major obstacles that stands in the way of strengthening our governance processes and accelerating our development towards transformation.

**Scourge of corruption**

Corruption is a monster that can affect all of our institutions and processes of governance. Some of our leaders in all realms of governance – public and private sectors, cultural and social – have also been infected by it. Corruption undermines economic development initiatives, perverts decision-making processes, shifts resources away from productive uses, and contributes to the proliferation of poverty and disease in our societies.

The findings of various studies on the nature of corruption and how corruption undermines development initiatives in various countries of our continent are very well known. Findings of studies from the region have shown how questionable friendships and investments by leaders have threatened to capture the state; how, in processes of democratization, emerging political elites were beginning to nurture a public service culture that did not sufficiently value accountability, as these leaders alternated themselves in power and misused state resources among themselves; and how, even where democracy is said to be in the state of consolidation, electoral laws are flouted and elections expenses are not disclosed, as required by law.

Studies have further shown how, in some places, state institutions were engaged in the illegal sale of state identity and travel documents; how financial relations with multinational corporations are not fully disclosed; and how accountability institutions such as investigative agencies are sometimes used as weapons against political opponents.

I will not repeat all the findings of studies on corruption on our continent, because others have already discussed them – except perhaps to add that corrupt practices are not unique to any region of Africa or any part of the world. In my own country, Liberia, the perception of corruption is high and the concrete examples of corruption are numerous and of great concern. Many of the glaring corrupt practices date back to our previous administration. Our former President, before leaving office, even lamented that one of her
greatest failures as President was her failure to effectively tackle corruption, which she called a vampire.

All of the authoritative studies on corruption recommend that we adopt a holistic approach to combating corruption, owing to the magnitude of the impact: especially the international dimensions of corruption and the nature of the linkages between local, national and international institutions and actors, in the occurrence of corrupt practices, as well as in combating corruption.

To formulate a holistic approach to combating corruption, we have to begin by deepening our conceptualization of corruption. We have to understand how institutional flaws can produce perverse incentives, and how actors can pervert weak institutions to achieve outputs and outcomes that were not intended when those institutions were conceptualized and designed. We have to see corruption as a perversion that is pervasive in all aspects of our system of governance – political, economic, social and cultural; and at all levels of governance – local, national and international. We have to understand how synergies among weak institutions and malfunctionality among levels of governance can make corruption sustainable and resilient. This is how corruption becomes a culture.

Thus, the fight against corruption has to be seen as an enduring struggle to improve the quality of governance in all domains of governance, and at all levels of governance. This is what a holistic approach in combating corruption entails.

Let me say that the synergies I am talking about do not only develop among government institutions, but within all realms of governance, such that media, civil society, religious organizations and others in various domains of governance can become complicit.

The quality of governance has to do with ensuring that the institutions and processes of governance and the actors involved in governance perform their various duties and responsibilities with accountability and transparency, and in a manner that is inclusive and participatory.
In the sections below, I will share my thoughts regarding the place of a few institutions of governance in combating corruption as manifested in African countries today.

**Political parties**

Let me begin with political parties. Political parties are the instruments through which leaders of the executive and legislature are selected. They mobilize human and material resources to elect leaders. Political parties advance ideologies and formulate platforms upon which they harness the support of the people and govern the state. Political parties either build coalitions that bring people of various perspectives and backgrounds together to exercise power, or pull people apart and marginalize groups of people. They are among the institutions that exert the most pressure on leaders, for better or for worse. My sense is that we need to pay more attention than we do now to the level of accountability, transparency and the inclusive nature of political parties, in view of the critical role that they play in governance.

Rules of political parties pertaining to their internal governance, selection of leaders and candidates, the role of women in governance, the nurturing of youth, the nature of party ideology, the strategies for mobilizing funds and the expenditure of funds, among others, directly affect the quality of governance, not only of political parties themselves but the quality of governance in the entire political system and in the subregions of our continent.

When we look at Southern Africa, we see that multiparty systems have been established in almost all countries of the Southern African Development Community (SADC). In many, however, multiparty systems are characterized by the existence of a historically dominant party. This is understandable in view of the struggles for liberation that those political parties led. Nevertheless, there is need for constant examination of how the circumstance of a dominant political party operating in a multiparty system is impacting accountability of its members, both in the party and in government, and the extent to which the party’s ideology is promoting tolerance, democratization and pluralism, among other factors that are essential to good governance and to combating corruption.
The African Union, ECA, and other appropriate organizations that are already engaged with political parties seeking to strengthen their democratic and developmental credentials, are encouraged to intensify initiatives to promote good governance and to fight against corruption through political parties and political party systems.

**Legislatures**

Let me also raise the issue of legislative oversight of executive action. This is another important instrument to promote accountability and good governance in the implementation of public policy in democratic systems of governance that are characterized by the separation of powers. Parliaments’ oversight powers typically include mandatory review of the budget and of appropriations; review of expenditures; and authorization of audits and investigations of questionable executive actions. Many of these powers are often entrenched in constitutions or enacted by statutes. But legislative oversight is not always as strong and effective as required to sustain good governance. Besides factors such as the low staff and material capacity of legislative committees, other obstacles are often found in the nature of the governance environment, where the legislature is dominated by the ruling party, and the ruling party is dominated by the President – and, more important, the commitment to promoting accountability is weak or sporadic.

There are situations in Africa where legislators over time develop a perverse solidarity among themselves across party lines, and arrogate to themselves certain special privileges that are not conferred by constitutions or covered by codes of conduct. They raise their salaries and benefits unreasonably and disproportionately, claim other privileges, and behave in ways that are not exemplary. As a consequence, they not only undermine their own authority to promote good governance, but further corrupt the system of governance. In my view, there needs to be a certain agreed formula for setting the salaries and benefits of legislators in Africa. Such a formula should take into account the country’s economic challenges, the size of the budget, the ratio of payroll costs to development expenditure, the salary scale of civil servants and other factors, such that legislative salaries and benefits are aligned with other expenditures. Research that would produce a generic formula should be supported at the national and regional levels of governance. This issue needs to be discussed widely in Africa.
In short, we need to intensify and elevate the conversation about the relationship between political parties, especially ruling parties and legislatures, in the promotion of good governance. Again, regional development institutions such as the African Union and ECA can take the lead.

Executive

Let me turn briefly to the issue of the exercise of executive power in the fight against corruption. When we look at the executive, and how the proper use of executive powers can promote good governance, we must first come to terms with the reality that executive power is typically vested in a single individual and the levers available to the executive for exercising that power are many. Therefore, opportunities abound for the executive to do good things that can have cascading effects throughout the society. Equally so, the failures and perversities that could result from the abuse and misuse of the institutional and individual prerogatives of the executive can do greater harm in the governance system than any other single source of governance authority.

Misuse and abuse of executive power can immediately undermine the integrity of public institutions, frustrate public servants, and encourage hostility towards honest public servants and public institutions that try to do their jobs properly. The cascading effects of executive corruption can go all the way down to the lowest levels, allowing those who engage in petty corruption to grow comfortable in their actions. Safeguarding the executive against corruption is absolutely critical to reducing corruption in governance of the state and promoting good governance in other sectors of society.

In recent years, honorific as well as substantive financial incentives have been offered to Presidents for good performance. This is what the Ibrahim Prize for Achievement in African Leadership is about. I find it disappointing that only a few African leaders have risen up to the standards required by the Mo Ibrahim Foundation leadership initiative. What more can we do to provide incentives for good governance by African leaders?

I have argued elsewhere that African leaders, especially Presidents, should be encouraged, and even assisted where necessary, to prepare themselves while in office for life after office. This is particularly important now that term limits have become widely accepted and are enshrined in constitutions and statutes.
Leaders who do not prepare for leaving office are likely to be reluctant to leave office and could imperil the democratic order and undermine efforts to promote good governance. African think tanks should be encouraged to and supported in assisting African leaders in organizing worthwhile civic and humanitarian projects that would enable them to live with dignity and relevance after office, and contribute to the further development of their societies and of Africa at large.

Public service institutions

Let me turn to the public service institutions of African countries. Public service institutions, including the civil service, are the machinery for the delivery of services. The challenge is to strengthen their professionalism, autonomy and merit-based structures; to instil in them, through knowledge and demonstrated leadership, a pro-development ideology or mindset, and a commitment to the execution of our development agenda, without demanding from them unflinching partisan loyalty. Unfortunately, there is a troubling practice of treating civil service positions as sinecures or rewards for the party faithful. This practice seems to be growing in many African countries and needs to be curtailed.

With respect to the accountability institutions that have been created specifically for combating corruption, they are of recent vintage. Some of them operate exclusively under the mandate of the executive, and the quality of support they receive depends on how seriously they are taken by the government. We are pleased that, in Botswana, these institutions are taken very seriously by the government and we understand they are functioning properly. This is not to say they do not have challenges. Across Africa, however, there is a need for anti-corruption institutions to come together frequently at the subregional level, and draw from the experiences of one another. It is also important that civil society organizations and the media within various countries support and are seen to be supporting the anti-corruption institutions. In my view, legislatures should be more involved in oversight of the performance of these institutions.
African civil society

African civil society organizations need to be given more space and responsibility in combating corruption. They need to be empowered to take the lead in building the knowledge base and skills of the people of African countries for more informed participation in ensuring accountability and transparency in governance. Mechanisms for participatory budget-making and analysis, for public expenditure tracking, and for social auditing and lifestyle auditing, among others, should be led by civil society organizations, or their involvement should be substantial. Our governments need to provide the conducive governance environment, and civil society organizations need to develop a stronger spirit of cooperation among themselves on such issues. There are subregional, regional and non-governmental organizations that can provide technical support to civil society organizations in these initiatives.

African Peer Review Mechanism

Finally, let me also stress that, in my view, the African Peer Review Mechanism (APRM) has potential for improving the quality of governance on the continent beyond the solid contribution it is currently making. The Forum for Former African Heads of State and Government (Africa Forum) is a unique platform for critical but respectful and collegial review of the performance of African governments. The APRM can also broaden the opportunity to get the people of the various countries of Africa more involved in the APRM processes by invigorating civil society’s participation.

As the APRM has become an integral organ of the African Union architecture, we hope more member states of the African Union will accede to the organization. At present, 37 of Africa’s 54 countries have acceded to the APRM, and of that number, only 17 have engaged in the first country review exercise. The APRM needs Botswana to share its experience in good governance with all its members.

Concluding remarks

Let me close by returning to my basic point: that weak institutions and processes of state governance produce perversities, among which are corrupt
acts. But weak institutions and processes of governance do not become strong all by themselves. It takes leaders who respect the rule of law and have the strength of character, the vision and will to do the right thing. It also takes the combined and sustained efforts of actors at the local, national, subregional and regional levels, and in all domains of governance – political, cultural and social – to develop a culture of good governance and sustain the fight against corruption.

This conference is an important step in the right direction, because it enhances our conversation about corruption. We cannot combat corruption if we are timid about talking about it. Botswana is demonstrating that we are not. We applaud Botswana’s continuing leadership in this fight, Mr. President. We applaud the efforts of all governments – and subregional, regional and global actors – that are making serious efforts to combat corruption. But we must constantly remind ourselves that there is still more work to be done.

Note

Public spending on governance institutions and development effectiveness: evidence from selected Southern African countries

Benjamin Mattondo Banda

Abstract

The relationship between public spending on governance institutions and the control of corruption is critical to economic growth. This study confirms that low expenditure on governance institutions reduces the impact of fiscal policy on economic growth. Economic development is good for corruption control, while transparency and high-quality institutions provide an enabling environment for reducing corruption. However, over the years, corruption control has deteriorated, and that deficit presents a new challenge to corruption control. Countries in the subregion could benefit from higher-quality foreign direct investment, which could increase their productive capacities and reduce the burden of external debt.

Key words: development, public spending, corruption, governance, transparency, fiscal policy

JEL classification: O10, H50, E02
Résumé

La relation entre les dépenses publiques consacrées aux institutions de gouvernance et le contrôle de la corruption est indispensable pour la croissance économique. La présente étude confirme que de faibles dépenses dans la gouvernance des institutions réduisent l’impact de la politique fiscale sur la croissance économique. Le développement économique est bénéfique au contrôle de la corruption, de même que la transparence et la qualité des institutions créent un environnement favorable à la réduction de ce fléau. Cependant, au fil des ans, le contrôle de la corruption s’est détérioré, tant et si bien que combler le fossé créé représente un défi supplémentaire pour le contrôle de la corruption dans les pays de la zone. Les pays de la sous-région pourraient bénéficier d’investissements directs étrangers de meilleure qualité, susceptibles d’accroître leurs capacités productives et de réduire la charge de la dette externe.

Mots-clés : développement, dépenses publiques, corruption, gouvernance, transparence, politique fiscale

Classification JEL : O10, H50, E02
Introduction

When budget allocations to governance institutions are too low, the quality of development outcomes diminishes with every additional unit of public expenditure. The efficacy of public spending is reduced by a combination of corruption, bad public policies and weak institutions. Although transparency in budget allocations may lead to a better development impact, high-quality governance institutions create an enabling environment for efficient public funds utilization. Countries with high levels of corruption invest more in physical capital compared with social infrastructure and services such as education and health. In the presence of rent-seeking behaviour, corrupt officials have no incentive to use available public funds to build productive economic infrastructure, or capital expenditures might be exaggerated relative to the desired development outcomes or level of service delivery (de la Croix and Delavallade, 2008).

Most fiscal response studies find that the impact of government expenditure on economic growth is positive but weakly significant (Morrissey, 2015). A few studies acknowledge that governance quality affects the effectiveness of public expenditure (Tolmie, 2008; Salifu and Abdulai, 2018). Governance is associated with the level of corruption (measured by various means) and the quality of bureaucratic processes. For example, Rajkumar and Swaroop (2008) estimated the elasticities between development outcomes and improved governance at various levels. Their results are hinged on rather loose links among public spending, governance and development outcomes. They argued that public spending on health and education was unlikely to lead to better outcomes in poorly governed countries. However, corruption is a key factor that severs the link between public spending and development outcomes. Critically, the quality of governance is a direct consequence of the level of corruption.

In Africa, corruption is high in weak states that are experiencing conflict or that have just emerged from conflict situations. Countries that are dependent on foreign aid or that have a high export concentration in natural resources are also prone. The size of government spending could reflect state capture by elites, particularly through certain components that are highly susceptible to corrupt practices (D’Agostino and others, 2016). While some studies suggest that checks and balances might increase with the size of government (LaPorta
and others, 1999), the contrary might prevail if the distribution of resources to institutions charged with the control of corruption is not favourable. Corruption by nature affects transparency, and by undermining institutions, programmes are not well implemented, and the quality of outcomes declines (Chuku and Onye, 2019). It also lowers private investment and economic growth in countries where bureaucratic regulations are cumbersome (Mauro, 1998; Ghosh and Gregoriou, 2008).

Against this background, this paper assesses the link between public expenditure on governance institutions and the effectiveness of anti-corruption institutions in Southern African countries. It is proposed that specific budget allocations to governance institutions contribute to reducing corruption and to enhancing developmental impact of government expenditure. Also, a government’s expressed commitments to governance – improving governance institutions – is less likely to contribute to the crowding out of private investment associated with productive sectors. These propositions support the argument that institutional inefficiencies that foster corruption and imprudent public spending explain the weak development outcomes in developing countries.

The contribution of this paper to the literature on corruption is its focus on the interaction between governance institutions and development outcomes. The paper intentionally used a simple quantitative approach to explain how the development impacts of public expenditure improve with expenditure on governance institutions and vice versa. Governance institutions encompass those that have the primary mandate of fighting corruption and organized crime, and others that support the fight, including the legislature, law enforcement and the judiciary. Development impacts must be measurable and should have clear links with the quality of public institutions and public attitudes towards corruption. In a cross-country setting, country-specific factors may prove more prominent than styled facts about governance averaged over several indicators.

The rest of the paper is organized as follows: (a) the section following this introduction discusses the literature on corruption and development outcomes; (b) the third section presents the empirical model and data used to explain the relationship between budget allocations to governance institutions and development outcomes; (c) the fourth section discusses
econometric results; and (d) the fifth section concludes the paper with some policy recommendations.

**Corruption and development outcomes**

The literature on corruption is not yet settled on the measurement of a covert act that does not lend itself to direct public observation. Indicators of corruption, governance, transparency and accountability are often criticized for being subjective – based on perceptions. Composite indicators use both qualitative and quantitative data to improve the accuracy of the measurement. Owing to the lack of literature on corruption and development outcomes, a theoretical model is a crucial starting point for understanding the issue. Because of uncertainty about the true nature of the relationship between public expenditure and development outcomes, two main hypotheses dominate the literature: (a) the conservative argument that public spending has distortionary effects on markets, crowding out private investment and/or altering the consumption of public goods and services such as health, education and infrastructure; and (b) the alternative view that development outcomes (usually measured by the gross domestic product) are a function of actual spending on public programmes, with corruption treated as leakage or inefficiency.

Studies that have claimed to establish the direction of causation between corruption and development outcomes are information-intensive and may not be worth pursuing unless there is a cause to suspect that causality is bidirectional between governance (institutional quality) and outcomes (Gui–Diby and Mösle, 2017). The many varied definitions of transparency and corruption also mean that results from one study cannot be generalized or compared with others (Tolmie, 2008). Furthermore, the perception indices used may not be suitable for explaining the progress countries are making in their anticorruption drives (Mungiu–Pippidi and others, 2013).

The prevailing view in the literature is that corruption impedes economic growth by discouraging domestic investment and foreign direct investment, and by distorting the structure and size of government expenditure. The “greasing of the wheels” effect may apply in transition economies where institutions are less effective. Consequently, corruption is an essential and fundamental determinant of investment (D’Agostino and others, 2016).
The interaction between government expenditure and corruption is greater when expenditures are compromised due to bureaucratic mechanization or through the predatory behaviour of officials. Certain categories of government expenditure are especially prone to such abuse. In the presence of rent-seeking behaviour and corruption, public officials have no incentive to use available funds for productive purposes, or the amount of capital expenditure might be exaggerated relative to the impact of the outcome achieved or service delivered (De la Croix and Delavallade, 2008). Corruption is rampant in unconstrained discretionary expenditures and when public procurement is done through uncompetitive bids (Mungiu–Pippidi and others, 2013).

Giorgio D’Agostino and others (2016) used an endogenous growth model in which infinite live agents maximize utility from the choice of public services that enter their household production functions. Corruption is treated as a proportional tax on income, reducing the number of public services available to the individual. Bureaucrats cause systemic corruption in sectors under their purview by creating an impression of an insufficient supply of public services. To show that corruption affects the poor more, Justesen and Bjørnskov (2014) used a micro-level economic model to demonstrate that corrupt bureaucrats extract bribes in return for public services under their control. In this framework, the willingness to pay a bribe to access public services is like insurance – it increases with risk and income. The existence of alternative service providers, including better public institutions at a positive or zero cost, intervenes by giving individuals an exit option from paying bribes to corrupt officials.

Some of the factors behind government corruption are the existence of corrupt societies, corrupt leaders, and lack of fear of punishment (Saha and Ben Ali, 2017). A strong relationship can be established between development outcomes and governance, but it is incorrect to assume that corruption is more prominent in countries with low incomes because of their underdeveloped institutions. For example, Mungiu–Pippidi and others (2013) cite a study that found that 79 per cent of Europeans in 27 European Union member countries agree that corruption exists in their national institutions, and almost half of them believed that the level of corruption had risen. While the incorporation of new members with unfinished transitions, and economic crisis may have influenced the findings, the same study also observed that old European Union members had regressed. In all circumstances, the efficiency
of anti-corruption institutions has an impact on the level of corruption in a country. Corruption is also deemed higher in economies dominated by a few firms or whose trade policies shield domestic firms from international competition (Ghosh and Gregoriou, 2008). Fighting corruption is costly because a sound institutional framework, rule of law and good leaders are needed to effectively eradicate corruption.

Corruption and its causes are not uniform among countries, hence it cannot be determined a priori that its level is higher in the least developed countries and lower in developed countries. There seems to be consensus in the literature that certain components of government expenditure, especially capital expenditure, are prone to corruption. Although some studies assume there is no corruption in current spending – for example, Ghosh and Gregoriou (2008) – it might be useful to determine empirically the components of government spending that are channels of corruption, because any forms of payment – including wages, salaries and transfer payments – can be used to siphon public funds in other countries (Mauro, 1998).

Other studies recommend the use of behavioural models to understand the incentives of corrupt officials, which could be economic, political or social (Justesen and Bjørnskov, 2014). Money has a higher marginal value in poorer nations, but bribes affect both takers and givers, regardless of their primary motivations. Technically, the overall impact on the economy is either negative or positive, depending on whether the bribes grease the wheels or put sand in the wheels of business. Some studies have even argued that corruption may increase with income in the early stages of development (Saha and Ben Ali, 2017).

Anti-corruption strategies depend heavily on strong governance systems, the competence of public systems, and schemes that promote transparency and accountability. Institutions shape policy and influence governance quality through the design and implementation of policies (Poverty–Environment Partnership, 2013). Clarity, credibility, reliability and transparency in procedures for long-term public programmes are critical to reducing uncertainty and risk to investments in an economy. Rules and strong institutions are also necessary for continued investor confidence, which boosts foreign direct investment and trade (PAGE, 2014; UNEP, 2015).
The data on corruption control are very limited, and the body of evidence so far has failed to demonstrate any meaningful relationship between public expenditure on institutional structures for checking corruption and the level of corruption. Mungiu–Pippidi and others (2013), for example, argue that having more corruption cases opened does not necessarily imply that a country is more corrupt; rather, the anti-corruption institutions are more active and effective in enforcing laws against corruption. Similarly, fewer convictions do not necessarily mean failure because corruption may also weaken other institutions that play a role in the fight. The judiciary, for example, is probably where the struggle against corruption is greatest. However, the underfunding of frontline anti-corruption institutions such as the police and other law enforcement agencies has a greater impact.

**Empirical model**

It is proposed that specific budget allocations to governance institutions boost the effectiveness of anti-corruption programmes and, by extension, development outcomes of fiscal policy. The government’s expressed commitment to governance, such as through the budget vote, is unlikely to discourage private spending associated with productive investment. This proposition partially contradicts the literature that regards inefficiencies in government institutions as enablers of corruption and imprudent spending, which are associated with poor outcomes in developing countries.

The empirical model assumes that development outcomes are measurable and linked to public spending. Governance quality enhances the effectiveness of public expenditure (Tolmie, 2008). In this framework, the development impact of fiscal policy improves with expenditure on governance institutions and vice versa. The empirical model is as follows:

$$y_{it} = \alpha_0 + \alpha_1 G_{it}^P + \alpha_2 CPI_{it} + \alpha_3 FDI_{it} + \alpha_4 D_{it}^P + \mu_{it}$$  (1)

Where $y_{it}$ is the annual growth of income of country $i$ in year $t$, $G_{it}^P$ is an estimate of government spending on public administration, including on governance institutions, $CPI_{it}$ is the control of corruption index, $FDI_{it}$ is foreign direct investment, $D_{it}^P$ is domestic credit provided by the financial sector and $\mu_{it}$ is an error term.
Anti-corruption measures improve with per capita income, but worsen with certain categories of government expenditure. Furthermore, raising public debt to fund expenses and foreign investment in some sectors may worsen corruption. This relationship is represented as follows:

\[
CPI_{it} = \beta_0 + \beta_1 y^P_{it} + \beta_2 FDI_{it} + \beta_3 G^P_{it} + \beta_4 DS_{it} + \beta_5 t_{it} + \beta_6 D^P_{it} + \epsilon_{it}
\]  

(2)

Where \(y^P_{it}\) measures growth in per capita income of country \(i\) in year \(t\), \(DS_{it}\) is the debt service relative to exports, \(t_{it}\) is a contemporaneous time variable and \(\epsilon_{it}\) is an error term.

Data for estimation were obtained from the World Bank’s World Development Indicators and the Worldwide Governance Indicators databases. World Development Indicators report aggregate and individual indicators for six dimensions of governance: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. Most of the indicators were not available before 1996 or after 2016. Furthermore, not all member states of the Southern African Development Community (SADC) release data on government expenditure by function. Eventually, Lesotho and Zambia were excluded from the sample because they had incomplete data.

A panel regression of either equation (1) or (2) independently would ordinarily lead to biased and inconsistent estimates, due to endogeneity between corruption and economic growth. A two-stage least squares model is the most suitable estimation method. The estimation framework adopted in this paper is a general framework that controls for country and time effects. However, owing to small sample problems, lagged differences of the endogenous variables are not introduced but, instead, the Hausman test is used to select between fixed effects and random effects specifications.

Results

In the economic growth equation, all the variables are significant except for foreign direct investment (Table I). In terms of signs, the control of corruption, foreign direct investment and the debt service ratio have a
positive impact on economic growth. It is striking, however, that government expenditure and domestic credit provided by the financial sector have negative signs. The results imply that the fight against corruption is paying off in Southern African countries. This is consistent with the recent high-profile exposure of corruption even at the highest political levels in several countries in the subregion.

Foreign direct investment has the expected sign. Although corruption hinders investment in emerging economies, the relationship between the control of corruption and foreign direct investment is not the same as that between corruption and foreign direct investment. The results also show that debt service ratios have declined considerably, with growth responding positively. The subregion’s trade balance, tilted by commodity exports and prudent macroeconomic management, has witnessed a relative reduction in external debt-to-export ratios. Some countries encountered an uptick in external debt, but debt burdens were deflated sufficiently by low-interest rates globally, and huge reserves accumulated on the back of commodity market booms.

Table 1: Estimation results – 2SLS (IV)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Equation 1: Economic growth</th>
<th>Equation 2: Control of corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control of corruption</td>
<td>5.062a (2.204)</td>
<td>0.018b (0.005)</td>
</tr>
<tr>
<td>Government expenditure (mainly social and</td>
<td>-0.218a (0.069)</td>
<td>0.018b (0.005)</td>
</tr>
<tr>
<td>institutional administrative overhead)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.001 (0.047)</td>
<td>0.001 (0.004)</td>
</tr>
<tr>
<td>Domestic credit provided by the financial</td>
<td>-0.032b (0.011)</td>
<td>0.003b (0.001)</td>
</tr>
<tr>
<td>sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt service ratio</td>
<td>0.154a (0.076)</td>
<td>-0.035b (0.006)</td>
</tr>
<tr>
<td>Per capita GDP growth</td>
<td></td>
<td>0.004 (0.006)</td>
</tr>
<tr>
<td>Time dummy</td>
<td>-0.028b (0.005)</td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>10.740b (1.761)</td>
<td>0.798b (0.272)</td>
</tr>
<tr>
<td>Number of observations</td>
<td>206</td>
<td>206</td>
</tr>
<tr>
<td>Average observations per group</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

Note: p-value significance level (ap< 0.05; bp<0.01).
A Keynesian argument does not hold for the economies of Southern Africa, as government expenditure and credit provided by the financial sector do not significantly contribute to economic growth. One of the reasons could be the burden of social sector transfers, notably in Botswana and South Africa. The results also confirm the proposition that the low expenditure on governance institutions reduces the effectiveness of fiscal outlays with respect to development outcomes, and the development impact diminishes over time regardless of whether there is transparency in public budget allocations.

In the rest of the subregion, a significant proportion of government expenditure is absorbed by consumption that does not have an immediate impact on economic growth. Some countries’ domestic production capacities are so low that any increase in government expenditure only raises the demand for imports originating outside the subregion. Moreover, domestic credit provided by the financial sector fuels unproductive consumption and inflation, but not production.

Further analysis is needed, however, to better understand the distribution of credit to production sectors. A related issue is whether the allocation of credit to the private sector is associated with corruption. Structurally, the model cannot conclusively prove a connection between credit allocation to production sectors by the financial sector and corruption. However, the opposite signs on domestic credit in the two equations reported in table I suggest the need for further analysis.

Turning to the control of corruption, all variables are significant except for foreign direct investment and per capita gross domestic product (GDP) growth. As expected, government expenditure has a positive role to play, especially since the social sector and institutional outlays are significant in Southern African countries. Corruption control also improves with per capita income growth, but the variable was not significant. However, the results support the view that economic development is good for corruption control. Better policies and high-quality institutions cutting across the economic, social and governance domains have all been credited for the steady economic growth and macroeconomic stability in the countries of the subregion.

The results are consistent with the argument in the literature that some categories of government expenditure are prone to corruption. In the
subregion, the skewed outlays towards the social sector and institutional administration prove to be positive for governance and development outcomes. Nonetheless, the perception of corruption in those transactions lingers, as confirmed by the Corruption Perceptions Index (CPI). This is evident from the contemporaneous time variable, which shows that, over the years, corruption control has deteriorated – the subregion has become relatively more corrupt over time. A nuanced interpretation of this finding acknowledges the efforts of anti-corruption agencies in the subregion. These efforts may have altered perceptions captured by the control of corruption indices. Positive bias in the corruption index is very likely to occur with awareness about corruption, even when the underlying level of corrupt activities has not changed.

The results also show that debt presents a challenge for corruption control among the countries. This result is not surprising, considering the amount of debt the region is accumulating for infrastructure projects backed by commodities. There is a similarity with findings by Saha and Ben Ali (2017) that governments in resource-rich countries lack accountability and transparency when dealing with resource rents. Unlike tax revenue and government expenditures, some of the debts being contracted are not processed through oversight bodies. Moreover, commodity-backed transactions are known to be conduits of illicit financial flows – a typical consequence of corruption (African Union and ECA, 2015).

Furthermore, the debt structures of the countries in the subregion are increasingly more diversified, with official bilateral and multilateral creditors slowly losing dominance to other lenders, including China. There is a need for more prudent debt management to ensure debt sustainability within the absorptive capacities of the countries. The fast-growing debt stocks vis-à-vis GDP growth rates may reflect desperate manipulations by political elites to channel corrupt transactions.

It is also important to note that the positive coefficient on foreign direct investment demonstrates the confidence that foreign investors have in the institutions combating corruption, but governments need to do more to turn foreign direct investment into a realistic engine for growth. With an appropriate financing strategy, countries could balance external debt with foreign direct investment in key growth sectors of the economy.
Conclusion and policy recommendations

The relationship between corruption and economic development is strong. This study demonstrates that, when public expenditure on governance institutions is too low, the effectiveness of fiscal policy on development declines over time. While transparency in budget allocations does not guarantee good results, high-quality governance institutions create an enabling environment for efficient public funds utilization. Generally, countries in the subregion have intensified efforts to control corruption, and this is having a positive impact on economic growth.

The study exposed several concerns about the way countries are financing their development. First, the irrelevance of the domestic financial sector to the production sector’s contribution to economic growth is a missed opportunity. Second, there is a need to deepen the knowledge about the nexus between financial sector performance and corruption. Furthermore, although the impact of government expenditure is positive, the results are based on highly aggregated data, hence the concern about the transparency of the allocations. Only a few countries in the subregion report disaggregated data by function of government. This could be a sign that a significant proportion of government expenditure is discretionary, and consequently open to abuse.

Southern African countries should strengthen their oversight institutions and anti-corruption operations to track and trace corruption actions. There is also a need to strengthen institutional capacities to close all loopholes in public resource management, tax administration and international trade. The finding that external debt hurts corruption control should raise red flags on how the proceeds are utilized in the economy. Most of the debt is used for either infrastructure development or discretionary government expenditures, both of which are known to be conduits of corrupt transactions. The countries in the subregion could benefit from high-quality foreign direct investment that can increase their productive capacities and reduce the burden of external debt.

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References


Corruption, gender and firm growth: evidence from firms in Southern Africa

Selahattin Selsah Pasali, Gonzague Rosalie and Thokozile Ruzvidzo

Abstract

Based on recent firm-level data from nine countries in Southern Africa, we explore the relationship between corruption and firm growth through a gender perspective. The results are largely mixed and country-specific. Using subjective perceptions of corruption as our main proxy, we find that there is a negative relationship between corruption and firm growth in Southern Africa, but this relationship holds only for male-owned and male-managed firms. In low-corruption environments where firms do not consider corruption as an obstacle, we find no evidence for a differential in annual average employment growth rates between male-owned and female-owned firms. Our descriptive review and empirical results can help anti-corruption agencies to focus their efforts in country-specific high-priority sectors.

Key words: corruption, gender, firm performance, Southern Africa

JEL classification: K42, J16, 055
Résumé

Sur la base de données récentes issues d’enquêtes auprès des entreprises de neuf pays d’Afrique australe, nous analysons la relation entre la corruption et la croissance des entreprises selon l’approche genre. Les résultats sont assez variés et spécifiques à chaque pays. En utilisant comme variables les perceptions subjectives de la corruption, nous trouvons qu’il existe une relation négative entre la corruption et la croissance des entreprises en Afrique australe. Toutefois, cette relation ne prévaut que pour les entreprises détenues ou gérées par des hommes. Dans les environnements où le niveau de la corruption est si bas que les entreprises ne la considèrent pas comme un obstacle, nous ne trouvons pas de quoi soutenir une différence significative de taux de croissance annuel moyen de l’emploi entre les entreprises appartenant à des hommes et celles détenues par des femmes. Notre revue descriptive et nos résultats empiriques peuvent aider les agences de lutte contre la corruption à orienter leurs efforts vers des secteurs prioritaires spécifiques à chaque pays.

Mots-clés : corruption, genre, croissance des entreprises, Afrique australe

Classification JEL : K42, J16, 055
Introduction

The declaration of 2018 as the year of anti-corruption by the African Union on the theme “Winning the fight against corruption: a sustainable path to Africa’s transformation” raised the profile of corruption, as well as Africa’s governance deficit, as a critical risk factor against achieving the United Nations’ 2030 Agenda for Sustainable Development and the African Union’s Agenda 2063: The Africa We Want. After all, domestic resources in Africa are being lost to unproductive activities such as illicit financial flows in the magnitude of approximately $50 billion per year (ECA, 2016). Given that domestic resource mobilization is the leading issue in the debate in Africa on achieving structural transformation and the 2030 Agenda and Agenda 2063, it is paramount that African resources be used for productive and transformative use.

Corruption is a serious threat to the development agendas and takes many different forms, from state capture to petty bribery. While its different forms are considered illegal, there is also legal corruption (Kaufmann and Vicente, 2011). At the firm level, corruption can also take different forms, including internal and external corruption. Internal corruption refers to various types of misconduct within the firm by its employees, who may enrich themselves at the expense of the firm. External corruption refers to a wide range of illegal activities in firms’ external relations with other actors, including other firms, as well as governments. This paper contributes to the literature that has analysed corruption based on firm-level data, which is in turn based on proxies for external (administrative) corruption.

The economic implications of corruption have been widely debated in the past three decades. The theoretical and empirical literature has produced a variety of results from across the world in support of one of the following two hypotheses: (a) sand in the wheel (i.e. misallocation of resources that damage dynamics of entry and exit) – for example, Bardhan (1997), Dreher and Herzfeld (2005), Mauro (1995) and Wei (2000); or (b) grease in the wheel (i.e. lowering the cost of doing business) – for example, Vial and Hanoteau (2010), and Wang and You (2012). Notwithstanding regional and period differences, empirical results vary with respect to corruption’s negative and positive impact in the short and longterm, subject to various non-linearities.
At the microeconomic level, the negative impact of corruption on firm survival, growth and efficiency has largely been established in the literature (Harstad and Svensson, 2006; Bertrand and others, 2007; Fisman and Svensson, 2007). The relationship between firm ownership and corruption has also been subject to rigorous analysis (Calhoun, 2002; D’Souza and Kaufmann, 2013; Blagojević and Damijan, 2013; and Hanousek and others, 2017) with mixed results on the corruption propensity of foreign, domestic and state-run firms. Establishing causal relationships, however, is very difficult, as corrupt behaviour and firm performance are jointly determined. The study by Colonelli and Prem (2017) is among the few that have identified a negative causal relationship between corruption and firm performance in Brazil, investigating municipal level anti-corruption crackdowns. The authors showed that the “well-connected” firms restructure their inputs, invest and borrow more, and rely less on government contracts when such anti-corruption crackdowns happen. Hence, the authors established a positive relationship between firm growth and anti-corruption crackdowns. Corruption is also bad for innovation. Goedhuys, Mohnen and Taha (2016) show that firms’ innovative capacity decreases with corrupt behaviour, especially in contexts where there are strong institutions. A different non-linearity is captured by Wang and You (2012), whereby the positive impact of corruption on firm performance disappears in economies with higher levels of financial development. Such non-linearities in fact can bridge the gap in empirical studies that find diverging results.

Building on this three-decade-long literature, this paper investigates whether the relationship between corruption and firm growth has a gender dimension. There are various channels through which corruption could have gendered impacts on firm growth. First, the prevalence of corruption is not evenly spread out across sectors. There are certain sectors that are known to exhibit more corrupt behaviour, including those related to natural resources and construction. Gender differentials in firm growth may emerge to the extent that female firm owners enter such sectors and exhibit behaviours that are different from male firm owners. For instance, accessing various licenses and permits may require corrupt practices and lead to differences in firm growth. Another channel through which gendered differences may emerge is that the performance of firms in the informal sector may be affected by corruption more than firms in the formal sector. There could be explicit costs, such as bribes, to avoid inspections, or implicit costs, such as inability to access formal
finance. If firms owned by women are more likely to incur such costs than firms owned by men, one can again expect differentials in firm performance.

Unfortunately, the gender–corruption nexus has not yet been studied extensively at the firm level, either theoretically or empirically. To our knowledge, Hanousek, Shamshur and Tresl (2017) presented the first set of results that considered the corruption–gender nexus at the firm level. While they found a direct negative impact of corruption on firm efficiency, their results indicate that firms with female chief executive officers (CEOs) are less efficient than firms with male CEOs in high-corruption environments. They explain this gender differential by building on the literature that finds a lower propensity for women to receive or give bribes, women’s higher level of risk aversion, lower overconfidence and more pro-social attitudes (Swamy and others, 2001; Dollar and others, 2001). They therefore argue that women’s lower propensity to engage in corruption leads to their firms’ underperformance in high-corruption environments. Hence, hiring a male CEO in high-corruption environments becomes more strategic.

Against this background, the aim of our paper is to expand the knowledge base with empirical evidence from Southern Africa, and investigate the economic implications of corruption at the microlevel with a gender perspective. To our knowledge, this is the first attempt to look at this nexus based on firm-level data in Southern Africa. An additional contribution is that our sample largely includes small and medium-sized enterprises, and we focus on ownership rather than management. Firms constitute the backbone of any economy, and firm performance is crucial for the structural transformation and the long-term economic health of countries in the region. While there is ample evidence on the aggregate impact of corruption on economic indicators, notably economic growth and credit distribution, the evidence is much scarcer at the microlevel, which is crucial in the design of country-specific policies that can unleash the potential of the private sector.

The results found in the subsequent empirical analysis can provide country-specific pathways to deal with different aspects of corruption and its impact on firm performance. The first result is that Africa, let alone Southern Africa, is not the worst performer across the world. Asia and the Pacific, as well as the Middle East, have more countries with higher shares of firms reporting corruption as a major constraint. Second, corruption is prevalent in Southern
Africa in different forms in different sectors. Therefore, country-specific anti-corruption campaigns must target the sectors where firms report corruption as the biggest constraint. Third, there is no strong evidence for a gender differential in corruption perceptions. Female- and male-owned firms often report similar corruption perceptions. However, there is evidence for female-owned firms in the services sector complaining more about corruption relative to the same firms in the manufacturing sector. Fourth, our main empirical results point towards an interesting gender differential, namely, that male-owned or male-managed firms that consider corruption as an obstacle grow significantly more slowly than firms that do not consider corruption as an obstacle. We do not find any significant differential among female-owned or female-managed firms.

Among policy implications that can be supported by our research, the sensitivity of government contracts comes first. As governments spend considerable shares of their respective GDPs, public procurements stand out as a transformative tool, particularly for small and medium-sized enterprises. Yet it is such contracts that are also the most exposed to corrupt behaviour. There is also evidence for women having much less access to government contracts. Increasing transparency and accountability systems, along with affirmative action, can help female-owned firms in the region to gain access to government contracts and improve their investment rates and use of technology. The sectoral variation of corruption in each analysed country is substantial. Hence, it is paramount that member states first target the high-corruption sectors.

The structure of this paper is as follows: (a) the second section introduces the data and provides a descriptive overview of corruption in Southern Africa, followed by a descriptive review of firms in Southern Africa; (b) the third section introduces the empirical strategy and reports regression results on the corruption–firm growth nexus with a gender perspective; and (c) the fourth section presents the conclusion.

**Descriptive analysis**

The empirical analysis relies exclusively on firm-level data collected by the World Bank through its enterprise surveys. To our knowledge, this is the only publicly available and nationally representative data source to link firm
performance to corruption through a gender perspective. However, these surveys collect data only from registered enterprises in the non-agricultural economy. As such, informal and rural firms are not represented. While all members of the Southern African Development Community (SADC) have had at least one round of data in the 2009–2016 period, except for Seychelles, surveys preceding 2009 do not allow for sex disaggregation for firm owners, which forces us to exclude Mozambique and South Africa from our analysis. Therefore, we focus on Southern African countries that have data between 2013 and 2016. This leads to a sample of 4,500 firms across 9 countries in the region, including the Democratic Republic of the Congo, Eswatini, Lesotho, Madagascar, Malawi, Namibia, the United Republic of Tanzania, Zambia and Zimbabwe.

A first look at corruption in Southern Africa with firm-level data

There have been long-standing attempts at quantifying corruption. From the 1990s onward, quantitative measures of corruption started emerging within the overall framework of institutions and governance. The World Bank Group measures control of corruption, while Transparency International has a different measure. This section reviews several proxies measured at the firm level and aggregated to the country level.

Figure 1 provides a worldwide look at the prevalence of corruption based on firm-level data, which are first aggregated with weights to the country level and then to the regional level with unweighted averages. According to the enterprise surveys, bribery incidence is defined as the percentage of firms experiencing at least one bribe payment request during their operations and interactions with governments. Bribery depth, on the other hand, is defined as the percentage of public transactions – for example, over several licence or permit applications – where a gift or informal payment was requested. As such, bribery incidence and depth measure administrative corruption. The next two proxies on figure 1 are straightforward and asked directly to the firm managers or owners.

Focusing on the developing world with available data, Europe – that is, Central and Eastern Europe – and Latin America and the Caribbean appear to have the lowest bribery incidence across the world. The same applies to bribery depth and expectation of gifts to get things done. In the Middle
East, close to 30 percent of firms report having received requests for informal payments, and on average they have received such requests during one fifth of public transactions. Asia and the Pacific follow suit, with Africa ranked third as a region.

The final corruption proxy provides some interesting departures from the previous three. For instance, there is a large gap in Latin America and the Caribbean, where approximately 40 percent of the firms report corruption as a major constraint. This wedge may of course derive from subjective reporting and what firm owners specifically mean by corruption. For instance, while they may not have received any informal payment requests, they might consider the allocation of government contracts subject to severe corruption. Africa exhibits a similar pattern, while the Middle East hosts countries where on average over 50 percent of firms report corruption as a major constraint against their operations. Note that firms compare around 15 constraints in reporting the major constraint. When subjected to a regression framework,
the descriptive pattern observed in figure 1 remains valid. In terms of bribery incidence and depth, Africa, together with Asia and the Pacific and the Middle East, has a higher share of firms and public transactions with bribe requests. Expectations of gifts to get things done apply everywhere, except for Latin America. However, corruption as a major constraint emerges significantly in Africa, the Middle East and Latin America.

Focusing specifically on Africa, there are 15 countries where more than 50 percent of firms report corruption as the major constraint against their operations. These include Angola, Burkina Faso, Burundi, Chad, the Congo, Côte d’Ivoire, the Democratic Republic of the Congo, Egypt, Lesotho, Liberia, Mali, Mauritania, Mauritius, Morocco and the Sudan. Getting things done is also a challenge for many firms across the world. In Africa, there are five countries where more than 50 percent of firms confirm the expectation to provide gifts to get things done, including the Democratic Republic of the Congo, the Gambia, Guinea-Bissau, Liberia and Nigeria. An interesting finding is that female-managed firms in Africa report corruption as the major constraint, on par with similar firms in Latin America, while much smaller shares of female-managed firms in Asia and in Europe report corruption as a major constraint. On the other hand, male-managed firms in Africa report corruption being at significantly higher levels than other regions, except for Latin America and the Caribbean.

Across the developing world, based on data from 128 countries in the 2009–2017 period, there is weak evidence globally for gender differentials against firms managed by women in bribery incidence and bribery depth, while the remaining two proxies exhibit no statistically significant difference across gender. The first result, however, is largely driven by firms in the Asia and the Pacific region, with no discernible gender differentials in Africa over four proxies for corruption. Consequently, macro-level aggregates provide no evidence for corruption having a differentially higher prevalence for firms managed by women. However, management is only a part of the question. It is important that the ultimate decision-maker in the firm is identified at the level of analysis. Fortunately, ES identifies the main decision-maker of the firm by sex, which will be the critical variable to look for in the regression results in the following section.
Focusing on Southern Africa, Figure 2 presents corruption proxies for all SADC countries with available data. It is important to note that there are five countries with data preceding 2013, and therefore it is difficult to compare their results with the nine countries that are in our sample. These five countries include Angola (2009), Botswana (2009), Mauritius (2009), Mozambique (2007) and South Africa (2007). Notably, the Democratic Republic of Congo (2013) has the highest figures in a consistent way across all four proxies, reaching over 50 per cent of firms reporting corruption as a major constraint. Lesotho (2016) and the United Republic of Tanzania (2013) follow suit in this indicator with substantial departures from the first three indicators, particularly in the case of Lesotho. In Madagascar (2013), over 40 percent of the firms report informal payments and gifts being expected to get things done. It should also be noted that the Democratic Republic of Congo (2013), Madagascar (2013) and Malawi (2014), to a large extent, report similar results over four corruption proxies.

Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).
The country-level estimates may mask variations within countries across firm characteristics, including sex of the owner of the firm. Unfortunately, country-level aggregates estimated by the World Bank are only disaggregated by the sex of the manager of the firm. At the same time, most of the corruption proxies are not available at the firm level. Hence, in our descriptive review, we focus on the statistics shared by the World Bank that are disaggregated by the sex of the manager. There are important variations across gender. In Lesotho, bribery incidence is close to four times higher among female-managed firms relative to male-managed firms. The gender differential is even larger in regard to bribery depth. At the other extreme, Madagascar and Zimbabwe are dominated by male-managed firms that exhibit larger shares within their group than female-managed firms in bribery incidence and depth. It is rare that female-managed firms outnumber male-managed firms in reporting corruption as a major constraint. Namibia and Botswana are exceptions.

While corruption as the biggest constraint is a useful indicator to use, as Table I shows, firm-level data do not necessarily show much variation across and within countries. Seeking more variation leads one to consider the extent to which corruption is an obstacle. Table I summarizes the extent to which corruption is reported as a constraint by country.

Table 1: The extent of corruption perceptions based on firm-level data (2013–2016)

<table>
<thead>
<tr>
<th>Country</th>
<th>Is corruption the biggest constraint?</th>
<th>How much of an obstacle is corruption?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>None</td>
<td>Minor</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Eswatini</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>Madagascar</td>
<td>5%</td>
<td>35%</td>
</tr>
<tr>
<td>Malawi</td>
<td>11%</td>
<td>31%</td>
</tr>
<tr>
<td>Namibia</td>
<td>10%</td>
<td>53%</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>2%</td>
<td>15%</td>
</tr>
<tr>
<td>Zambia</td>
<td>3%</td>
<td>44%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>8%</td>
<td>24%</td>
</tr>
<tr>
<td>SADC</td>
<td>7%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Authors, based on World Bank Enterprise Surveys (www.enterprisesurveys.org).
First, corruption as the single biggest constraint exhibits the largest affirmative response in Eswatini, followed by the Democratic Republic of the Congo and Malawi. The share of firms in Lesotho, the United Republic of Tanzania and Zambia that consider corruption as the biggest constraint is lower than 5 percent.

At the far right end of Table I, we report the share of firms that report corruption as a severe constraint. Note that the discrepancy between the first and last column can be explained by the fact that the first one relates to a question that makes firm owners compare corruption with other constraints, such as finance and land, while the last column makes firm owners focus on corruption alone. Interestingly, Lesotho reports close to one third of firms reporting corruption as a severe constraint, followed by the Democratic Republic of the Congo and the United Republic of Tanzania. When the response to the first column is disaggregated by gender in a formal regression framework, significant gender differentials are found in the United Republic

**Figure 3: Sectoral distribution of corruption in Southern Africa (2013–2016)**

![Sectoral distribution of corruption in Southern Africa (2013–2016)](chart)

*Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).*
of Tanzania, Zambia and Lesotho, where female-owned firms report lower perceptions of corruption.

A critical factor in understanding the gender differentials in corruption perceptions is sectoral segregation. The subsequent section, where firm characteristics are reviewed, will show that female-owned firms in Southern Africa are largely in the service sector, particularly in wholesale and retail trade, as well as hotels and restaurants. This is a finding that is reminiscent of the whole of Africa, as well as Asia and the Pacific. Consequently, sectors with greater incidence of corruption could have more firms that perceive corruption as well.

Figure 3 presents the perceptions of firms on the biggest constraint against their operations in a relative manner. There is substantial variation across countries and figure 3 does not point towards a regional pattern. While the construction sector has more firms complaining about corruption relative to other sectors, in Madagascar the manufacturing and the wholesale and retail trade sectors emerge as the ones where a substantial share of firms report corruption as the biggest constraint. In Malawi, the colourful bar suggests that corruption perceptions are valid in most sectors, with construction representing the sector with the lowest corruption perceptions. When data are subjected to formal statistical tests, there is one statistically significant result in the region, in that the hotels and restaurants subsector within the services sector exhibits the least corruption perceptions relative to the manufacturing sector. While it is often the informal firms in the services sector that raise corruption as a constraint in their operations, it is interesting to find that there is evidence for the same relationship in the formal sector. For structural transformation in Africa, and particularly in Southern Africa, it is critical that relatively higher corruption perceptions in the manufacturing sectors be dealt with to improve efficiency, especially in Lesotho, Madagascar and Zambia.

Table II moves back to country-level aggregates and introduces four variables that directly or indirectly link with corruption and contribute to the formation of perceptions such as the time spent by senior management in dealing with government regulations, inspections by tax officials, requests for gifts, and informal payments and actual payments made by firms informally. While the last two indicators directly form corruption perceptions, the first two do not necessarily guarantee that firms will experience corruption in one
way or another. However, they both increase the interaction of firms with the administration, and thus increase the time span for observation. It must be noted that in the SADC region, senior management spent less than 10 percent of its time dealing with government regulations. There is substantial room for improvement, however, in Madagascar and Zambia. Making it easier to do business can also help to attract foreign direct investment, which is critical, especially considering the large financing gaps in the 2030 Agenda for Sustainable Development.

On average, slightly less than two thirds of formal enterprises had been inspected by tax officials 12 months prior to the survey. This reaches a maximum of 92 percent in the Democratic Republic of the Congo and a minimum of just over one third in Namibia. Inspections by tax officials are among critical opportunities for resources to be obtained from firms and their management. In the Democratic Republic of the Congo, almost 50 percent of the firms report that requests were made for gifts and informal payments during such inspections. Madagascar follows suit with over one quarter of firms reporting such requests. Finally, close to 40 percent of firms in the Democratic Republic of the Congo report that they have made informal payments during inspections.
Table 2: Immediate causes of corruption perceptions in Southern Africa (2013–2016)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of time senior management spent with regulations</th>
<th>Inspected by tax officials?</th>
<th>Request for gift or informal payment during inspection?</th>
<th>Any informal payments made?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic Republic of the Congo</td>
<td>6%</td>
<td>92%</td>
<td>47%</td>
<td>38%</td>
</tr>
<tr>
<td>Eswatini</td>
<td>3%</td>
<td>69%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>3%</td>
<td>67%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Madagascar</td>
<td>23%</td>
<td>56%</td>
<td>26%</td>
<td>7%</td>
</tr>
<tr>
<td>Malawi</td>
<td>9%</td>
<td>73%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Namibia</td>
<td>6%</td>
<td>36%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>4%</td>
<td>66%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Zambia</td>
<td>11%</td>
<td>64%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>5%</td>
<td>76%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>SADC</td>
<td>7%</td>
<td>61%</td>
<td>12%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).

Analysing these four variables by gender leads to mixed results. First, the higher the share of females in firm ownership, the higher the share of time spent by senior management on government regulations. This is a clear barrier set against women entrepreneurs. Second, firms managed by women are less likely to be inspected, by around 6 percent, relative to firms managed by men. Finally, there is no evidence for gender differentials in four variables relevant for corruption when the sex of the majority owner of the firm is used as the critical factor of analysis. Consequently, there is no evidence for gender differentials overall in more objective measures of corruption.

Statistically significant results emerge, however, when sectoral distribution is investigated. For instance, relative to manufacturing, there is evidence for lower informal payments made in the wholesale and retail trade sector, even though they are more likely to be inspected by tax officials across the region. The construction sector exhibits higher informal payment requests relative to the manufacturing sector.

Table III unpacks the depth of bribery. For instance, in the United Republic of Tanzania, 66 per cent of firms report that they are expected to make
informal payments to secure government contracts. In Southern Africa, there is evidence of a significant positive relationship between government contracts and informal payment requests. Among all areas where corrupt practices could take place, securing government contracts certainly has higher prevalence of informal payment requests in Southern Africa as well as in Africa overall (excluding North Africa), and the world at large. The transformative power of accessing government contracts is undeniable, especially in Southern Africa, where there is a strong positive association between government contracts and investment in fixed assets.

Table 3: Percentage of firms reporting having been expected to give gifts to obtain the following permits/licences

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Government contract</th>
<th>Operating license</th>
<th>Import license</th>
<th>Construction permit</th>
<th>Electrical connection</th>
<th>Water connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>2010</td>
<td>64</td>
<td>59</td>
<td>55.6</td>
<td>48.2</td>
<td>55.8</td>
<td>50</td>
</tr>
<tr>
<td>Botswana</td>
<td>2010</td>
<td>4.6</td>
<td>2.9</td>
<td>5</td>
<td>1.5</td>
<td>3.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>2013</td>
<td>51.9</td>
<td>47.1</td>
<td>52</td>
<td>57.8</td>
<td>43.9</td>
<td>54.1</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2016</td>
<td>31.7</td>
<td>2.2</td>
<td>3.4</td>
<td>2.2</td>
<td>3.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2013</td>
<td>44.7</td>
<td>45.7</td>
<td>37.6</td>
<td>11.2</td>
<td>13.3</td>
<td>20.3</td>
</tr>
<tr>
<td>Malawi</td>
<td>2014</td>
<td>33</td>
<td>16.6</td>
<td>26.7</td>
<td>34.5</td>
<td>25.3</td>
<td>27.3</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2009</td>
<td>9.1</td>
<td>0</td>
<td>0.9</td>
<td>15.9</td>
<td>0.5</td>
<td>0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2007</td>
<td>32.1</td>
<td>6.9</td>
<td>10.6</td>
<td>3.9</td>
<td>14.6</td>
<td>16.2</td>
</tr>
<tr>
<td>Namibia</td>
<td>2014</td>
<td>11.6</td>
<td>3.5</td>
<td>7.8</td>
<td>20.4</td>
<td>13.9</td>
<td>9.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>2007</td>
<td>34.2</td>
<td>0</td>
<td>2.7</td>
<td>0</td>
<td>6.7</td>
<td>4</td>
</tr>
<tr>
<td>Eswatini</td>
<td>2016</td>
<td>48.4</td>
<td>1</td>
<td>1.2</td>
<td>5.8</td>
<td>1.4</td>
<td>2.2</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>2013</td>
<td>66.2</td>
<td>17</td>
<td>5.1</td>
<td>31.4</td>
<td>25.3</td>
<td>20.4</td>
</tr>
<tr>
<td>Zambia</td>
<td>2013</td>
<td>27.5</td>
<td>7.6</td>
<td>6.7</td>
<td>13.6</td>
<td>14.8</td>
<td>43.3</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2016</td>
<td>21.1</td>
<td>9</td>
<td>7.6</td>
<td>9.2</td>
<td>32.7</td>
<td>0</td>
</tr>
<tr>
<td>All countries</td>
<td>2013</td>
<td>29.3</td>
<td>14.4</td>
<td>14.4</td>
<td>23.3</td>
<td>16.3</td>
<td>16.2</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>2013</td>
<td>35.6</td>
<td>18</td>
<td>17.3</td>
<td>26.2</td>
<td>23.6</td>
<td>24.5</td>
</tr>
<tr>
<td>SADC</td>
<td>2013</td>
<td>34.3</td>
<td>14.2</td>
<td>15.9</td>
<td>18.3</td>
<td>18.1</td>
<td>19.0</td>
</tr>
</tbody>
</table>

Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).

Consequently, there is evidence for substantial variation in the region as reported by firms. It is noteworthy to highlight that challenges remain in the Democratic Republic of the Congo and Madagascar, where subjective and objective indicators of corruption indicate in a consistent way the issues that are faced by firms. Before moving into the main empirical results, however,
it is necessary to review the key characteristics of the firms in the sample of this study.

**Descriptive review of firms in Southern Africa**

The enterprise surveys conducted by the World Bank present a great opportunity to review key firm characteristics in a comparable way in Africa with relatively recent information. The focus on the non-agricultural and urban economy, however, prevents us from estimating nationally representative statistics. This is indeed a great challenge in Africa, where agriculture is a labour-intensive sector that employs a majority of the rural population. Consequently, the estimates produced in this section should be taken with caution, as they exclusively reflect the characteristics of registered firms located in urban areas. Thanks to the focus of this study on the post-2012 period, microenterprises are also captured in the analysis, while enterprise surveys preceding 2013 largely capture firms that employ five or more employees.

Table IV introduces key firm characteristics for each country with available data, followed by sex disaggregation. Estimates for each country and SADC overall are based on weighted averages following the recommendations of the World Bank.

The sample consists of firms that were on average established in the late 1990s and early 2000s. On average, Zimbabwe has more deeply rooted enterprises relative to other countries. While the sample is exclusively based on registered businesses, it is the case for many firms that they were not registered when they first started their activities. A positive result is that these firms on average took less than one year and largely half a year to register their businesses. Looking at gender gaps, there is less than four years of difference on average in firm age between male- and female-owned enterprises. There is no statistically significant difference in years to formalize between female-owned and male-owned enterprises.
Table 4: Key characteristics of formal enterprises in Southern Africa (2013–2016)

<table>
<thead>
<tr>
<th></th>
<th>Democratic Republic of the Congo</th>
<th>Lesotho</th>
<th>Namibia</th>
<th>Madagascar</th>
<th>Malawi</th>
<th>Eswatini</th>
<th>United Republic of Tanzania</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>SADC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm age (years)</td>
<td>10.3</td>
<td>14.7</td>
<td>9.8</td>
<td>17.9</td>
<td>18.7</td>
<td>18.4</td>
<td>13.6</td>
<td>14.4</td>
<td>22.5</td>
<td>15.3</td>
</tr>
<tr>
<td>Years to formalize (years)</td>
<td>1.0</td>
<td>0.5</td>
<td>0.6</td>
<td>1.0</td>
<td>0.7</td>
<td>0.1</td>
<td>0.9</td>
<td>0.6</td>
<td>0.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Micro</td>
<td>4%</td>
<td>5%</td>
<td>2%</td>
<td>6%</td>
<td>6%</td>
<td>16%</td>
<td>5%</td>
<td>4%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>80%</td>
<td>68%</td>
<td>77%</td>
<td>58%</td>
<td>54%</td>
<td>62%</td>
<td>60%</td>
<td>70%</td>
<td>79%</td>
<td>60%</td>
</tr>
<tr>
<td>Medium</td>
<td>12%</td>
<td>20%</td>
<td>16%</td>
<td>24%</td>
<td>26%</td>
<td>31%</td>
<td>21%</td>
<td>21%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Large</td>
<td>3%</td>
<td>8%</td>
<td>4%</td>
<td>12%</td>
<td>13%</td>
<td>7%</td>
<td>4%</td>
<td>5%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Any female owners in the firm</td>
<td>15%</td>
<td>39%</td>
<td>41%</td>
<td>39%</td>
<td>28%</td>
<td>36%</td>
<td>25%</td>
<td>50%</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>Majority owner is female</td>
<td>8%</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
<td>11%</td>
<td>17%</td>
<td>9%</td>
<td>18%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Top manager is female</td>
<td>11%</td>
<td>36%</td>
<td>27%</td>
<td>28%</td>
<td>14%</td>
<td>27%</td>
<td>14%</td>
<td>24%</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>Ownership – Private</td>
<td>79%</td>
<td>86%</td>
<td>74%</td>
<td>82%</td>
<td>74%</td>
<td>81%</td>
<td>95%</td>
<td>77%</td>
<td>87%</td>
<td>82%</td>
</tr>
<tr>
<td>Ownership – Foreign</td>
<td>12%</td>
<td>9%</td>
<td>8%</td>
<td>17%</td>
<td>17%</td>
<td>9%</td>
<td>3%</td>
<td>18%</td>
<td>6%</td>
<td>11%</td>
</tr>
<tr>
<td>Ownership – State</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Ownership – Other</td>
<td>8%</td>
<td>4%</td>
<td>17%</td>
<td>1%</td>
<td>9%</td>
<td>9%</td>
<td>2%</td>
<td>5%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Sales – National</td>
<td>97%</td>
<td>90%</td>
<td>96%</td>
<td>83%</td>
<td>95%</td>
<td>96%</td>
<td>93%</td>
<td>94%</td>
<td>98%</td>
<td>94%</td>
</tr>
<tr>
<td>Sales – Direct export</td>
<td>2%</td>
<td>4%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Sales – Indirect export</td>
<td>2%</td>
<td>6%</td>
<td>2%</td>
<td>13%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Intl. quality certification</td>
<td>13%</td>
<td>3%</td>
<td>8%</td>
<td>15%</td>
<td>19%</td>
<td>16%</td>
<td>17%</td>
<td>15%</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Email</td>
<td>31%</td>
<td>45%</td>
<td>78%</td>
<td>62%</td>
<td>80%</td>
<td>73%</td>
<td>30%</td>
<td>53%</td>
<td>75%</td>
<td>57%</td>
</tr>
<tr>
<td>Website</td>
<td>45%</td>
<td>15%</td>
<td>39%</td>
<td>30%</td>
<td>45%</td>
<td>62%</td>
<td>23%</td>
<td>20%</td>
<td>39%</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>Democratic Republic of the Congo</td>
<td>Lesotho</td>
<td>Namibia</td>
<td>Madagascar</td>
<td>Malawi</td>
<td>Eswatini</td>
<td>United Republic of Tanzania</td>
<td>Zambia</td>
<td>Zimbabwe</td>
<td>SADC</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>------------</td>
<td>--------</td>
<td>----------</td>
<td>-----------------------------</td>
<td>--------</td>
<td>----------</td>
<td>------</td>
</tr>
<tr>
<td>Assets purchased</td>
<td>43%</td>
<td>27%</td>
<td>41%</td>
<td>29%</td>
<td>38%</td>
<td>39%</td>
<td>40%</td>
<td>35%</td>
<td>24%</td>
<td>36%</td>
</tr>
<tr>
<td>Bank account</td>
<td>57%</td>
<td>83%</td>
<td>97%</td>
<td>79%</td>
<td>82%</td>
<td>92%</td>
<td>74%</td>
<td>86%</td>
<td>92%</td>
<td>81%</td>
</tr>
<tr>
<td>Overdraft facility</td>
<td>22%</td>
<td>29%</td>
<td>33%</td>
<td>40%</td>
<td>39%</td>
<td>30%</td>
<td>7%</td>
<td>15%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>Line of credit/loan</td>
<td>9%</td>
<td>19%</td>
<td>22%</td>
<td>15%</td>
<td>27%</td>
<td>27%</td>
<td>17%</td>
<td>9%</td>
<td>8%</td>
<td>15%</td>
</tr>
<tr>
<td>Applied for new loans</td>
<td>17%</td>
<td>21%</td>
<td>17%</td>
<td>21%</td>
<td>27%</td>
<td>15%</td>
<td>9%</td>
<td>9%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Government contract secured/attempted</td>
<td>10%</td>
<td>13%</td>
<td>28%</td>
<td>6%</td>
<td>27%</td>
<td>13%</td>
<td>4%</td>
<td>17%</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td>No. of firms</td>
<td>529</td>
<td>150</td>
<td>580</td>
<td>532</td>
<td>523</td>
<td>150</td>
<td>813</td>
<td>720</td>
<td>600</td>
<td>4,597</td>
</tr>
</tbody>
</table>

*Notes:* Probability weights from the World Bank enterprise surveys are used in inferring the population of non-agricultural firms in private sector. The last row indicates the number of firms in the sample per country. SADC level estimates are produced based on weights derived from the number of firms in the sample.
Focusing on size and ownership patterns, there is evidence for almost two thirds of firms being small, therefore employing from 5 to 19 employees. Malawi reports the highest share of medium-size firms, or 20–99 employees; while the Democratic Republic of the Congo reports the highest share of small-size firms, along with Zimbabwe and Namibia. One sixth of firms in the United Republic of Tanzania are microenterprises employing fewer than five workers. Slightly over 10 percent of firms in Madagascar and Malawi are large enterprises employing over 99 employees. Female-owned firms are significantly more likely to be micro and small, even when firms within the same sector and country are compared.

In terms of ownership, over three quarters of the firms are owned privately, with 11 percent of firms being owned by foreign entities. Foreign ownership is higher in Madagascar, Malawi and Zambia. Female-owned firms are more likely to be privately owned relative to male-owned firms, while the latter are more likely to have some shares owned by foreign entities and/or the state.

In the Southern Africa region, approximately 15 percent of firms are owned by women, while around 35 percent have at least one woman among the owners. One fifth of firms in the region report having a female top manager. Considering all three indicators for women’s presence in business, Lesotho, Madagascar, Namibia and Zambia lead the way with around one third of enterprises having ownership or management under women. Still, there is a long distance to cover to reach parity. In the top-performing countries – Namibia and Lesotho – only 25 and 23 per cent of the enterprises are owned by women, respectively.

The nature of sales as reported by firms presents an interesting finding, which is that there are only a handful of firms that directly export. The regional estimate in table IV suggests that, in Southern Africa, only 3 percent of the firms export directly, while another 3 percent indirectly export through supplying firms that directly export. Across nine countries with available data, Lesotho has the greatest percentage of firms that directly export (4 percent). Economic diversification, transformation and value addition during the era of the African Continental Free Trade Area is likely to present many opportunities for firms in Southern Africa to export. It must also be noted that cross-border informal trade is widespread in Southern Africa. As such, the figures above underestimate the potential of the region. Finding no
A statistically significant difference in sales profile of firms owned by women and men is among other positive findings of this study.

Boosting international trade requires firms to engage in various certification schemes and to rely on information and communication technologies, at least in their simplest forms, to harness the opportunities offered in the era of digital economy. In the Southern Africa region, less than one in every seven firms reports having an internationally recognized quality certification. While over half of firms report using email to reach their clients – particularly in Malawi, Namibia and Eswatini – around onethird report having a website. The share of firms using information and communication technologies is largest in Eswatini. There are substantial gender gaps at the regional level. For instance, female-owned firms are 20 percent less likely to have such certification, and they are around 10 percent less likely to use emails to communicate with clients. Finally, female firms are 14 percent less likely to have a website. Access to finance, presence in high-productivity sectors and qualified managers and
workers are critical for firms not to miss the bandwagon. Unfortunately, female-owned firms report weakness in each factor above.

Moving to the finance–investment nexus, around one-third of firms indicate that they have purchased an asset in the past 12 months. Unfortunately, a majority of the firms report having used profits for such purchases, and only a minority have used loans to finance investments in fixed assets. There is evidence for a substantial gender gap of 7 percentage points against female-owned firms, which translates into 20 percent less likelihood of purchasing assets by female-owned firms. Finally, female-owned firms are more likely than male-owned firms to rely on retained earnings, which is an objective proxy for financial constraint. There is evidence of female-owned firms being less likely to have bank accounts (especially in the Democratic Republic of the Congo) and to have overdraft facilities (especially in Lesotho, the United Republic of Tanzania and Namibia). Interestingly, female-owned firms are equivalent to male-owned firms in terms of having credit lines, and a similar likelihood of applying for loans, except for Lesotho, where there is a slightly lower likelihood of female-owned firms applying for loans. Once again, these figures indicate that a policy response is required to achieve the structural transformation agenda and boosting of international trade.

Finally, around 15 percent of the firms in the sample report having secured or attempted to secure government contracts, with a minimum of 4 per cent in the United Republic of Tanzania and a maximum of 28 percent in Namibia. There is wide sectoral variation in government contracts. For instance, firms in the construction and manufacturing sectors report a higher prevalence of securing/attempting to secure government contracts. In line with this sectoral variation, female-owned firms report 35 percent less likelihood of securing/attempting to secure government contracts. This is particularly due to women’s relatively high presence in the services sector, where government contracts are much less likely to be offered.

Sectoral segregation by gender in labour markets across the world is a well-known challenge that governments face in reaching their productive potential. There are various factors contributing to this finding across the world, as well as in Africa. First, women are time-poor, which makes flexible work arrangements or self-employment in the informal sector with flexibility very attractive. Second, entry into the services sector, particularly the subsectors
at the lower end of the value chain, such as wholesale and retail trade, not only is easier, due to lower up-front investment, but also does not require skills or higher education, which are relevant in the manufacturing and technology-based services sectors. Unfortunately, one implication is that the sectors where women are dominant turn out to be highly competitive and are under pressure from the informal sector, leading to major challenges for the survival and growth of formal firms.

Figure 5 focuses on the countries in Southern Africa with firm-level data and shows there are marked gender differences in sectoral allocation. For instance, controlling for country, year and within-country location in a simple probit regression framework, female-owned firms are 14 per cent less likely to be in the manufacturing sector. On the other hand, female-owned enterprises are 26 percent more likely to be in the services sector. The marked difference in construction sector is quite relevant for the corruption investigation of this study, since that sector is historically vulnerable to various forms of corrupt practices.

Figure 6 suggests that structural transformation needs to be accelerated significantly in order to increase value addition in Southern Africa’s manufacturing sector. One-fifth of firms in this sector are in food processing. The more capital-intense the production process becomes, the lower the frequency of firms in the relevant subsector. This is directly linked to access-to-finance constraints that firms in the region face, as shown in Figure 7.

**Figure 5: Sectoral distribution of firms by gender in Southern Africa (2013–2016)**

![Graph showing sectoral distribution of firms by gender in Southern Africa](image)

*Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org)*
under onethird of all firms in the region report access to finance as the biggest constraints against their business. Interestingly, corruption is ranked sixth at the regional level. As Table I showed earlier, a maximum of 18 percent of firms in Eswatini ranked corruption as the biggest constraint.

Ahead of corruption as the biggest constraint, firms report access to finance (for example, in Namibia and the United Republic of Tanzania); informality (for example, in Zambia and Zimbabwe); political instability (for example, in Eswatini and Madagascar); electricity (for example, in the United Republic of Tanzania and the Democratic Republic of the Congo); and access to land (for example, in Namibia and the United Republic of Tanzania). Focusing on gender differentials, statistical tests do not yield substantial gender gaps in constraint perceptions. Among notable exceptions, while there appear to be no gender gaps in access to finance being the biggest constraint, female-owned enterprises in the services sector are 6.2 percentage points more likely to report access to finance as the biggest constraint, and male-owned enterprises in the manufacturing sector are 4.5 percentage points more likely to report this constraint. Regarding corruption, there is evidence for a gender and sectoral gap, as further shown below, in that women-owned enterprises in the services sector are more likely to report corruption as the

Figure 6: A closer look at the manufacturing sector in Southern Africa (2013–2016)

Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).
biggest constraint. Sectoral gaps are also evident in respect of crime, theft and disorder, as well as electricity. While the services sector reports the former constraint more, the manufacturing sector reports electricity as the biggest constraint at higher frequency.

Constraints perceived by male-owned firms in Southern Africa by sectoral disaggregation are shown in Figure 8. There are no significant differences among firms in each sector, yet firms in the services sector report each constraint slightly more than firms in the manufacturing sector.

Female-owned firms show substantial variation in constraint perceptions across sectors, as shown in Figure 9. Interestingly, the largest difference is observed in corruption among other major constraints against doing business. This sectoral gap among female-owned enterprises is approximately threefold in Southern Africa. This is an interesting finding, because firms in the services sectors spend less of senior management’s time on dealing with government regulations, and report less likelihood of making informal payments and attempting and/or securing government contracts compared with the manufacturing sector.
Clearly, sectoral gaps interact with gender gaps in ways that are predictable, given the barriers faced by women entrepreneurs, among which time poverty comes first. Figure 9 shows that female-owned firms in the manufacturing sector also face some constraints at differentially higher frequencies relative to the services sector, including electricity and competitive pressures from the informal sector. Boosting the productivity of female-owned firms requires that the constraints faced by incumbent female-owned enterprises in the manufacturing sector be addressed to the extent that the causes of such perceptions emanate from structural factors that lead to gender inequality.

The final set of data to review in this section relates to firm growth, which is our key outcome variable reported for the fiscal year preceding each survey. Annual employment growth is on average 5.5 percent. Removing Angola from the sample, however, reduces this average by 1.3 percentage points, down to 4.2 percent. As such, the SADC region on average lags behind both sub-Saharan Africa and the developing world in terms of job creation. In our sample, the annual average growth rate is 4.7 percent. Disaggregating

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**Figure 8: Constraint perceptions by male-owned firms in Southern Africa (2013–2016)**

*Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).*
this outcome variable by sex, there are no statistically significant differences between male-owned and female-owned firms in their annual average growth at the regional level. The same results hold for male- and female-managed firms. At the countrylevel, there is a positive and significant employment growth differential only in Namibia in favour of firms owned by women. Regarding sectors, there is no evidence for sectoral differences in employment growth at the regional level. At the countrylevel, however, there are some interesting differentials. For instance, in the Democratic Republic of the Congo and Zambia, annual average employment growth is slower in the hotels and restaurants subsector relative to manufacturing. While wholesale and retail trade have lower employment growth relative to manufacturing in Madagascar, the opposite is observed in Namibia. Firms in the construction sector report lower annual employment growth in Namibia and Zambia. Finally, in Zimbabwe, firms in wholesale and retail trade, and hotels and restaurants, grow much faster than firms in manufacturing.

Source: Authors, based on World Bank enterprise surveys (www.enterprisesurveys.org).
Empirical results on gender, corruption and firm performance

The empirical strategy behind the main results presented in this section involves the use of an ordinary least square estimator over pooled cross-sectional firm-level data from nine countries in the 2013–2016 period, with country, location (within-country), industry and year fixed effects and robust standard errors. In addition, country-level estimates are provided following the same strategy, with industry and location (within-country) dummies. Specifically, the following empirical specification is estimated:

\[ \theta_i = \alpha + \beta_1 gender_i + \beta_2 corruption_i + \beta_3 gender_i \times corruption_i + \beta X_i + \varepsilon_i \]  

(1)

where \( \theta_i \) represents annual average employment growth in firm \( i \); \( gender \) is a dummy variable that equals 1 if the largest owner of the firm is female and 0 otherwise; \( corruption \) represents a subjective corruption perception.
measured in an ordinal fashion. Specifically, firms rank the extent to which corruption is an obstacle from none to minor, moderate, major and severe. As such, this proxy enters the equation with four dummy variables, with the “none” category left out as benchmark. The interaction term aims to capture the marginal effect of corruption on annual average employment growth of female-owned firms. In this setup, the coefficient of the constant term captures annual average employment growth in male-owned firms that do not consider corruption as an obstacle at all. $X$ is a matrix of standard control variables used in the literature, including age and size of the firm converted into natural logarithmic scale. It also includes country, location (within-country), industry and year dummies for regional-level or pooled cross-country regressions. We keep location (within-country) and industry dummies for country-level regressions. We refrain from adding any other control variables to avoid further endogeneity problems, and to minimize the loss of observations due to missing information.

We have three hypotheses associated with our three variables of interest. First, we expect that women-owned firms have lower annual average employment growth. There are various channels at work that contribute to lower firm performance among women-owned firms (Islam and others, 2018). Second, we expect that corruption is negatively associated with annual average employment growth in Southern Africa. This hypothesis is based on the premise that corruption exerts significant costs for firms’ operations and that, in high-corruption environments, not engaging with corrupt practices may limit firm performance and expansion. Finally, regarding gender differentials in the corruption–firm growth nexus, we expect that corruption perceptions are negatively associated with the growth of female-owned firms. Our expectation is in line with the empirical literature discussed earlier, particularly Hanousek and others (2017). Assuming that women are less likely to engage in corruption, we expect that the growth of women-owned firms is limited, particularly in high-corruption environments.

Table VI presents our regression results from estimating the equation above. The first nine columns report the country-level regressions, while the final column reports regression results for the entire region. Starting with the regional-level regressions, there is no evidence for gender differentials in annual average employment growth within firms that do not consider corruption as an obstacle. This is a positive result in the sense that, in low-
corruption environments, there is no evidence for gender bias in an important proxy for firm performance. Corruption, however, is negatively associated with annual average firm growth in Southern Africa. Specifically, firms that consider corruption as a moderate or severe obstacle experience significantly lower annual average employment growth than firms that do not consider corruption as an obstacle. Given the formulation of equation (1) above, however, this result is driven by male-owned firms.
### Table 6: Regressions results: firm growth and corruption with a gender perspective – ownership (2013–2016)

<table>
<thead>
<tr>
<th></th>
<th>Democratic Republic of the Congo</th>
<th>Eswatini</th>
<th>Lesotho</th>
<th>Malawi</th>
<th>Madagascar</th>
<th>Namibia</th>
<th>United Republic of Tanzania</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Southern Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female-owned enterprise</td>
<td>11.538a</td>
<td>-4.958a</td>
<td>-13.149</td>
<td>-2.303</td>
<td></td>
<td>3.488</td>
<td></td>
<td>0.192</td>
<td>-0.333</td>
<td>0.545</td>
</tr>
<tr>
<td>Minor obstacle</td>
<td>3.153</td>
<td>-0.284</td>
<td>-9.358</td>
<td>4.051a</td>
<td></td>
<td>0.181</td>
<td></td>
<td>-1.666</td>
<td>-8.027</td>
<td>2.531</td>
</tr>
<tr>
<td>Severe obstacle</td>
<td>1.798</td>
<td>-1.763</td>
<td>-5.455</td>
<td>2.001</td>
<td></td>
<td>-2.915</td>
<td></td>
<td>-3.216</td>
<td>-6.813</td>
<td>1.739</td>
</tr>
<tr>
<td>Female x moderate</td>
<td>-12.478</td>
<td>14.704a</td>
<td>16.305</td>
<td>7.807</td>
<td></td>
<td>22.291</td>
<td></td>
<td>1.072</td>
<td>11.360</td>
<td>-10.364a</td>
</tr>
<tr>
<td>Female x severe</td>
<td>-15.104b</td>
<td>9.225</td>
<td>12.536</td>
<td>-7.541</td>
<td></td>
<td>19.522b</td>
<td></td>
<td>-10.364a</td>
<td>18.267</td>
<td>2.004</td>
</tr>
<tr>
<td>Firm age (ln)</td>
<td>-3.715c</td>
<td>0.401</td>
<td>4.359</td>
<td>-0.885</td>
<td></td>
<td>-4.138b</td>
<td></td>
<td>-9.605c</td>
<td>-1.859</td>
<td>-3.104c</td>
</tr>
<tr>
<td>Firm size (ln)</td>
<td>1.433b</td>
<td>1.520</td>
<td>1.387</td>
<td>2.360c</td>
<td></td>
<td>3.128c</td>
<td></td>
<td>1.129</td>
<td>1.072</td>
<td>3.66b</td>
</tr>
<tr>
<td>Observations</td>
<td>428</td>
<td>0.103</td>
<td>0.148</td>
<td>0.199</td>
<td>0.060</td>
<td>0.112</td>
<td></td>
<td>0.187</td>
<td>0.054</td>
<td>0.053</td>
</tr>
</tbody>
</table>

Notes: Robust standard errors in parentheses. cp<0.01, bp<0.05, a p<0.1. In country-level regressions, location and industry dummies are also included. In regional regression, country, location (within-country), industry and year dummies are included.
Table 7: Regression results: Corruption and firm growth with a gender perspective – management (2013–2016)

<table>
<thead>
<tr>
<th></th>
<th>Democratic Republic of the Congo</th>
<th>Eswatini</th>
<th>Lesotho</th>
<th>Malawi</th>
<th>Madagascar</th>
<th>Namibia</th>
<th>United Republic of Tanzania</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Southern Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female-managed</td>
<td>9.574</td>
<td>2.326</td>
<td>-13.909</td>
<td>2.764</td>
<td>-4.433</td>
<td>4.170</td>
<td>-6.415</td>
<td>-0.763</td>
<td>-2.770</td>
<td>0.985</td>
</tr>
<tr>
<td>Minor obstacle</td>
<td>2.970</td>
<td>0.311</td>
<td>-5.239</td>
<td>5.795b</td>
<td>-0.402</td>
<td>-3.291</td>
<td>-7.792</td>
<td>3.020</td>
<td>-1.345</td>
<td>0.592</td>
</tr>
<tr>
<td></td>
<td>(2.682)</td>
<td>(3.479)</td>
<td>(13.151)</td>
<td>(2.306)</td>
<td>(3.081)</td>
<td>(3.197)</td>
<td>(5.282)</td>
<td>(2.030)</td>
<td>(2.748)</td>
<td>(1.103)</td>
</tr>
<tr>
<td>Moderate obstacle</td>
<td>5.331b</td>
<td>-6.065b</td>
<td>0.980</td>
<td>1.508</td>
<td>-5.425</td>
<td>-2.260</td>
<td>-14.886c</td>
<td>0.722</td>
<td>-1.150</td>
<td>-2.710b</td>
</tr>
<tr>
<td></td>
<td>(2.571)</td>
<td>(2.843)</td>
<td>(12.785)</td>
<td>(3.252)</td>
<td>(3.562)</td>
<td>(2.836)</td>
<td>(4.731)</td>
<td>(2.209)</td>
<td>(3.042)</td>
<td>(1.105)</td>
</tr>
<tr>
<td>Major obstacle</td>
<td>4.649a</td>
<td>-4.284</td>
<td>0.364</td>
<td>-3.058</td>
<td>-0.408</td>
<td>1.958</td>
<td>-0.080</td>
<td>-1.302</td>
<td>-6.106b</td>
<td>-0.797</td>
</tr>
<tr>
<td></td>
<td>(2.477)</td>
<td>(3.007)</td>
<td>(11.236)</td>
<td>(3.194)</td>
<td>(3.274)</td>
<td>(6.778)</td>
<td>(5.621)</td>
<td>(1.710)</td>
<td>(2.778)</td>
<td>(1.180)</td>
</tr>
<tr>
<td>Female x moderate</td>
<td>-7.773</td>
<td>-0.671</td>
<td>12.373</td>
<td>-0.040</td>
<td>20.087</td>
<td>-6.466</td>
<td>14.998</td>
<td>-4.137</td>
<td>-2.452</td>
<td>-0.064</td>
</tr>
<tr>
<td>Female x major</td>
<td>-11.538</td>
<td>-0.611</td>
<td>10.082</td>
<td>6.074</td>
<td>14.163</td>
<td>-9.248</td>
<td>0.040</td>
<td>1.242</td>
<td>3.947</td>
<td>-0.910</td>
</tr>
<tr>
<td>Female x severe</td>
<td>-12.836a</td>
<td>4.303</td>
<td>18.149</td>
<td>-14.469</td>
<td>13.791a</td>
<td>-0.009</td>
<td>27.021</td>
<td>1.707</td>
<td>12.614b</td>
<td>3.077</td>
</tr>
<tr>
<td></td>
<td>(1.063)</td>
<td>(1.524)</td>
<td>(4.691)</td>
<td>(1.476)</td>
<td>(1.700)</td>
<td>(2.162)</td>
<td>(2.142)</td>
<td>(0.954)</td>
<td>(1.112)</td>
<td>(0.557)</td>
</tr>
<tr>
<td>Firm size (ln)</td>
<td>1.459b</td>
<td>0.730</td>
<td>0.811</td>
<td>2.246b</td>
<td>3.009c</td>
<td>1.628a</td>
<td>1.725a</td>
<td>1.290b</td>
<td>2.717c</td>
<td>1.799c</td>
</tr>
<tr>
<td></td>
<td>(0.687)</td>
<td>(0.832)</td>
<td>(1.627)</td>
<td>(0.991)</td>
<td>(1.139)</td>
<td>(0.916)</td>
<td>(0.966)</td>
<td>(0.647)</td>
<td>(0.925)</td>
<td>(0.338)</td>
</tr>
<tr>
<td>Observations</td>
<td>435</td>
<td>118</td>
<td>80</td>
<td>463</td>
<td>388</td>
<td>512</td>
<td>566</td>
<td>650</td>
<td>546</td>
<td>3.758</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.098</td>
<td>0.112</td>
<td>0.172</td>
<td>0.058</td>
<td>0.101</td>
<td>0.189</td>
<td>0.061</td>
<td>0.053</td>
<td>0.081</td>
<td>0.100</td>
</tr>
</tbody>
</table>

Notes: Robust standard errors in parentheses. c p<0.01, bp<0.05, a p<0.1. In country-level regressions, location and industry dummies are also included. In regional regression, country, location (within-country), industry and year dummies are included.
As noted earlier, the coefficients associated with the four ordinal rankings of corruption perceptions capture the relationship for male-owned firms only relative to male-owned firms that do not consider corruption as an obstacle. Given that none of the interaction terms yield any significant results, Table VI suggests that the corruption–firm growth nexus has negative consequences only for male-owned firms at the regional level. The coefficient estimates for moderate corruption perception is not only statistically significant, but also economically meaningful. Given that annual average employment growth is 5.9 percent for male-owned firms that do not consider corruption as an obstacle, the difference in growth rates between the two types of firms is at 62 percent. The results from the control variables are in line with the wider literature that analyses firm-level data. In Southern Africa, smaller firms grow more slowly than larger firms, and younger firms grow faster than older firms. Regarding the sectoral differences in annual average employment growth in Southern Africa, we find significant results only for the construction sector, which grew significantly more slowly than the manufacturing sector. Country dummies indicate that firms in Zimbabwe (2016) recorded much lower growth than their counterparts in the region, while firms in the United Republic of Tanzania grew significantly faster. In terms of region-wide trends, firm growth was slower in 2015 relative to earlier years.

Moving to country-level regressions, we first note that gender differentials are largely non-existent in the region between male- and female-owned firms that do not consider corruption as an obstacle. The two notable differences are the Democratic Republic of the Congo and Eswatini. Similar to the regional result, male-owned firms that consider corruption as a moderate obstacle grow more slowly than male-owned firms that do not consider corruption as an obstacle. The only exception is again the Democratic Republic of the Congo, where firms that perceive corruption as a moderate obstacle grow faster than the benchmark firms owned by men. It is also worth mentioning that male-owned firms that consider corruption as a major and severe constraint exhibit much lower growth relative to their counterparts that do not consider corruption as an obstacle. While we would expect that, as the extent of corruption perceptions increase, the annual average growth of firms would concomitantly decrease. There is no evidence for such a linear relationship, except for Zimbabwe. Focusing on the interaction term between gender and corruption, the country-level results are largely in line with the regional results in that there is largely no significant association between corruption
and firm growth specifically within female-owned firms. While there is some negative relationship in the Democratic Republic of the Congo, Namibia and Zambia, there is also a positive relationship in Eswatini and Madagascar. The case of Eswatini is worth mentioning, since all the variables of interest for severe constraint are significant.

Table VII presents regression results from estimating equation (1) again, but this time focusing on management. The results largely remain the same. There is again no evidence for employment growth differentials between male- and female-managed firms that do not consider corruption as an obstacle. Among firms that do consider corruption as an obstacle, male-managed firms across the region experience slower growth than male-managed firms that do not consider corruption as an obstacle.

These empirical results should be interpreted with caution. They do not establish causality, and are likely to be subject to various forms of endogeneity emanating from omitted variables and/or measurement problems. Selection bias is also a challenge, given that firms that cannot report number of employees three years prior to the survey are excluded, since growth rates cannot be computed for them. An instrumental variable approach could certainly help improve our baseline results. Unfortunately, the likely candidates for instruments do not contain information for all firms in our sample. Objective measures of corruption, such as requests for informal payments, are positively and significantly correlated with subjective measures of corruption, but many firms do not report on the objective measures. Moving forward, empirical research should take advantage of legal reforms that could bring about exogenous within-country variation across firms. Our future work on this subject will focus on such country case studies rather than a regional analysis.

**Conclusion**

This paper introduces a research agenda that investigates the impact of corruption on firm growth with a gender dimension. The structural transformation agenda in Southern Africa needs to focus on boosting firm performance, including that of small and medium-sized enterprises, which dominate the economies of the region. While the focus of academic research and policy circles is often on access to finance, corruption can also be equally
binding. Operating in corrupt environments can be one of the factors leading to lower access to finance and to public services.

Our initial results do not point towards a robust negative relationship between corruption and firm growth at the regional level or country level. However, we find a negative relationship between firm growth and subjective perceptions of corruption, particularly for male-owned and male-managed firms. Given the nature of our sample, this result applies only to registered enterprises operating in the non-agricultural economy. Unfortunately, our research is silent on the extent to which corruption can be an obstacle in the agriculture sector.

The impact of corruption on firm performance is likely to operate through several mechanisms. Recent research, such as Wang and You (2012) and Goedhuys and others (2016), shows that corruption is a substitute for firms in environments with lower financial sector development and weaker institutions. Combating corruption therefore will rarely succeed if anti-corruption campaigns and larger initiatives on governance and financial sector reforms are not undertaken. While our research is silent on the specific mechanisms, our results can help anti-corruption agencies to focus their efforts on specific sectors of the economy where corruption perceptions are high and negatively related with firm growth.

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Note

1. There are also objective proxies of corruption, including informal payment requests made to the manager/owner of the firm and informal payments made by the manager/owner of the firm. Unfortunately, firm managers/owners are much less likely to report on these objective measures, which lead to a substantial reduction in the sample. Therefore, we only focus on the subjective measure.
References


Reversing the scourge of corruption in Southern Africa

Jack Jones Zulu

Abstract

This paper uses a theoretical approach to investigate the determinants and effects of corruption on development outcomes in Southern Africa. Corruption is a complex phenomenon driven by a host of factors, which include political, economic, social and cultural determinants. Although some formal mechanisms, including frameworks and policies, exist in the subregion to address corruption, they have mostly been ineffective, because they do not take into account the role of informal institutions, community action and gender approaches as part of the repertoire of interventions for curbing the scourge. Consistent with similar analytical studies, we use several indicators, such as the Corruption Perceptions Index (CPI) and governance indicators, to measure the magnitude and impact of corruption in Southern Africa, with a view to devising targeted solutions. We find that the necessary condition for uprooting corruption in Southern Africa is to link specific interventions to what is driving the vice – weak institutional governance and policy misalignment characterized by either weak or lack of policy implementation. We also find that taking a multi-pronged approach to addressing corruption in the subregion is a necessary precondition for sustained and effective outcomes.

Key words: corruption, theoretical approach, policy misalignment, multi-pronged approach, Southern Africa

JEL classification: O1, F5
Résumé

Le présent article a recours à une approche théorique pour conduire un examen profond des déterminants et des effets de la corruption sur les aspects du développement en Afrique australe. La corruption est un phénomène complexe véhiculé par une multitude de facteurs qui relèvent, entre autres, de composantes politiques, économiques et socioculturelles. Malgré l’existence dans la sous-région de mécanismes formels, dont les cadres et politiques destinés à endiguer le fléau de corruption, l’absence de considération pour le rôle des institutions informelles, l’action communautaire et l’approche genre dans le répertoire des interventions consignées ont rendu toute la stratégie inefficace. Conformément à des études analytiques similaires, nous convoquons plusieurs indicateurs, tels que les indices de perception de la corruption et ceux de la gouvernance, pour mesurer l’ampleur et l’impact de la corruption en Afrique australe, dans la perspective de pouvoir formuler des solutions ciblées. Nous trouvons que la condition nécessaire pour éradiquer la corruption en Afrique australe consiste à lier des interventions spécifiques au vecteur du déséquilibre de gouvernance institutionnelle et du mésalignement des politiques, caractérisé soit par la faiblesse, soit par la carence de mise en œuvre des politiques. Nous montrons également qu’adopter une approche multivolets pour lutter contre la corruption, dans la sous-région, est une condition préalable nécessaire à l’obtention de résultats durables et efficaces.

Mots-clés : corruption, approche théorique, mésalignement des politiques, approche multivolets, Afrique australe

Classification JEL : O1, F5
Background and context

Southern Africa, comprising 15 member States, as presented in table I, had an annual average growth rate of 4.2 percent between 2000 and 2011, lower than Africa’s average of 5 percent during the same period. Growth in the subregion dropped from 2.5 percent in 2015 to 1.0 percent in 2016, reflecting sharply decelerating growth in South Africa and Angola – two of the largest economies in the subregion (ECA, 2017a).

Table 1: Select social and economic indicators for Southern Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of under-5 child malnutrition, 2010–2016</th>
<th>Infant mortality rate per 1 000 live births, 2016</th>
<th>Literacy rate (percentage age 15–24 years), female, 2006–2016</th>
<th>Literacy rate (percentage age 15–24 years), male, 2006–2016</th>
<th>Youth unemployment (percentage age 15–24 years), 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>37.5</td>
<td>54.6</td>
<td>70.6</td>
<td>84.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Botswana</td>
<td>31.4</td>
<td>32.6</td>
<td>--</td>
<td>--</td>
<td>35.7</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>42.2</td>
<td>72</td>
<td>79.7</td>
<td>91</td>
<td>7.3</td>
</tr>
<tr>
<td>Eswatini</td>
<td>25.5</td>
<td>52.4</td>
<td>94.7</td>
<td>92.2</td>
<td>54.8</td>
</tr>
<tr>
<td>Lesotho</td>
<td>33.4</td>
<td>72.4</td>
<td>94</td>
<td>79.6</td>
<td>38.5</td>
</tr>
<tr>
<td>Madagascar</td>
<td>49.2</td>
<td>34</td>
<td>75.3</td>
<td>78.4</td>
<td>3</td>
</tr>
<tr>
<td>Malawi</td>
<td>37.4</td>
<td>38.9</td>
<td>73.4</td>
<td>72.5</td>
<td>8</td>
</tr>
<tr>
<td>Mauritius</td>
<td>9.5</td>
<td>12.2</td>
<td>99.2</td>
<td>99.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Mozambique</td>
<td>42.9</td>
<td>53.1</td>
<td>56.5</td>
<td>79.8</td>
<td>42.7</td>
</tr>
<tr>
<td>Namibia</td>
<td>22.7</td>
<td>32.3</td>
<td>95.3</td>
<td>93.5</td>
<td>45.5</td>
</tr>
<tr>
<td>Seychelles</td>
<td>7.9</td>
<td>12.3</td>
<td>99.4</td>
<td>98.6</td>
<td>--</td>
</tr>
<tr>
<td>South Africa</td>
<td>27.4</td>
<td>55.7</td>
<td>99.2</td>
<td>98.7</td>
<td>57.4</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>34.5</td>
<td>40.3</td>
<td>84.6</td>
<td>87</td>
<td>3.9</td>
</tr>
<tr>
<td>Zambia</td>
<td>40</td>
<td>43.8</td>
<td>86.5</td>
<td>91.2</td>
<td>15.4</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>27.1</td>
<td>40</td>
<td>93.2</td>
<td>87.6</td>
<td>11.4</td>
</tr>
</tbody>
</table>


However, growth in Southern Africa marginally recovered in 2017, to 1.2 percent, as a result of a rebound in Angola (driven by improved private and government consumption) and weak growth in South Africa. The sluggish economic performance in the subregion manifests itself in poor social outcomes. For example, growth has not been able to mute widespread youth unemployment in South Africa, Eswatini, Namibia, Mozambique, Lesotho
and Botswana (Table I). Between 2010 and 2016, child stunting was more pervasive in Madagascar, the Democratic Republic of the Congo and Zambia than the rest of the countries in the subregion. Infant mortality remains a serious challenge in Angola, the Democratic Republic of the Congo, Lesotho and Mozambique. Although Southern Africa had done relatively well in improving youth literacy rates between 2006 and 2016, female youth still lag behind their male counterparts, save for in Lesotho and Zimbabwe. Also, the quality of education remains low, characterized by high pupil–teacher ratios and a lack of sufficient teacher aids in classrooms, especially in rural areas.

Despite being endowed with vast natural resources – which include copper, diamond, gold, oil, natural gas, platinum and a huge tourism potential – Southern Africa’s development outcomes are generally unimpressive. Therefore, the subregion needs a lot of financial resources to tackle and reverse poverty and its correlates.

At the heart of the development challenges in the subregion is corruption, which is perceived to be widespread in both the public and private sectors, and which diverts resources away from development needs. Corruption in Southern Africa, as captured by the Transparency International Corruption Perceptions Index, is on the rise and becoming more sophisticated by the day (OSISA, 2017). This situation warrants immediate attention from national authorities and citizens to save resources for human and sustainable development.

The paper is organized into six sections: (a) the first section after this introduction outlines the analytical framework; (b) the second section provides conceptual definitions and determinants of corruption; (c) the third section analyses the impact of corruption and why fighting it matters from regional and global perspectives; (d) the fourth section looks at the scale of corruption in Southern Africa; (e) the fifth section examines the theory and practice of mechanisms for fighting corruption in the subregion; and (f) the sixth section provides a conclusion and policy recommendations.

**Analytical framework**

The paper has adopted a structured approach, within which the problem of corruption in Southern Africa has been conceptually analysed. It takes a
detailed examination of both theory and practice to draw specific insights into the determinants and socioeconomic impacts of corruption. The paper starts by framing corruption in the global and regional perspectives to provide context for the rest of the analysis. It then investigates the drivers of corruption by paying special attention to the environment in which it takes place – whether influenced by global, regional or specific policy and institutional factors.

The paper then zeroes in on the scale and magnitude of corruption using different measurement indicators. It uses perception indices to measure corruption, mostly the Corruption Perceptions Index of Transparency International; corruption and governance indices from the Mo Ibrahim Foundation; and corruption ratings from the International Country Risk Guide. These measures of corruption are relevant and consistent with the work of the European Intelligence Unit, OSISA (2017) and the World Bank proxy indicators on governance. The indicators are further supplemented with data and information from the Country Policy and Institutional Assessment of the World Bank.

While concerns have been raised over the use of indicators such as perception indices in the measurement of corruption, these indicators have gained prominence in recent years in academic and international development discourse as useful pointers with respect to the challenge of corruption. Perceptions in any society determine the level of confidence of the general public, which in turn has strong bearing on how much certainty/uncertainty exists in social, economic and political systems.

Thus, perceptions have a very real measurable impact on certainty/uncertainty and stability/instability in any society. For example, Baghani and Sedaghat (2016) found a strong positive correlation between independent variables and the impact of perceptions (assumptions) on investors’ decisions in the Tehran Stock Exchange. The selected indicators help us to illustrate the status of and trends in corruption in Southern Africa. The measures/indicators have further aided in responding to the specific challenge of capturing the scale and magnitude of corruption and their implications for economic and social development in the subregion.
Based on existing evidence, the paper also looks at some of the sectors in which the scourge is more pervasive than others, with a view to making targeted interventions. It introduces a gendered approach to fighting corruption. In addition, informal institutions and theoretical arguments have been given a special place in the analysis. Furthermore, the role of norms and beliefs has been considered, reflecting the cultural context in which corruption is happening in Southern Africa.

Finally, the paper reviews empirical work that has been undertaken in this field, both within Africa and elsewhere. It uses a comparative analysis covering a pool of 15 countries in Southern Africa. The period of analysis is 2006–2017, contingent upon data being available for specific indicators. The countries in the subregion are a blend of high-middle-income and low-middle-income countries, and therefore provide a useful basis for comparative analysis. In so doing, the paper seeks to understand how experiences and lessons in Southern Africa and elsewhere can inform policy orientations for addressing corruption in the subregion. Thus, the paper complements existing studies and provides a useful analytical framework for policymakers and researchers to design effective interventions for addressing corruption at the subregional and national levels.

**Definitions and determinants of corruption**

Corruption is defined as a use of public or private offices for personal gain (World Bank, 1997). However, to remain broader and relevant to the current discourse on corruption, there is a need to go beyond the narrow administrative and political definition of corruption. For example, ECA (2017b) provides a broader definition, incorporating the “misuse of power by those who hold it – that is, individuals or groups of people who, in their official positions, exploit the power with which they are entrusted by seeking private or sectional gain”.

The ECA definition is broad enough to include not only individuals as perpetrators of corruption, but also groups or syndicates of people found in both the public and private sectors. The World Bank (2010), in its subsequent work on corruption, also broadens the definition to include elements of “silent corruption” – when public servants fail to deliver services or inputs that have been paid for by the government. According to the World Bank,
silent corruption may include, among others, absentee teachers in public schools and absentee doctors in hospitals. It could also involve drugs being stolen from public hospitals and being sold in the open private market, as well as subsidized fertilizer being diluted before it reaches farmers. In other words, the concept of corruption is much broader and more complex, and not easy to disentangle from overall poor governance indicators.

Several factors drive and determine corruption, including age, income, institutional environment, and levels of economic development proxied by per capita GDP (see Duasa, 2010; Anik and Bauer, 2014; Bologna, 2017; and Gutiérrez-Garcia and Rodriguez, 2016). Other factors are economic prosperity, population size, media, government spending and enforcement (Goel and Nelson, 2011). Empirical studies also show that there is statistically a negative relationship between economic determinants and the level of corruption, and also a negative relationship between political determinants and the level of corruption (Bakirtas and Bulus, 2015). However, it is important to note that the link between the identified factors and corruption is not linear, which adds to the complexity of causality and the resultant effects.

Other studies demonstrate that corruption has both a direct, negative impact on economic growth and an indirect, negative impact through financial development (Kunieda and others, 2016). This is consistent with the findings of Lisciandra and Millemaci (2017); Atta-Mensah (2016); Tanzi and Davoodi (1998); Mauro (1995); and Shleifer and Vishny (1993), who demonstrate that corruption has a significant negative impact on long-term growth and development. As a consequence, a zero level of corruption is growth-enhancing and socially imperative for any given economy.

Based on the electricity consumption approach, Smith and Thomas (2015) empirically examine (among other determinants) the impact of corruption and multinational corporations on the relative size of the informal economy in the Russian Federation’s regions in 1995–2012. Their study provides strong evidence of the positive effect of corruption on the informal economy in those regions. They further note the significant role of multinational corporations and regulation in curbing informal activities. A larger informal economic sector was observed in regions with a higher number of local firms and unemployment. An integrated strategy of dealing with corruption and
informal businesses was therefore suggested to be more effective in reducing informal practices.

These results are pertinent to Southern Africa for three main reasons. First, the size of the informal economy in the subregion is huge relative to the formal economy, with implications for economic crimes such as tax evasion, bribes and corruption. Second, the relatively high number of multinational corporations operating in Southern Africa, particularly in the extractive industry, warrants investigation about corruption. Third, the apparent capacity constraints in many countries in the subregion to effectively policing or monitoring economic crimes, including tax evasion and the perceived transfer mispricing or misinvoicing by multinational corporations, is of grave concern. More important, we have not found a specific empirical study that captures the depth and extent of corruption in the informal economy in Southern Africa.

In an empirical study to analyse the determinants of corruption tendencies in a single country, namely Malaysia, Duasa (2010) uses cross-sectional data in two states of Malaysia (Kuala Lumpur and Selangor), and then applies a logit model for estimation. The results from the regression indicate that age negatively contributes to corruption tendency among government servants. The results also show that there are two departments, namely police and immigration, that have a high probability of corruption, and large amounts of personal debt positively contribute to the high tendency of corruption among government servants. These results are quite revealing, especially in Southern Africa, where there is a widespread perception that the police (especially the traffic section) and the immigration and customs departments are seriously compromised. It is not uncommon to be asked for something “small” by police officers when one is in breach of traffic rules or to negotiate for a bypass of some payments at border posts when dealing with huge imports. As a result, governments are losing revenues through these leakages in the system.

Cieslik and Goczek (2018) study the effects of corruption using an open economy version of the endogenous growth model with international capital mobility. Their model predicts that corruption negatively affects the stock of international investment in the host country. Besides, the model predicts that growth is impaired by the uncertainty caused by corruption. They test empirically the predictions of the theory using a sample of 142 countries for
the period 1994–2014 and generalized methods of moments. Using indicators of control of corruption from the World Bank, the lack of corruption is found to have a positive and statistically significant effect on the growth rate of real per capita GDP, and to increase the investment ratio. Thus, the empirical results suggest that corruption directly hinders economic growth by hampering investment. They conclude that richer countries with better access to international financing should be growing faster and be less prone to the adverse effects of corruption than emerging economies.

The position of Cieslik and Goczek (2018) is in line with the earlier findings of Uger (2014), who uses precision-effect and funnel asymmetry tests, and establishes a negative effect of corruption on per capita GDP growth after controlling for publication selection bias and within-study dependence. However, the conclusion arrived at by Cieslik and Goczek (2014) should be treated with caution, as it may not be universally applicable but contextual, as there is still widespread corruption in many richer countries across the globe, and these same countries are also not growing faster than emerging economies as predicted by the model.

Interestingly, other scholars, namely Ebben and de Vaal (2009), find that corruption could be conducive to growth but only when institutions are not well developed. More precisely, they study the effects of corruption on economic growth in a framework that includes corruption as part of the institutional setting of countries. Using a formal growth framework where corruption affects well-developed inputs and the provision of public goods, they find that, particularly in situations where institutions are not well-developed, corruption may be conducive to growth. In these instances, the positive effect of corruption on the working of the institutional system outweighs the negative direct effects of corruption on growth. They also find that the interaction among institutions themselves matters. They conclude by underscoring the importance of considering the complete institutional setting when studying corruption, both in theory as well as in empirics. However, these findings should be put into context, so that we are not perceived or seen to be advocating for weak institutions in Southern Africa as a pathway to growth. On the contrary, Southern Africa needs strong institutions and enforcement mechanisms to stop corruption in its tracks and unleash the growth potential of the subregion.
Using data from a large panel of countries over the period 1995–2015, Benfratello and others (2018) investigate the effect of corruption on public debt. Overall, the estimates reveal that corruption increases public debt. The effect, however, appears to be heterogeneous across income-related sample splits: it is stronger for advanced economies, but weaker and less statistically robust for less developed countries, where external factors such as foreign aid may also affect public debt. The analysis suggests the inadequacy of conventional wisdom, assuming that more detrimental fiscal effects of corruption arise in low-income countries. This position is problematic, because it takes a biased view of the adverse impact of corruption in low-income countries only, as opposed to high-income countries. In the case of Southern Africa, corruption may not be the only factor driving an increase in public debts; other factors, such as fiscal indiscipline and weak administrative controls in public financial management, may be doing so as well. We should also not discount easy access to Chinese loans that are not tied to stringent policy and structural conditionalities – thus creating an appetite for more loans in member states.

Other studies illustrate that lower corruption is associated with higher savings, and the effect of corruption on savings decreases with income level (Abu and others, 2015). By implication and other things being equal, high corruption reduces savings, which in turn reduces investments and economic growth. Experimentally investigating the extent to which social observability and the possibility of social judgment affect individuals’ decisions to engage in corruption at the expense of others, Salmon and Serra (2017) find that the possibility of social judgment reduces corruption only among individuals who identify culturally with countries characterized by low levels of corruption. They further note that the effectiveness of social enforcement mechanisms is at least partly dependent on the sociocultural norms prevailing in the target population. Indeed, cultural norms that function as informal institutions are only effective as deterrents of corruption when both the corruptor and corrupted believe in them.

Corruption has also been found to adversely affect trade across countries. In an empirical paper that exploits quasi-experimental variation in tariffs in Southern Africa to estimate trade elasticities, Sequeira (2016) finds that traded quantities respond only weakly to a 30 percent reduction in the average nominal tariff rate. The study suggests that corruption is a potential
explanation for the observed low elasticities. Sequeira (ibid.) argues that even small bribes can significantly reduce tariffs, making tariff liberalization schemes less likely to affect the extensive and intensive margins of firms’ import behaviour. The author concludes by noting that the tariff liberalization scheme is, however, still associated with improved incentives to accurately report quantities of imported goods, and with a significant reduction in bribe transfers from importers to public officials. These findings are interesting and useful in relation to Southern Africa, which is implementing a regional integration agenda under SADC to liberalize tariff regimes and over time significantly reduce tariffs to enhance trade within the subregion. Therefore, corruption and bribes should be watched closely and nipped in the bud to avoid derailing the liberalization of tariff regimes in the subregion.

Other scholars, such as Asongu (2015), find that an atmosphere of political instability increases confidence to act with impunity owing to less corruption control. He establishes causal evidence of a positive (negative) nexus between political stability/no violence and corruption control (corruption). The empirical evidence is based on the econometric technique of the Generalized Method of Moments. Indeed, in an environment of political instability, public and oversight institutions tend to be weaker and therefore not amenable to effective corruption controls. For example, Angola went through a protracted turbulent period of civil war, which left many public institutions destroyed; and Lesotho and Zimbabwe have had episodes of political instability, mostly associated with elections, that have harmed political and economic governance. The Democratic Republic of the Congo is currently experiencing pockets of instability in the eastern part of the country. These incidents pose serious challenges for public institutions to effectively respond to corruption and overall economic governance.

Anik and Bauer (2014) identify factors influencing Bangladeshi farm households’ probability of experiencing corruption in different service sectors. The econometric results show that households’ probability of being exposed to corruption can largely be explained through their income and their relationship with different power entities. The direction of the relationship between income and corruption is found to vary across services. The study establishes that relatively rich households have a higher probability of experiencing corruption in sectors such as education, health and electricity. However, the empirical findings show that these households are less likely
to experience corruption in local government and agricultural extension services. Furthermore, the results are found to be contrary to the common trend in corruption research that addresses households’ aggregate corruption experiences. Households with relationships with various power entities have a lower probability of experiencing corruption than their counterparts without these types of relationships. These findings have a strong bearing on Southern Africa, where the emerging political dynamics in some countries, where a group of cadres with strong connections to politicians and leaders in power, are breeding unbridled corruption. It is not uncommon for the politically connected cadres to bypass legal and administrative loops for economic gains. For instance, in some countries, cadres indulge in the grabbing and selling of national assets such as land and in the collection of fees at public markets and bus stations, without being accountable to anyone. In others, the local authorities are simply failing to deal with political cadres in public markets and thus losing a stream of revenue from uncollected levies associated with the provision of public services in the markets.

More often than not, corruption tends to have a gender dimension – that is, it affects men and women differently. For example, Trentini and Koparanova (2013) find that women entrepreneurs do have a significantly lower propensity to bribe as compared with men entrepreneurs. Analysing the impact of corruption on employment growth, they find a generally negative impact of administrative corruption, especially for micro-enterprises, but a positive one for women entrepreneurs. This argument is consistent with the fact that most women are micro-entrepreneurs; for them, it is easier to escape the attention of corrupt officials, but greasing the wheels of state bureaucracy might become necessary and facilitate their firms’ growth. Indeed, women in positions of influence are associated with less corruption: female owners are associated with a lower incidence of bribery and report smaller levels of bribery (Breen and others, 2017). Moreover, corruption is seen as less of an obstacle in companies where women are represented in top management. This suggests that mainstreaming gender-sensitive policies within anti-corruption strategies and interventions in Southern Africa could yield significant results in the fight against the scourge.

Interestingly, Mottaleb and Sonobe (2012) use game theory and propose that a successful reduction in corruption to a tolerable level in the government sector depends on a reduction in both incentives to and opportunities for
corruption by government employees, and this can be done by raising salaries and introducing strong punishment simultaneously. They further argue that, to introduce an effective and strong punishment system, independent and strong anti-corruption bodies and strong commitment from political leaders are the essential conditions. This view is in line with Atta-Mensah (2016), who uses mathematical modelling to propose and justify the imposition of a “special tax” on corrupt government officials to make it risky and not worthwhile to indulge in corruption.

While the position of Mottaleb and Sonobe (2012) is noted, there are some fundamental challenges with this approach. First, how does one measure the commitment of political leaders if some of them are directly involved or implicated in graft? Second, raising salaries as an administrative cure for corruption presupposes that all government officials are poorly remunerated and hence need to be motivated through pay hikes. The reality in Southern Africa may be different, where some highly remunerated politicians and business executives have been accused of grand-scale corruption at one time or another. This suggests that arresting corruption goes beyond incentivizing the already well-off officials, to include personal attitude, perceptions, religious beliefs, societal norms and culture. Third, the imposition of a special tax on corrupt officials, as suggested by Atta-Mensah (2016), may have its challenges if corrupt officials are not properly identified and targeted.

Others, such as Reinikka and Svensson (2005), demonstrate how a newspaper campaign in Uganda was used to reduce the capture of public funds by providing schools (parents) with information to monitor local officials’ handling of a large education grant programme. The campaign was highly successful and the reduction in capture had a positive effect on enrolment. However, one would argue that the campaign was successful to the extent that there was no information asymmetry between parents and authorities. But this is not the case in many countries in Southern Africa when it comes to the provision of public services, as information is usually not available to the public. Many countries in the subregion do not even have legislation that mandates free access to public information, and those that have such access are not implementing it to the letter. Instead, many governments still maintain legislation and clauses from the colonial area relating to classified information that curtail access to essential information.
From the literature review, what has emerged is that corruption is driven by a host of economic, social, political and cultural factors. However, context matters when isolating the specific drivers and effects of corruption. Corruption has far-reaching consequences on development outcomes, and retards growth by discouraging savings and investments. It is an unnecessary cost in business transactions, leading to perverse incentives in the market of goods and services. In terms of governance, it erodes public confidence in and legitimacy of institutions.

How we define and measure corruption will, to a large extent, determine what policy instruments to deploy to address it. We therefore endorse the broader definition of corruption as presented by ECA while considering contextual relevance. Against this backdrop, there is merit in examining the impact of corruption in general and in Southern Africa to improve policy targeting.

Impact of corruption and why fighting it matters: regional and global perspectives

Corruption is a serious crime that can undermine social and economic development in all societies. It has been noted that no country, region or community is immune to the negative impact of corruption. The effects of corruption were aptly captured in the 1997 Lima Declaration Against Corruption, which states that “corruption erodes the moral fabric of every society; violates the social and economic rights of the poor and the vulnerable; undermines democracy; subverts the rule of law, which is the basis of every civilized society; retards development; and denies societies, and particularly the poor, the benefits of free and open competition”. Similar views were expressed in the 1999 Durban Commitment to Effective Action Against Corruption, which notes, among other things, that corruption “deepens poverty; it debases human rights; it degrades the environment; it derails development, including private sector development; it can drive conflict in and between nations; and it destroys confidence in democracy and the legitimacy of governments. It debases human dignity and is universally condemned by the world’s major faiths”.

Thus, corruption reduces societal socioeconomic welfare – for example, if a private firm wants to construct a private golf course with exclusive rights
in a public wetland because it is commercially viable to do so and acquires that land by bribing officials. The social implications of such an action are obvious. This act is not necessarily an efficient way of allocating and using public resources, because the wetland might have higher social returns to the community through ecotourism, harvesting of timber and other alternative uses than the business interests being served. Undoubtedly, corruption creates perverse incentives for those with money and power to acquire public goods to the disadvantage of the poor and society at large. We argue that not all goods and services can be efficiently allocated through markets, especially in the face of information asymmetry, policy failure and market distortions. Needless to say, corruption leads to a suboptimal allocation of resources and creates market distortions.

It is a no-brainer that corruption makes the poor poorer and the rich richer. Empirical studies have shown that the poor pay the highest percentage of their income in bribes. For example, in Paraguay, the poor pay 12.6 percent of their income in bribes, while high-income households pay 6.4 per cent. The comparable numbers in Sierra Leone are 13 percent and 3.8 percent, respectively.

Corruption creates uncertainty in economic transactions, while at the same time adversely affecting investment decisions and economic performance in a given country. In this context, corruption adds to the cost of doing business and the provision of services, especially in Africa. It is also perpetuating a self-reinforcing culture of poor service delivery in Africa, in which: service provision does not necessarily benefit the poor; services are neither affordable nor accessible to the vast majority of the poor population; and services to the poor are of poor quality, because service providers are not responsive to their needs (ECA, 2017b). ECA notes that corruption undermines the rule of law and is a serious threat to the overall stability and security of many African countries.

Others have also argued from a purely economic and business standpoint that corruption in exceptional circumstances is functional because it greases the wheels of economic activity and the provision of services, and is, therefore, an optimal solution to bureaucratic red tape (see ECA, 2017b: Acemoglu and Verdier, 1998; Bardhan, 1997; Beck and Maher, 1986; Huntington, 1968; and Lien, 1986). This paper takes note of that view, but does not endorse it,
for reasons that are explained in subsequent sections. Instead, we focus on the negative impact of corruption in Southern Africa in order to propose measures for reversing it.

The estimated cost of corruption in Africa is much higher than the total combined development aid that it receives – over $150 billion is estimated to be lost annually in Africa through corrupt practices (see Kaninda, 2015; and ECA, 2017b). If that money were to remain within national budgets, it would boost domestic resources, improve social outcomes in health and education, contribute to infrastructure development and propel economic growth through structural transformation.

Africa’s rate of reported economic crimes, which include bribery and corruption, has increased from 57 percent in 2016 to 62 percent in 2018. That is followed by North America at 54 percent and Latin America at 53 percent, respectively. Table II shows that corruption and poor governance in Africa remain a big challenge and therefore a stumbling block to social and economic development.

More specifically, there was deterioration in the subcategories of corruption in government and among public officials, and corruption and bureaucracy, between 2007 and 2016. Equally, there was also deterioration in ratings over the same period in the subcategories of diversion of public funds and corruption investigation.

We argue that structural transformation and fundamental change in Africa’s economic and social structures that are pertinent to achieving the Sustainable Development Goals will not be effective if corruption is not decisively addressed on the continent.

At a global level, every year $1 trillion is paid in bribes, while an estimated $2.6 trillion is stolen through corruption – a sum equivalent to more than 5 percent of global GDP. In developing countries, according to the United Nations Development Programme (UNDP), funds lost to corruption are estimated at 10 times the amount of official development assistance. The surge in corruption is reinforcing a vicious circle of corruption and inequality. UNDP notes that the richest 1 percent own about 43 percent of the world’s wealth, and the bottom 80 percent only share 6 percent (UNDP, 2014).
Table 2: **African average performance in accountability and its subcategory indicators (2007–2016)**

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<td>35.2</td>
<td>34.4</td>
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<td>35.7</td>
<td>34.9</td>
<td>33.2</td>
<td>34.6</td>
<td>35.8</td>
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<tr>
<td>Access to Information</td>
<td>28.2</td>
<td>28.2</td>
<td>28.2</td>
<td>28.2</td>
<td>27.6</td>
<td>27.6</td>
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<td>31.2</td>
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<tr>
<td>Public sector accountability and transparency</td>
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<td>44.5</td>
<td>44.0</td>
<td>43.9</td>
<td>45.3</td>
<td>45.5</td>
<td>46.3</td>
<td>46.6</td>
<td>46.7</td>
<td>46.9</td>
</tr>
<tr>
<td>Accountability of public officials</td>
<td>37.0</td>
<td>39.1</td>
<td>38.4</td>
<td>37.3</td>
<td>37.3</td>
<td>37.1</td>
<td>36.9</td>
<td>36.4</td>
<td>36.4</td>
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<td>37.1</td>
<td>36.4</td>
<td>35.7</td>
<td>35.1</td>
<td>34.3</td>
<td>33.0</td>
<td>33.2</td>
<td>32.6</td>
<td>34.1</td>
</tr>
<tr>
<td>Corruption and bureaucracy</td>
<td>45.8</td>
<td>46.5</td>
<td>45.2</td>
<td>44.7</td>
<td>43.9</td>
<td>43.9</td>
<td>43.4</td>
<td>36.0</td>
<td>37.0</td>
<td>37.0</td>
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<tr>
<td>Diversion of public funds</td>
<td>38.4</td>
<td>39.4</td>
<td>39.6</td>
<td>38.1</td>
<td>35.4</td>
<td>34.1</td>
<td>32.6</td>
<td>33.4</td>
<td>36.2</td>
<td>37.4</td>
</tr>
<tr>
<td>Corruption Investigation</td>
<td>33.9</td>
<td>33.8</td>
<td>33.5</td>
<td>33.2</td>
<td>32.4</td>
<td>31.9</td>
<td>31.8</td>
<td>29.6</td>
<td>32.1</td>
<td>32.3</td>
</tr>
</tbody>
</table>

*Source: Mo Ibrahim Foundation, 2017.*
According to UNDP, widening income inequality within countries and globally is pushing up corruption, as the rich use corruption to maintain or increase their control of resources, and the poor are forced to give in to petty corruption to access services. Before we can effectively uproot corruption and stem its effects, we need to measure it. So how big is the problem of corruption in Southern Africa? This question is addressed in the next section.

**Scale of corruption in Southern Africa**

Generally, there are several indices used to measure the size of corruption, some based on qualitative assessments, while others are based on quantitative elements. For example, the Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business people. It uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. The index captures public perceptions about corruption. It is, therefore, a useful indicator that shows the magnitude of the problem. Figure 1 shows wide variations in the index score between and among countries for which there was data in the subregion.

Notably, in 2017, Botswana, Namibia and South Africa jumped out of the pack as the countries that were perceived to be the least corrupt in Southern Africa. This is not surprising, given that these same countries have fairly strong institutions, such as an independent judiciary, an active civil society and other oversight bodies. However, the Democratic Republic of the Congo, Zimbabwe, Lesotho, Mozambique and Malawi are perceived to be the most corrupt countries in the subregion. Globally, out of a total of 180 countries that were sampled by Transparency International in 2017, Angola (167), the Democratic Republic of the Congo (161), Zimbabwe (157), Mozambique (153), Malawi (122) and the United Republic of Tanzania (103) were poorly ranked on the Corruption Perceptions Index.

The results in figure 1 align with the assessments of the International Country Risk Guide (ICRG), which focuses on six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Each dimension is measured on a scale of 0 to 1, with 0 for very low outcomes and 1 for very high outcomes of governance. In relation to the subcategory on control of corruption, ICRG in 2016 rated Angola (0.17), Botswana (0.67),
the Democratic Republic of the Congo (0.25), Madagascar (0.33), Malawi (0.33), Mozambique (0.33) and Namibia (0.55). Others were South Africa (0.42), the United Republic of Tanzania (0.33), Zambia (0.42) and Zimbabwe (0.17). With a score of 0.17, both Angola and Zimbabwe are outliers, with weak corruption control mechanisms, while Botswana and Namibia are the best performers in the subregion, with a rank of over 0.5. ICRG includes a political risk index, which in turn consists of 12 components measuring various dimensions of the political and business environment facing firms operating in a country.

When correlations are done between the log of GDP per capita (proxy for economic development) and Corruption Perceptions Index scores, we find that countries with higher GDP per capita (Botswana, Namibia and South Africa) are perceived to be less corrupt as measured by a high score on the index. This seems to suggest that people’s perceptions of corruption in Southern Africa are strongly influenced by the level of economic development in a country (Figure 1). The reverse is also true – that is, low levels of economic development in a country are perceived to be synonymous with high corruption. Intuitively, countries with high levels of economic development and strong institutions are more likely to use public resources efficiently than those with low levels of development and weak institutions.

**Figure 1: Corruption Perceptions Index on a scale of 0–100, 2017**

Source: Author’s construction using Transparency International data.
Although Botswana, Namibia and South Africa are generally perceived to be less corrupt compared with others, evidence also shows that they have relatively high levels of illicit financial flows.\(^\text{10}\) According to a Global Financial Integrity report (2014), between 2003 and 2012, South Africa lost $122.1 billion, Zambia lost $25.9 billion, Botswana lost $8.6 billion, Angola lost $6.3 billion and Namibia lost $6 billion. Using 2012 nominal values, these translate into cumulative economic losses of 5.4 percent of GDP in Angola, 30.8 percent of GDP in South Africa, 46.1 percent of GDP in Namibia, 58.5 percent of GDP in Botswana, and a staggering 101.5 percent of GDP in Zambia (see table III).
### Table 3: Illicit financial flows in SADC countries (in millions of United States dollars, nominal value)

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<tr>
<td>Angola</td>
<td>822</td>
<td>0</td>
<td>574</td>
<td>0</td>
<td>1641</td>
<td>1236</td>
<td>0</td>
<td>1695</td>
<td>17</td>
<td>326</td>
<td>6312</td>
</tr>
<tr>
<td>Botswana</td>
<td>161</td>
<td>464</td>
<td>228</td>
<td>550</td>
<td>1303</td>
<td>1072</td>
<td>1723</td>
<td>210</td>
<td>923</td>
<td>1926</td>
<td>8560</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>503</td>
<td>539</td>
<td>539</td>
<td>458</td>
<td>170</td>
<td>0</td>
<td>312</td>
<td>344</td>
<td>0</td>
<td>148</td>
<td>3012</td>
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<tr>
<td>Lesotho</td>
<td>71</td>
<td>55</td>
<td>61</td>
<td>158</td>
<td>295</td>
<td>432</td>
<td>584</td>
<td>61</td>
<td>264</td>
<td>506</td>
<td>2487</td>
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<tr>
<td>Madagascar</td>
<td>59</td>
<td>755</td>
<td>412</td>
<td>1598</td>
<td>73</td>
<td>637</td>
<td>166</td>
<td>108</td>
<td>270</td>
<td>178</td>
<td>4257</td>
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<tr>
<td>Madagascar</td>
<td>211</td>
<td>160</td>
<td>493</td>
<td>405</td>
<td>442</td>
<td>1022</td>
<td>851</td>
<td>666</td>
<td>1046</td>
<td>552</td>
<td>5847</td>
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<td>Mauritius</td>
<td>107</td>
<td>32</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>192</td>
<td>319</td>
<td>472</td>
<td>0</td>
<td>402</td>
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<tr>
<td>Mozambique</td>
<td>83</td>
<td>0</td>
<td>0</td>
<td>362</td>
<td>103</td>
<td>0</td>
<td>23</td>
<td>563</td>
<td>20</td>
<td>0</td>
<td>1155</td>
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<tr>
<td>Namibia</td>
<td>89</td>
<td>107</td>
<td>138</td>
<td>399</td>
<td>756</td>
<td>787</td>
<td>1010</td>
<td>509</td>
<td>754</td>
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<tr>
<td>Seychelles</td>
<td>154</td>
<td>82</td>
<td>75</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>South Africa</td>
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<td>18600</td>
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<tr>
<td>Eswatini</td>
<td>92</td>
<td>99</td>
<td>150</td>
<td>508</td>
<td>1139</td>
<td>400</td>
<td>430</td>
<td>66</td>
<td>270</td>
<td>556</td>
<td>3710</td>
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<tr>
<td>United Republic of Tanzania</td>
<td>340</td>
<td>96</td>
<td>704</td>
<td>36</td>
<td>58</td>
<td>390</td>
<td>308</td>
<td>1356</td>
<td>613</td>
<td>717</td>
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<td>Zambia</td>
<td>1004</td>
<td>1825</td>
<td>2071</td>
<td>2469</td>
<td>3283</td>
<td>2589</td>
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<td>3754</td>
<td>4272</td>
<td>25969</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>0</td>
<td>306</td>
<td>354</td>
<td>1792</td>
<td>97</td>
<td>0</td>
<td>111</td>
<td>14</td>
<td>0</td>
<td>0</td>
<td>2673</td>
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</table>

*Source: Global Financial Integrity, 2014.*
With such huge losses to those economies, it becomes a daunting task for those countries to allocate sufficient resources for social and economic development, in line with their national priorities and the Sustainable Development Goals. These economic losses also reinforce the loss of confidence and trust in public institutions by citizens in many countries in Southern Africa.

Overall, the results in Figure 2 are also consistent with those in Figure 1. Therefore, zero-level corruption is good for economic growth, and, by implication, economic and social development in Southern Africa.

Another proxy indicator that can be used to gauge corruption is the Country Policy and Institutional Assessment (CPIA) of the World Bank. CPIA is an annual World Bank diagnostic tool that is used to determine the progress that countries are making in strengthening the quality of their policies and institutions. CPIA measures the extent to which a country’s policy and institutional frameworks support sustainable growth and poverty reduction, and, consequently, the effective use of development assistance.¹¹

CPIA consists of 16 criteria grouped in four equally weighted clusters: economic management, structural policies, policies for social inclusion and

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Figure 2: GDP and Corruption Perceptions Index scores for select countries in Southern Africa

Source: Author’s construction using data from the World Bank and Transparency International.
equity, and public sector management and institutions. For each of the 16 criteria, countries are rated on a scale of 1 (low) to 6 (high). Each of the four clusters has a 25 percent weight in the overall rating. Within each cluster, all criteria receive equal weight, although components within a criterion may be weighted differently. The scores depend on the level of performance in a given year assessed against the criteria, rather than on changes in performance compared with the previous year. The ratings depend on actual policies and performance, rather than on promises or intentions.

To the extent that corruption is a symptom of weak institutional quality or poor governance, CPIA gives a good indication of whether institutions in a given country are strong enough to curb corruption. For the purposes of this paper, we have used three components of CPIA that are directly relevant to issues of corruption. The three focus areas help us to gauge institutional quality in the selected countries, for which data were available from 2005 to 2016. Specifically, we assess the quality of public administration, property rights, rule-based governance and public sector management and institutions, as illustrated in figures 3, 4 and 5, respectively. These are a good proxy for measuring the strength of economic governance in a country, and, by implication, the ability of government to fight corruption.

Figure 3 shows significant variations in the quality of public administration, with Madagascar, Malawi and the United Republic of Tanzania maintaining a score of 3.5 between 2005 and 2016. During the same period, the Democratic Republic of the Congo (2.5), Lesotho and Zambia (3.0) also maintained

Figure 3: CPIA quality of public administration rating (1=low to 6=high)

Source: Author’s construction using World Bank data.
their scores, while Zimbabwe marginally improved from 2 to 2.5. Although Madagascar, Malawi and the United Republic of Tanzania had maintained an intermediate score of 3.5, or 14.2 percent above the average, between the two comparator years, this implies moderate strength in the quality of public administration; while Zimbabwe, with a score of 2.5, can be described as having weak public administration. Weak public administration is not amenable to the fight against corruption.

Figure 4 also shows marked variations in the score for property rights and rule-based governance. Madagascar and Mozambique registered a deterioration in their ratings, from 3.5 to 2.5, representing a decrease of 28.6 percent between 2005 and 2016. This suggests weakening in the regimes of property rights and rule-based governance, with implications for investor confidence and economic performance. In addition, a weak rule-based governance system means that rules can easily be circumvented, and, therefore, corruption may not be easily arrested in public institutions. The Democratic Republic of the Congo, the United Republic of Tanzania and Zambia maintained their scores, at 2.5, 3.5 and 3, respectively, over the same reference years. Interestingly, Zimbabwe posted a marginal improvement of 50 percent in its score, but was still below the average rating of 3.0 – implying weak property rights and rule-based governance in the country. In another related empirical study, Zulu (2016) found that Botswana and Mauritius have seen remarkably high

Source: Author’s construction using World Bank data.
levels of economic development because of strong property rights institutions, while Malawi, Zambia and Zimbabwe expunged constitutional safeguards against property expropriation.

Figure 5 presents the quality of public sector management and institutions with mixed results among countries. The Democratic Republic of the Congo and Zimbabwe registered marginal increases in their scores, by 9 percent and 33 percent, respectively, but were both below the average rating of 3. Lesotho, Madagascar, Malawi and the United Republic of Tanzania regressed in their scores by varying degrees. This indicates challenges in public sector management and institutions, and, by implication, weak capacity to tackle corruption and other economic crimes.

Given the magnitude and scale of corruption as presented in this section, how does the subregion roll back the scourge? The next section explores formal and informal mechanisms, including theoretical and gender approaches, to reverse corruption in Southern Africa.

**Fighting corruption in Southern Africa: theory and practice**

Despite having several policy instruments against corruption, the vice remains largely unabated in Africa, especially in Southern Africa. One may therefore argue that, to be effective, corruption measures should be informed by what is driving it in the first place. That is, we should start from the premise that,
to develop clear policies to controlling corruption, the causes of corruption in developing countries should be isolated from the causes of corruption in developed countries (Baig, 2015). This is so because the institutional and policy contexts between developed and less developed countries is different.

It is also imperative to identify where corruption is taking place, whether at the institutional level – for example, in procurement processes – or at the sectoral level, such as in ministries or specific departments (e.g. police and customs and immigration). It is equally critical to identify who is involved and why in order to make targeted interventions. We also argue that a one-size-fits-all solution might not be optimal or effective in reversing corruption because of the complexity of the phenomenon. Each proposed intervention is unique and designed to address a specific cause or causes of corruption.

The efficacy of existing interventions to fight corruption in Southern Africa has been questioned (OSISA, 2017). Although there is a plethora of literature on the causes and consequences of corruption, there are gaps in identifying effective ways and strategies for fighting corruption in the subregion. One of the major weaknesses of current measures is that they have entirely focused on formal institutions – such as constitutions, laws, policies, rules and regulations – to the exclusion of informal institutions such as culture, norms, ethics, traditions and religious beliefs. As noted by President Muhammadu Buhari of Nigeria in January 2018, “The adoption of the legal and policy frameworks has not had the desired success in tackling this evil”.13

Notably, anti-corruption efforts often fail because of an approach that is not theoretically well-founded (ECA, 2017b). In this regard, ECA proposes a critical review of relevant theories on corruption before prescribing interventions to cure it. More precisely, ECA provides a critical review of known theories on corruption, namely the public choice theory, the principal–agent theory, Klitgaard’s corruption formula, and the approaches of new institutional economics. However, the theoretical rationale of anti-corruption interventions has been criticized for being based on unsatisfactory idealizations. Instead, some scholars have argued that corruption is embedded in sociocultural structures that are endemic to the process of transition to industrial capitalism – a transition that all developing countries are arguably undergoing, however haltingly (Uberti, 2016).
According to Uberti (2016), this insight clarifies the theoretical limitations of mainstream corruption economics and provides a framework for constructing more empirically adequate explanations of corruption levels in specific countries. He also suggests that substantially reducing, let alone eradicating, corruption in the developing world may not be possible without fundamentally rethinking the existing set of anti-corruption strategies and techniques. In other words, there is no magic bullet for eradicating corruption. Interventions should be contextual and based on a multi-pronged approach of policy, institutional, legal, administrative and cultural strategies. This approach is not only compelling but critical in Southern Africa, for strong results in the fight against corruption.

At a global level, on 31 October 2003, the United Nations General Assembly adopted the United Nations Convention against Corruption, which came into force in December 2005. The General Assembly also designated 9 December as International Anti-Corruption Day, to raise awareness of corruption and of the role of the Convention in combating and preventing it. However, to be effective, measures should go beyond awareness-raising to actual curative actions and strategies.

At the continental level, Africa has made bold commitments to tackle corruption by putting in place institutional, legal and policy frameworks, notably the African Union Convention on Preventing and Combating Corruption. Specifically, 2018 was dedicated by African Heads of State and Government to fighting corruption under the theme: “Winning the fight against corruption: a sustainable path to Africa’s transformation”.

However, the persistent and rampant corruption in Africa and Southern Africa suggests a need to go beyond existing policy instruments to more dynamic and innovative measures to reverse the vice. Indeed, the failure of anti-corruption policies in developing countries proposed by conventional economic and political analysis provides a rationale for a detailed investigation of corruption dynamics in these countries (Baig, 2015). Driven by the inadequacy of existing measures on corruption, some strong advocates of anti-corruption suggest an array or repertoire of interventions to fight the vice. The “anti-corruption consensus” of the dominant development paradigm sees corruption as a governance failure and maintains that graft can be reduced or eradicated through appropriate formal institutional reforms, such as strengthening the
jудiciary, designing corruption-proof regulatory regimes, and establishing anti-corruption agencies (Uberti, 2016).

These measures resonate well with the policy stance taken by the World Bank and indeed the Southern African Development Community (SADC) on fighting corruption using a formal institutional approach. For example, the SADC Protocol Against Corruption of 2001 aims to promote and strengthen the development, within each member state, of mechanisms needed to prevent, detect, punish and eradicate corruption in the public and private sectors. The Protocol further seeks to facilitate and regulate cooperation in matters of corruption among member states and foster development and harmonization of policies and domestic legislation related to corruption.

Thus, strong institutions are essential in reversing corruption. This position was also stressed by President Buhari in January 2018: “I cannot overemphasize the value of strong institutions. A judiciary which stands firm against arbitrariness and injustice by the executive is a vital pillar in the anti-corruption fight. As leaders, we must build synergy between the executive, legislative and judicial arms of government to entrench good governance, transparency and accountability.”

Put differently, there is a need to strengthen national mechanisms and foster regional cooperation in the fight against corruption. These measures should be complemented with clear messaging to avoid ambiguities in what is intended to be done and achieved. In this context, it is instructive to draw lessons from successful campaigns, such as the anti-AIDS campaigns, that deploy various strategies to invoke positive reactions from communities against the killer disease.

Another institutional mechanism within the governance framework that could be employed for addressing corruption in Southern Africa is periodic elections. As part of their democratic rights, citizens use elections to put leaders of their choice into public offices. Citizens also use elections to pass judgment on leaders and politicians who are perceived to be corrupt. Through the electoral ballot, citizens vote out of power all politicians perceived to be incompetent and corrupt, and afterward prosecute them for economic crimes committed while holding public office. In some countries in the subregion, some former senior government officials and leaders have been arraigned in court for economic crimes, including corruption. Therefore, credible and predictable electoral cycles are a powerful mechanism for addressing
corruption in public office. However, for these mechanisms to be effective, there is a need for an independent judiciary to adjudicate matters impartially. More important, there is a need for greater civic awareness among citizens and for greater access to credible and sufficient evidence, so that voters may make informed choices when electing leaders at different levels of government.

We also suggest getting local communities involved in the fight against corruption. One should not discount the power of organized citizens and communities to fight corruption by demanding public accountability and integrity in public office. This has the potential to change political and economic institutions, as more and more citizens demand accountability from their leaders and impose negative sanctions on deviant behaviour. This is in line with the findings of Ering and others (2015) in their paper, in which they propose attitudinal and behavioural change towards ending corruption in the society; and the development of a single-minded leadership, zealously dedicated to genuine cultural and socioeconomic transformation of society and fighting corruption. According to them, such leadership must display transparency, probity, accountability, purposefulness and commitment to the fight against corruption. Indeed, Southern Africa has an opportunity to put such leadership in place and end corruption for stronger development outcomes.

This paper also argues for a joint use of formal and informal institutions, as the two are not mutually exclusive, in the fight against corruption. They complement each other and therefore provide a firm foundation for tackling the scourge. Riding on an informal institutional framework, some scholars, such as Ishola (2012), have used a strong theoretical argument on the role of expectations in eliciting desirable responses, to suggest that a continuous disregard of the corruption-reducing impact of the revealed ethics would always lead to a suboptimal anti-corruption policy, and exacerbate pressure to drift towards a locally stable corruption equilibrium. Indeed, no strategy on fighting corruption can be effective without considering people's perceptions, norms and beliefs. As noted by Rosenbaum and others (2012), we argue that corruption is associated with an absence of strong pro-social norms, such as trust and altruism, that are, broadly speaking, elements of societal culture. Drawing from institutional theory, Lewellyn and Bao (2017) argue that national culture dimensions of power distance and institutional collectivism,
which are related to how individuals view themselves with respect to others, serve as informal institutional forces that influence earnings management.

In the words of Douglass Cecil North, an American economist known for his great works in economic history, “institutions are informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)” that govern and regulate our conduct and behaviour. The stronger the institutions, other things being equal, the better the outcomes of our collective behaviour concerning the fight against corruption.

Given that corruption in Southern Africa affects men and women differently, this has implications for anti-corruption strategies. We therefore propose a gendered approach to the fight against corruption in the subregion. Empirical evidence elsewhere shows that a gendered analysis of corruption is a useful entrypoint to the examination of the gendered nature of accountability failures, and of gender-specific gaps in current attempts to promote good governance (Goetz, 2007). Indeed, empirical studies on development, gender and corruption (Hao and others, 2018; Breen and others, 2017) have shown that women are less prone to corruption. We argue that gender-sensitive policies in the subregion should be adopted in tandem with greater civic awareness on corruption and promotion of high-quality education, especially for women and girls. Some studies show that greater educational attainment lowers corruption, while greater judicial employment adds to corruption (Goel and Nelson, 2011). As the adage goes: “If you educate a man you educate an individual but if you educate a woman, you educate a nation”. Therefore, we strongly propose the economic and social empowerment of women and girls for stable and less corrupt societies in Southern Africa.

**Conclusion**

This paper explored the determinants and impact of corruption in Southern Africa. It was motivated by a glaring inadequacy in the current policy discourse and strategies, an inadequacy which has manifested as unabated corruption in the subregion. Using theoretical and empirical evidence and experiences from other regions, the paper presented useful lessons that could help to inform the formulation of customized interventions and strategies to reverse the scourge of corruption in the subregion. The study brings in novelty by
exploring the role of gender, theoretical arguments and interactions between formal and informal measures in the fight against corruption. In so doing, it also makes specific recommendations on some of the strategies that member states could use to reverse corruption in the subregion.

The systematic review of empirical evidence on corruption has revealed that the phenomenon is complex and interwoven with other variables of governance, such as accountability in public administration. Therefore, addressing corruption in Southern Africa should involve a gamut of strategies ranging from policies, legal and administrative requirements, and formal and informal institutional setups, to the mobilization of local communities and the media to take action. Part of the challenge seems to be in weak policy implementation rather than the complete absence of policy instruments in member states. This could be indicative of weak public governance, resulting in policy and institutional failure.

The study notes that existing measures have overly focused on formal institutions such as laws, policies, rules and procedures, to the exclusion of informal institutions such as societal norms, ethics and religious beliefs. The paper stresses that corruption takes place in a cultural context, and, therefore, there is sufficient merit to pay attention to informal institutions as they relate to people's beliefs and norms. We have also argued that formal and informal institutions are not mutually exclusive, but complementary and mutually reinforcing in tackling corruption.

The study used strong theoretical evidence to highlight the negative impact of corruption on economic growth and development outcomes in general. Based on that, the paper calls for the reversing of corruption to save financial resources for laying a firm foundation for strong economic performance.

The paper also examined the possible role of gender in curbing corruption. Existing strategies in Southern Africa have not sufficiently incorporated gender-sensitive policies in the fight against corruption. However, empirical evidence strongly suggests that gender is an important driver of corruption. In this regard, the study calls for gender equality in decision-making processes, businesses and labour markets. Furthermore, girls should be empowered through access to high-quality education to develop a future cadre of female professional leaders in public and private spheres of life.
The study analysed theoretical insights on corruption and provided a critique of the current discourse, while at the same time providing complementary measures for tackling the vice. It also highlighted the importance of election cycles as possible avenues for remedying corruption in high political offices and other levels of government. However, elections are effective in dealing with corruption and poor governance in general only if levels of civic awareness are high and citizens are alert. The role of community mobilization and raising awareness has been explored in the fight against corruption.

Finally, the study’s major contribution to the body of knowledge on corruption in Southern Africa has been its ability to measure the scourge using various methodological indicators to determine its impact on socioeconomic development. These measures have been anchored in theoretical and empirical evidence, which highlights the existing gaps and thus possible ways to nip corruption in the bud.
Acknowledgements

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Notes

1. Could include bribery, fraud, embezzlement, extortion, kickbacks, influence peddling, cronyism or clientelism, favouritism, nepotism, patronage, speed money, abuse of public property and quiet corruption (ECA, 2017b).
2. Available at .
3. Ibid.
8. Ibid.
10. Illicit financial flows involve money laundering, corruption, international bribery and tax evasion, and are therefore broader than the concept of corruption.

14. Ibid.

References


Exploring issues and challenges in large-scale land acquisitions and the need for policy reforms

Chilombo Musa and Oliver Maponga

Abstract

Unclear, inadequate, murky and complex land acquisition processes compromise equitable access to land, especially for the poor and marginalized sections of society. The increased global demand for land on an increasingly larger scale by both local and international investors in developing countries such as Zambia further complicates land provision and redistribution processes, and creates room for the exploitation of weak legal and policy provisions by those with the upper hand. This paper investigates corrupt practices in large-scale land acquisition in Zambia. The paper applies the World Bank's Land Governance Assessment Framework as a diagnostic tool in evaluating Zambia's legal and policy frameworks and practices with respect to large-scale land acquisition. It shows that ambiguities in legal and policy frameworks, and the often convoluted processes involved in land acquisition created by the multiplicity of institutional actors in land administration and management, lead to bureaucracy and poor accountability; to incomplete and unclear policy and regulatory provisions (due to lack of a land policy and attendant regulations); and limited information among landowners, which creates a thriving space for corruption in large-scale land acquisitions and has an adverse impact on land access for the poor and marginalized. Thus, the role of land as an instrument for poverty reduction and economic transformation is compromised.

Key words: land, large-scale land acquisition, marginalized communities, poverty reduction, corruption, economic transformation

JEL classification: O12, Q15, D73, D82
Résumé

Des processus d’acquisition de terres peu clairs, inadéquats, opaques et complexes compromettent un accès équitable à la terre, en particulier pour les couches pauvres et marginalisées de la société. L’accroissement de la demande globale de terres, à une échelle de plus en plus large, par des investisseurs locaux et internationaux dans les pays en développement tels que la Zambie, tient compte des processus de fourniture et de redistribution des terres, ainsi que de l’exploitation des failles des dispositions juridiques et politiques par ceux qui ont le dessus. Le présent article examine les manifestations et les incidences des pratiques de corruption dans les processus d’acquisition de terres à grande échelle en Zambie. L’article a recours au cadre d’évaluation de la gouvernance des terres de la Banque mondiale comme outil de diagnostic pour évaluer les cadres juridique et politique de la Zambie, ainsi que les pratiques en matière d’acquisition de terres à grande échelle. Il montre que la multiplicité d’acteurs institutionnels dans l’administration et la gestion des terres crée des ambiguïtés dans les cadres juridique et politique, ainsi que dans les processus, souvent compliqués, qui font partie intégrante de l’acquisition de terres. Ces ambiguïtés conduisent à une bureaucratie et à une reddition de comptes inefficaces ; à des dispositions politiques et réglementaires incomplètes et peu claires, en raison de l’absence d’une politique foncière et de réglementations correspondantes, et à un échange d’informations limité entre les propriétaires fonciers. En conséquence, il se crée un espace prospère pour la corruption lors d’acquisitions de terres à grande échelle, ce qui a un impact négatif sur l’accès des pauvres et des marginalisés à la terre. Ainsi, la capacité de la terre à jouer le rôle d’instrument de réduction de la pauvreté et de transformation économique est compromise.

Mots-clés : terre, acquisition à grande échelle, communautés marginalisées, réduction de la pauvreté, corruption, transformation économique

Classification JEL : O12, Q15, D73, D82
Introduction

“Tainted lands” is a rather strong term, introduced by De Schutter (2016: 4), but an appropriate one, used to describe “an old phenomenon... where investors gain control of large parcels of land through corrupt means, harming local populations in the process”. Large-scale land acquisitions have existed for a long time. However, over the past few decades, there has been an increase in demand for land in African countries, including Zambia. This has been spurred by rising food prices, as investors seek to increase production, and exploration for oil, gas, uranium and other energy sources (German and others, 2011:1; Nolte, 2013: 4). According to de Schutter (2016:10), Africa has been the greatest recipient of large-scale land acquisitions, with 457 land deals having been documented by 2016. This figure is likely much higher on the continent, owing to poor land documentation practices or a lack of data in many countries.

Large scale is often defined as an area of at least 200 hectares (ibid.). However, because of the focus on Zambia, this paper adopts the limit of 250 ha per allocation, as set out in a Zambian administrative circular issued in 1985, and considers any larger allocation as a contravention of the prescribed policy. Acquisitions in Zambia between 2000 and 2016 show almost 400,000 ha of land under contract for various purposes (Land Matrix, 2018). In most cases, more than 250 ha of customary land has been acquired by a single investor, despite restrictions of 250 ha per investor as per the 1985 circular. Case studies presented later in the paper show how Kalumbila Minerals Limited controversially acquired 60,000 ha for mining investment (Chu and Phiri, 2015), Deulco of South Africa acquired over 190,000 ha in Mpika, the Agriculture and Rural Development Authority of Zimbabwe acquired 30,000 ha in Kawambwa, and Hawkwood Capital LLC of the United Kingdom acquired over 27,000 ha in Choma (Land Matrix, 2018).

Bujko and others (2016) contend that large-scale land acquisitions occur more in countries with a high amount of corruption. Zambia’s 2017 ranking on Transparency International’s Corruption Perceptions Index, at 96 globally and 18 in sub-Saharan Africa, indicates the perceived high levels of corruption in the country. In the land sector, reports of underhanded dealings in land allocation are commonplace in daily newspapers, laced with incidents of displacement of locals, conflict with traditional and political leaders and,
in some cases, court action (Chu and Phiri, 2015: 2; Chu, Young and Phiri, 2015; Nolte, 2013). For example, in 2017, the Minister of Lands suspended two councils for failure to adhere to guidelines and procedures in land administration by concealing information on land allocation and access. During the same year, the Government of Zambia announced plans to repossess land from foreign investors who would be “found guilty of acquiring it through corrupt means” – an indication of the recognition of the prevalence of the practice.

Although these transactions do not show outright evidence of corruption in the acquisition processes, they provide a point of entry for calling into question processes that allow for legal and policy frameworks to be circumvented in the acquisition of land across the country. Conclusions are drawn and inferences made to demonstrate that ambiguities and compromised implementation of legal provisions allow for corruption to constrain the potential for land to be available to landless Zambians. This compromises the ability of Zambians to use the land as a resource for national economic transformation.

This paper provides an analysis of large-scale land acquisitions in Zambia, and unpacks the intricacies in legal provisions that allow for some of the opaque land deals. The paper grounds itself in theories of governance with a specific focus on governance of both state and customary land (Burns and Dalrymple, 2008:7). The analysis is placed within the World Bank’s Land Governance and Assessment Framework’s broad themes of measuring land governance practices based on the legal and institutional framework; land use planning, management, and taxation; management of public land; public provision of land information; and dispute resolution and conflict management.

The first section of the paper after this introduction contextualizes the Zambian land sector, describing tenure systems, land acquisition processes, current governance and legal structures. The second section focuses on corruption fundamentals, with a discussion on types and causes of corruption, before an analysis of large-scale deals that depicts elements of corruption. Although exposing corrupt practices and pinpointing them remains difficult owing to the secrecy of dealings, the paper uses contexts in the acquisition of land to infer underhanded dealings, especially with the marginalization and displacement of local communities, and ensuing court action in some
instances, as evidence of corruption. The discussion on corruption borrows from the Transparency International definition of the act as “the abuse of entrusted power for private gain” and the classification of corruption as either grand or petty, administrative or political (Transparency International, 2011:2–4; de Schutter, 2016:2). As noted by Transparency International (2011:2), corruption in the land sector is evident in both statutory and customary systems, and this paper considers both tenure systems. The third section discusses the manifestation of possible routes or avenues for corruption in large-scale transactions in the land sector in Zambia. Possible reasons for the anecdotes on corruption in the sector are provided in the last section of the paper, together with recommendations for the simplification of procedures, legal reform, policy implementation and accountability to reduce corruption in land acquisitions.

Land sector in Zambia

Zambia has a total landmass of 752,612 square kilometres, and in 2016 had an estimated population of 15.9 million people, of whom 57.5 percent were below 18 years of age (ECA, 2019: 2). The country’s land tenure systems are informed by both pre-colonial and colonial history. A traditional land use and ownership system existed before British colonization. One’s access to land under the traditional system was determined by their belonging to a community or clan. Land access was thus identity-based. Traditional leaders would allocate land based on an unwritten set of rules and practices. When the territory came under the control of the British South Africa Company in 1899 (Crehan, 1997:205), the company introduced English laws that “formalized” land accessibility and placed certain restrictions on land ownership (Brown, 2005:5). As a result, the land was now owned under freehold and leasehold tenure, subject to the British Crown. English law was applied to a land known as crown land, while traditional practices applied in reserve and trust lands. The new tenure system relegated indigenous Zambians to reserves and tribal trust lands, while the settlers occupied the freehold and leasehold land, which was the most desirable and productive in the country.

Consequently, at independence in 1964, Zambia inherited the dual land tenure system. However, the country abolished freeholds in 1975 and converted them to leasehold tenure. Furthermore, crown land that existed during colonization was converted to state land, and is to this day vested in
the President. In contrast, customary land (formerly reserve and trust land) is held by chiefs in trust for the benefit of their subjects. Official records show that customary land comprises 94 percent of all land in the country, while state land comprises the remaining 6 percent (German and others, 2011:15). Figure 1 shows the distribution of land in Zambia. However, the legal framework provided by the 1995 Land Act has allowed conversions of customary land to state land. As a result, customary land has been “lost” to state land, as reverse conversions are not provided for. Following from this, estimates have been made of what constitutes state land and how much customary land remains in the country. For example, the Committee of Agriculture and Lands (2009, cited in ibid.) states that traditional authorities effectively control 37 percent of land in Zambia. Cognizant of the possible changes in the proportions of land under the two systems, the Zambian Government has proposed a land audit to determine the proportions of customary land and state land.

In 1991, the newly elected Movement for Multi-Party Democracy introduced reforms to the land sector through the promulgation of the 1995 Land Act,

*Figure 1: Map showing customary land and state land in Zambia*

Chapter 184 of the Laws of Zambia, which to this day guides the management and administration of land. The Act was the first step in liberalizing the land market, resulting in the application of market forces to accessing and utilizing state land in Zambia.

Significant reforms included a provision for the conversion of customary land to state land, an irreversible and contested process among various actors in the land sector, especially chiefs and other traditional leaders (Lusaka Times, 2018). The process gives authority to the chief to give or refuse consent after confirming that the conversion applicant has the right to the use and occupation of the land, detailing the period that the applicant has been holding the land under customary tenure, and that the applicant is not infringing on any other person’s rights. Owing to the inability for one to acquire title to customary land, conversions are popular for those who can afford the conversion fees, as they allow them to then use the land as collateral in accessing finance. Advocates for improving the security of tenure by formalizing ownership include the World Bank and, very popularly, De Soto, who argue for unlocking the latent value of land held under traditional systems by formalizing it. De Soto (2000) argues that formal property rights are the key to prosperity. This has led to numerous campaigns aimed at titling customary land in various countries. Consequently, there has been an increase in demand for customary land from both foreign investors and the local middle class in Zambia. Chu, Young and Phiri (2015:1) attribute the increase in demand for land by Zambians to rising incomes among middle-class Zambians, as well as to the government’s drive to boost economic growth through diversifying into other land-based economic sectors.

The acquisition of land by non-Zambians gained momentum following the enactment of the 1995 Land Act. A provision on the alienation of land to non-Zambians was aimed at promoting and encouraging foreign direct investment (FDI) into economic sectors other than mining. Before this, the alienation of land to non-Zambians was prohibited by the 1985 administrative circular and the Land (Conversion of Titles) Act (Ministry of Lands and Natural Resources, 1985; Government of Zambia, 1975). Land could only be alienated to non-Zambians if the “application has been approved in writing by His Excellency the President” (Ministry of Lands and Natural Resources, 1985:5).
The landscape has, therefore, changed in many communal and peri-urban areas in Zambia. Although some acquisitions have been negotiated with the locals, in many instances, people have been displaced by both foreign and local investors in what is commonly referred to as “land grabs” (De Schutter, 2016:7). These land grabs have led to the loss of not only an economic factor of production by locals, but also a social and cultural space where ancestors are buried, a place of spiritual worship and home, and an identity has been lost.

It is instructive, at this point, to explore the various dimensions of corruption that could be inferred to be prevalent or could manifest themselves in the land sector before analysing Zambia’s experience in large-scale acquisitions of land. The following section, therefore, provides an analytical framework of the tenets of corruption used throughout this paper.

**Land acquisition/use and corruption: an analytical framework**

Oxfam (2013) states that land investors target countries with poor governance in order to maximize profits and minimize red tape. Chu (2013:2) adds that land grabs have highlighted incidents of weak governance, corruptible politicians and weak land rights. Other studies show that there is a significant statistical correlation between levels of perceived corruption and the likelihood of land deals (De Schutter, 2016:20). Furthermore, Transparency International (2011:2) shows a strong correlation between levels of corruption in the land sector and overall public sector corruption in a country. This is supported by Buijkol and others (2015:5), who hypothesize that more corrupt governments facilitate land-grabbing activities. Government projects that support investment on a large scale may also trigger corruption, as they increase pressure on land resources. The cases presented in the fourth section show incidents of circumventing formal procedures in the acquisition of both statutory and customary land. In the case of Kalumbila Mining Ltd. (KML), the direct engagement of the investor with the local chief revealed ways in which procedures may not be adequately followed if not sufficiently monitored.

With the understanding that “where land governance is deficient, high levels of corruption often flourish” (Transparency International, 2011:1), Zambia’s ranking on the Corruption Perceptions Index is indicative of the potential for corruption to flourish in the land sector if not adequately addressed. As
seen in table 1, over the last six years, Zambia’s ranking globally on the index shows a stable score and an average global ranking of 85. These results are not indicative of a highly transparent governance system overall and depict high levels of corruption.

<table>
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<tr>
<th>Year</th>
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<td>2017</td>
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<td>96</td>
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Transparency International (2011:4) states that influential groups can use existing laws to seize land from the poor and marginalized. For example, eminent domain has been used by many governments to acquire land for public purposes. However, this power can be abused when politicians use force and not adequately and fairly compensate those affected. For example, such abuse is apparent where there is no framework for compensation for land lost. Corruption in land management strikes when local officials demand bribes for basic administrative steps, but also when high-level political decisions are unduly influenced (Transparency International, 2018).

Although corruption is a phenomenon that can be difficult to identify or measure, and is often hidden, masked or undocumented, it can still be inferred (De Schutter, 2016:20). This is the analytical approach adopted in this paper. Therefore, despite explicit cases of corruption in the land sector in Zambia being undocumented, anecdotal evidence points to the prevalence of the vice. Studies have shown that corruption exists for many reasons, including lack of information among landowners, poor policy and legal and regulatory systems, bureaucracy and poor accountability among officials, including chiefs (Chu and others, 2015). However, to determine how corrupt activities are likely to thrive in the land sector, especially concerning large-scale land acquisitions,
we explore four transmission vectors that could be relevant in the case of Zambia’s land deals: lack of information, bureaucracy, poor accountability, and high administrative costs.

To place the incidence of corruption in the context of this paper, we define corruption from the perspective of both providers and recipients of land services. From the perspective of the provider, we define corruption as the abuse of public office for private gain through the acceptance of bribes and in-kind services to provide a public service (which one is employed to provide) without following the laid-down procedures. From the perspective of the recipient of land services, we define corruption as the payment of a bribe or in-kind favour to entice a public official to perform a service, either expeditiously or without regard for formal procedures, both in customary and statutory areas. Corruption in the land sector can be administrative or political. While administrative corruption can take the form of small bribes that need to be paid to register property, change or forge titles, acquire land information, process cadastral surveys and generate favourable land use plans, political corruption manifests itself because of opportunities created through land transactions.

In many developing countries, coercive political regimes seek to gain control of a country’s natural resources, including land. This is fertile ground for political corruption, as it presents opportunities for political leaders to gain wealth, especially in negotiations with investors. Transparency International states that weak governance systems support political corruption and compromise institutions’ transparency, accountability and integrity (Chu and others, 2015: 4). In many cases, illegal actions may go unpunished and unreported, as key national institutions are co-opted to serve the interests of the few, usually the elite and politically connected. In Zambia, reports of misappropriation of funds in key institutions have been reported by donors, the Auditor General and parliamentary committees. However, many of these transgressions go unpunished and may permeate all sectors of an economy and institutions, including policymaking, thus making fighting corruption an enormous task. In large-scale land acquisitions, the effects of political corruption are a violation of the land rights of individuals and communities.

Although the effects of corruption on land-related issues vary both horizontally and vertically, for communities, the adverse effects include:
insecurity of tenure, food insecurity, retarded socioeconomic development, increased risk of conflict, alienation, and threats to traditional ways of life and identity. Furthermore, these effects directly compromise the community’s progress towards achieving socioeconomic development goals, including those set out in the 2030 Agenda for Sustainable Development and Agenda 2063, as well as those expressed in national visions.

**Land governance**

Tackling corruption in large-scale land acquisitions requires an interrogation of land governance provisions and concepts to allow for an in-depth analysis of policies and practices in the allocation of land. Land governance is concerned with:

... the ways property rights to land are defined and can be exchanged and transformed; the way in which public oversight over land use, land management, and taxation is exercised; the type of land that is state-owned; the way such land is managed, acquired and disposed of; the nature and quality of land ownership information available to the public and the ease with which it can be accessed and modified; and the way in which disputes are resolved and conflict is managed (Deininger and others, 2012).

Although several tools and indicators for land governance have been developed and used over time, this paper refers to the Land Governance and Assessment Framework, a tool developed by the World Bank to help evaluate the legal framework, policies and practices regarding land governance and to monitor improvement over time (ibid.). The tool identifies five broad thematic areas for policy intervention in the land sector. The themes, as depicted in figure 2, include the legal and institutional framework; land use planning, management and taxation; management of public land; public provision of land information; and dispute resolution and conflict management.

However, a detailed assessment of the Land Governance and Assessment Framework is beyond the scope of this paper. The paper conveniently focuses on the legal and institutional framework, public provision of land information, management of public land, and conflict resolution and conflict
Figure 2: Themes of the Land Governance and Assessment Framework

**Source:** Adapted from Deininger and others (2012).

management as determinants of the adherence to land governance tenets in large-scale land acquisitions in Zambia.

According to Deininger and others (2012), the legal and institutional framework assesses the extent to which the range of existing land rights is legally recognized, the level of documentation and enforcement, the cost of enforcing and upgrading these rights, and whether regulation and management of land involve institutions with clear mandates, as well as policy processes that are transparent and equitable.

Sufficient, relevant and up-to-date data on land ownership that is accessible to the public are key to ensuring that land acquisition processes are transparent, easily available and verifiable. The Land Governance and Assessment Framework also emphasizes accessible, affordable and sustainable land administration services.

An important consideration within public land management of large-scale land acquisitions is the way expropriations are carried out. Under the Land Governance and Assessment Framework, key aspects include ensuring that expropriation procedures are applied in the public interest through clear, transparent and fair processes involving the compensation of all those who lose rights.

The Land Governance and Assessment Framework emphasizes affordable, clearly defined, transparent and unbiased mechanisms for the resolution of
land disputes, and determines whether these mechanisms function effectively in practice. These themes and their indicators will be discussed in more detail when applied to the Zambian experience in the following sections.

**Large-scale land acquisition in Zambia**

Globally, large-scale land deals have increased. De Schutter (2016:10) states that over 1,073 land deals have been concluded since 2000, with the largest share being in Africa, where 457 deals have been recorded. It is important to note that the number could be higher, owing to the fact that many acquisitions across the continent go undocumented. In Zambia, the Land Matrix (2018) states that, as of 2016, a total of 34 large-scale land acquisitions were under contract. The procedure for acquiring state land and customary land in Zambia is detailed by Nolte (2013:15). She provides a detailed analysis of entry points for investors to acquire land, as outlined in Figure 2 (ibid.: 16). Also, the procedure for acquiring land for various purposes is further guided by institutions with the mandate to regulate investment in various industries. For example, the Zambia Development Agency provides guidelines on investment opportunities and procedures for investors, and assists investors with the identification of land for their investment purposes and with negotiations with chiefs in the case of customary land.

Regarding foreign investors, German and others (2011:16) show that, to access state land in Zambia, investors acquire a leasehold title in the form of a provisional certificate, which is valid for 14 years. The investor may apply for a 99-year leasehold after 6 years, upon submission of a boundary survey. Moreover, according to the Lands Act, the President may alienate land to a non-Zambian if the applicant is an investor. However, under consideration by the country is a draft land policy which proposes to regulate access to land by non-Zambians by providing for land access and use rights “while restricting ownership of land, both state and customary, to Zambians only” (Ministry of Lands and Natural Resources, 2017:30).

In terms of customary land, investors acquire land through two channels. The first is through direct negotiations with the local chief, who consults the village headman and the local community (Nolte, 2013:16; German and others, 2011:16). However, Nolte (2013: 16) notes that “de jure, local people must be consulted...; de facto, enforcement is not monitored...land acquisition
thus solely depends on the discretion of the chief”, which opens the process
to abuse and inducements for personal gain. Once consent has been granted
by the chief through a letter, the investor can then begin processes for the
conversion of the land to state land.\textsuperscript{1}

The second option is through the Zambian Government, which has
embarked on initiatives to facilitate and support investor efforts to acquire
land (German and others, 2011:16).\textsuperscript{2} Regardless of the way the land was
acquired, local communities and other stakeholders have expressed displeasure
at the acquisition processes and the clash of interests between occupants and
investors.

Chu, Young and Phiri (2015: 3) provide a summary of cases of large-
scale land acquisitions, and show that land has been acquired for various
purposes, including agriculture, mining and urban/industrial development.
Furthermore, they show that these acquisitions exceed the 250 ha stipulated
by the 1985 administrative circular. This information is supported by data
from the Land Matrix (2018:2–8), which documents 25 cases of large-scale
land acquisitions. The data show that the source countries of investors are
widespread and include Canada, China, Denmark, Germany, Hungary, India,
the Russian Federation, Singapore, South Africa, the United Kingdom and
Zimbabwe (Land Matrix, 2018:2; Chu, Young and Phiri, 2015:3). Also,
these acquisitions are diverse in their industry interests and are in different
parts of the country. Furthermore, acquired land is in both customary and
statutory areas. However, German and others (2011:16) argue that the “large
areas under customary tenure, along with the difficulty of accessing state
land, mean that most large-scale investments…target customary areas”. In
the cases presented in Table II, the process of acquisition varied owing to the
different categories of land acquired.

The next section provides a detailed account of the acquisition process of
randomly selected land transactions, highlighting the anomalies that lend
themselves to corruption and abrogation of the land governance tenets
adopted by Land Governance and Assessment Framework. An analysis of
the management and administrative procedures that are open to flouting and
may thus allow for corruption to thrive is also provided.
Controversy surrounded the acquisition of land by the Canadian firm, First Quantum Minerals through its subsidiary, Kalumbila Mining Limited, in Zambia’s Solwezi District. According to Chu and Phiri (2015:1), Kalumbila Mining Limited acquired 60,000 ha of land for a mining project. The land was acquired from a local chief, and the Zambian Government expressed its displeasure at the way the land was acquired. The local chief who had allocated the land “[denied] survey department officers from carrying out a site picking exercise to establish the actual size of the land for mining activities” (Lusaka Times, 2013). Further, the Minister of Chiefs and Traditional Affairs at the time reported that the government had identified anomalies in the way that First Quantum Minerals had acquired mining and surface rights (ibid). Chu and Phiri (2015:20) state that controversy emerged when it was made clear that Kalumbila Mining Limited did not hold title to the land in question,
Despite proceeding with the mining infrastructure, they add that Kalumbila Mining Limited seemed to have willingly neglected to obtain title, as they preferred to continue the mining project on customary land and not convert it to leasehold tenure. Chu and Phiri (ibid.) add that for construction of mining infrastructure and the environmental impact assessment process, “the lack of title appears to be one of the areas that demonstrates the lack of proper processes and due diligence in the project”. Further, the Minister of Chiefs and Traditional Affairs and the Minister of Lands, Natural Resources and Environmental Protection stated that agreements entered into by Kalumbila Mining Limited and the chief “were illegalities because chiefs are only allowed to allocate 250 hectares of customary land” (Lusaka Times, 2013).

When analysed through the lens of Land Governance and Assessment Framework indicators, this case exposes a disregard for appropriate land governance requirements due to inadequacies in the legal and institutional framework. To begin their operations properly, Kalumbila Mining Limited was required to obtain approval from various institutions, such as the traditional leader in charge of the land in question, the Ministry of Lands, the Ministry of Mines, Solwezi Municipal Council and the Zambia Development Agency. The Land Governance and Assessment Framework stipulates that clarity of institutional mandates is a key tenet of governance. However, overlapping responsibilities between state agencies and traditional authorities caused a standoff in the implementation of the mining project (ibid.).

In situations where mandates are unclear and overlap, good governance practices are likely to be undermined, thereby reducing confidence in the public’s perception of institutions operating in the land sector. This could also lead to practices that would aim at reducing lengthy and costly procedures because of the multiplicity of actors in land administration and management. This exposes processes to underhanded dealings, such as the acquisition of 60,000 ha, a deviation from the permitted 250 ha. Furthermore, the decision by Kalumbila Mining Limited to commence operations without converting the land to leasehold tenure, as detailed in the procedures for investors in the Land Act, shows that these provisions are vulnerable to exploitation if adequate monitoring mechanisms are not available and implemented. This case, therefore, indicates that corruption can thrive in spaces where the implementation of policies is weak and governance structures are compromised.
Amatheon Agri

According to Chu, Young and Phiri (2015:2), Amatheon Agri acquired over 30,000 ha of state land in a farm block in Mumbwa District for agricultural purposes (Land Matrix, 2018:2). The land acquired is in the historical farm block that was set up during Zambia’s colonization as a settlement scheme for British war veterans (Chu, Young and Phiri, 2015:13). Although the acquisition of land by Amatheon Agri led to the displacement of some local inhabitants, Chu, Young and Phiri state that Amatheon Agri resettled the families displaced at their own expense because the occupants were classified as “squatters” and were thus not entitled to any compensation or resettlement.

During the land acquisition process, several land governance issues were noted. For example, although the land acquired was state land, boundaries for all plots acquired were not respected (Chu and Phiri, 2015). This was due to the absence of clear land records. Also, despite displaced occupants being compensated in accordance with World Bank operational policies, the International Finance Corporation’s Note 5, and local ministries and departments’ valuations, those being displaced were still not included in decisions relating to displacement, being consulted only after the decision had been made (ibid.). A land governance indicator under the Land Governance and Assessment Framework is equity and non-discrimination in decision-making processes, and transparency and fairness in expropriation procedures. A weak institutional framework excludes key stakeholders – in this case, displaced landholders – from participating in decision-making, and leaves the process vulnerable to exploitation and corruption. Including affected communities in decision-making is important in ensuring that compensation is adequate and equitably provided.

Lusaka South Multi-Facility Economic Zone

As part of its efforts to attract foreign direct investment, the Zambian Government, through the Zambian Development Agency, has set up economic zones across the country. The Lusaka South Multi-Facility Economic Zone is an area of 2,100 ha (Chu, Young and Phiri, 2015:16) located in the country’s capital, Lusaka. The land in question is a former forest reserve and, as was the case with Amatheon Agri, occupants of the land were dubbed “squatters” (ibid). However, the Zambian Government decided on resettling and compensating the squatters when the land was acquired.
However, the multiplicity of actors in the land sector, and overlaps that may occur as a result, manifest themselves in the case of the economic zone. Displacement and resettlement cases are managed by the Office of the Vice President, the Department of Resettlement, and the Disaster Management and Mitigation Unit (Chu, Young and Phiri, 2015). However, the lack of cohesion between these institutions (ibid.) means that oversights and gaps in compensation and resettlement procedures are inherent in large-scale land acquisitions.

Several other land transactions have been concluded in Zambia, many with similar stories of displacement of local communities and questionable procedures. Table II depicts a few other cases, all in agriculture, and some with histories that are fraught with irregularities.

**Table 2: Selected large-scale land acquisition cases in Zambia**

<table>
<thead>
<tr>
<th>Investor's name</th>
<th>Location</th>
<th>Size of land acquired (ha)</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chiansi Irrigation Project</td>
<td>Kafue</td>
<td>1575</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Munyati Farming Ltd.</td>
<td>Choma</td>
<td>3500</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Nkanga Farms</td>
<td>Choma</td>
<td>11000</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Agro Commodities</td>
<td>Mumbwa</td>
<td>5000</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Wahnun Kaidi</td>
<td>Nakonde</td>
<td>4000</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Agriculture and Rural Development</td>
<td>Kasama</td>
<td>30000</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Authority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vixers Farming</td>
<td>Chibombo</td>
<td>1200</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Munyati Farming Ltd.</td>
<td>Choma</td>
<td>3500</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Bonafarm Group</td>
<td>Serenje</td>
<td>10000</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>

Sources: Chu, Young and Phiri (2015); Land Matrix (2018).

An analysis of the above cases reveals that a multiplicity of actors in land administration and management creates gaps where there is no clarity or cohesion in carrying out their various functions. This leaves processes vulnerable to corruption and worsens socioeconomic conditions for those who depend on land for their livelihoods. In addition, the legal framework set out in the 1995 Land Act has not been adequately implemented, given the number of violations reported in large-scale land acquisitions in different parts of the country.
Drivers of corruption in the land sector in Zambia

From the case studies presented, several drivers of potential corruption in the land sector in Zambia can be discerned. Key among them are: lack of adequate information on land services, bureaucratic processes, high administrative costs, weak legal and policy provisions, and poor accountability among public officials.

Lack of adequate information on land services

Access to information is an important tool in the pursuit of good socioeconomic governance. The scarcity of information creates an illusion of complex and unapproachable processes, even where the process is simple and straightforward. Important information on accessing land, prices, registration, titling, taxation and service provision, if lacking, may permit corruption to permeate and thrive. Also, large-scale land acquisitions often affect local communities, which may be unaware of their rights when displaced from the land they occupy. For example, in the case of the Lusaka South Multi-Facility Economic Zone, according to Phiri, Chu and Young (2015:16), community members who were displaced were aware that they would be compensated but “…did not feel adequately informed of any of the plans”. There is a need for publicity and advocacy on these issues, and on the rights of communities and the compensation that may be due to them upon displacement.

It is important that information on land services is made public and more accessible, in a form that can be interpreted easily. Processes shrouded in secrecy create the illusion of unapproachability and high costs when the processes are simple. Furthermore, accessibility should go beyond making information available for the elite in urban areas; the information should be made available on both statutory and customary land in rural areas. In the case of large-scale land acquisitions, those most affected are the poor and marginalized in rural areas. There is a danger of information being accessible only to the politically powerful and urban elites. Transparency International (2018: 13) proposes registration systems that include ways to inform potential land claimants about the processes and criteria used to decide between competing rights, and it argues that this would reduce the danger of concentrating land in the hands of the powerful elites. Making information
accessible would entail translating policy documents and legal instruments into local languages, and making it accessible to all stakeholders, including those who cannot read or write.

**Bureaucratic processes in the acquisition of land services**

If access to a service is long and arduous, it creates an opportunity for corruption to flourish, as users of the service seek quicker and more efficient ways of obtaining the service. In the case of large-scale land acquisitions, investors look for cost-saving opportunities, and this may result in them using corrupt means to accelerate the conclusion of deals. The case of Kalumbila Mining Limited in Solwezi District is instructive. The company's decision to begin the development of mining infrastructure without first converting customary land to state land as required would present an opportunity for corruption to thrive. Given the fact that this, like Chu, Young and Phiri (2015) report, was done intentionally because the company preferred the more temporal customary land tenure, compared with the permanent status the land would acquire if converted to state land; this is indicative of the company's openness to not following laid-down procedures. In this situation, it can be inferred that both traditional leaders and state officials would have engaged in corrupt activities to allow a mining company to begin operations before fulfilling all requirements.

The bureaucratic process may be further exacerbated by centralized governance systems that require certain processes to be undertaken only in provincial capitals or, worse, the country’s capital city. This would deter investors from following through with the laid-down procedures and use agents, who in most cases are known to public officials and work to circumvent laid-down procedures, and use this as an opportunity to make a living. Zambia has made efforts to decentralize the Lands Office, which had been available only in Lusaka and the Copperbelt Province’s capital, Ndola. The location of such services in the two cities for a country as big as Zambia meant that many land users face long and costly processes to have their needs attended to.

Thus, in addition to reducing red tape through clarity of policies and creating one-stop centres, the attendant land policies and administrative machinery should be simplified and made more accessible for all stakeholders.
High administrative costs in the provision of land services and weak legal and policy frameworks

Reducing corruption in the land sector is closely linked to improving a country’s governance systems. According to Burns and Dalrymple (2008: 1), good governance objectives include fairness, decency, accountability, transparency and efficiency. When costs are high, public officials may be targeted with bribery to entice them to offer a service at a lower cost, in addition to monetary incentives or in-kind favours. The competition for land provides fertile ground for such inducements to directly influence decisions.

This paper argues for the improvement of land governance systems and the reduction of corruption in land administration, by recognizing the important role played by enhanced access to adequate information, simplification of land management and administration processes, reduction in the cost of land-related services, and enhanced transparency and accountability of public offices and public officials. It is important that governments develop transparent, effective, simple and accountable land tenure systems, as well as provide a well-capacitated administrative system to anchor enforcement. Complex land ownership systems are vulnerable to corruption, and stakeholders look for ways to overcome the red tape.

Furthermore, the revision of land policies improves governance in the land sector, and the development of transparent, accessible and accountable systems of administration of land facilitates the creation of a platform for corruption-free land deals. Equally important will be the strength of oversight institutions: parliamentary committees, anti-corruption commissions, and law enforcement bodies. The guidelines on land rights and policies provided by the African Union, Frameworks and Guidelines on Land Policy in Africa (African Union, African Development Bank and ECA, 2010), adopted by the Assembly of Heads of State and Government in July 2009, and Guiding Principles on Large-Scale Land-Based Investments in Africa (African Union, African Development Bank and ECA, 2014), provide instructive recommendations to deal with land issues, including land grabbing.

Limited accountability among public officials, including chiefs

Efforts in reducing corruption and corrupt activities will be futile if systems to hold leaders accountable are not in place or are flouted. As noted by
transparency in land transactions is achieved by full disclosure of documents around investment deals and land title certificates. In addition to making processes and documentation publicly accessible, it is also important that information on decision-making when allocating land in large-scale land acquisitions, prices paid for the land, compensation paid to those displaced and relocation processes are all made public. Strong institutions need to exist in the pursuit of accountable public offices. In addition to the traditional forms of holding governments accountable through institutions such as parliamentary committees and anti-corruption agencies, the empowerment of local communities to hold their local leaders accountable is key to reducing corruption. Transparency International (ibid.) states that a highly valued form of accountability is social accountability, which is beneficial in countries with systematic problems of corruption and weak institutional frameworks. The system of traditional land governance requires oversight mechanisms to ensure that traditional leaders do not fall foul to inducements by investors.

**Conclusion**

Land is an important socioeconomic resource and is a source of livelihood for many communities around the world. In developing countries, many of the urban and rural poor are threatened with the loss of this source of livelihood by local and foreign investors acquiring large tracts of land for various investment purposes. This paper has shown that Zambia has witnessed several large-scale land deals involving more than the legislated maximum of 250 ha each. Of the cases presented, it is observed that some of the land deals, though not proven to have been concluded through corrupt means, were ripe for corruption on several counts, mainly due to the way the land involved was obtained. Corrupt activities are prevalent in both statutory and customary land transactions, and may involve both local and foreign investors, including government institutions.

Several situations allow for corruption to thrive, such as lack of adequate information on land services, bureaucracy, high administrative costs and unaccountable public officials. The cases presented in this paper illustrate deviations from the good land governance practices promoted by the World Bank’s Land Governance and Assessment Framework. Hence, to tackle corruption in large-scale land acquisitions, it is important that governance
systems are strengthened, and processes simplified, for both providers and recipients of land services. The importance of land for economic transformation cannot be overemphasized. Therefore, the need for more transparent processes in the buying and selling of land is necessary and should be upheld by all stakeholders. Tackling effectively the challenges inherent in large-scale acquisitions of land requires addressing the corruption that pervades the allocation and governance of land, and both administrative and political sources of corruption need to be addressed. Overall, to effectively tackle or minimize corruption, the government should improve governance in the sector.

Guided by international and regional frameworks – including the 2030 Agenda, Agenda 2063 and the Land Governance and Assessment Framework – as well as other development frameworks, the government should conclude the land policymaking process that is currently underway and commence the development of the required legal and regulatory frameworks. The land policymaking process and the development of attendant regulations should be underpinned by extensive consultation of all stakeholders, including communities.
Notes

4. Ibid.
7. Land Matrix, “Large Scale Land Acquisitions Profile: Zambia”.
17. German, Schoneveld and Mwangi, *Contemporary processes of large-scale land acquisition by investors*, 15.
18. Ibid, 16.
36. Ibid, 4.


39. Deininger, Selod, and Burns.

40. Ibid, 10.


42. Nolte, *Large-scale agricultural investments*, fig. 2, 16.

43. German, Schoneveld and Mwangi, *Contemporary processes of large-scale land acquisition by investors*, 16.


45. Nolte, *Large-scale agricultural investments*, 16; German, Schoneveld and Mwangi, *Contemporary processes of large-scale land acquisition by investors*, 16.

46. The Land Act provides templates of forms to be used for the conversion of customary land to state land. The templates are to be used by chiefs, investors and district councils.

47. For a detailed explanation of acquisition procedures for both state land and customary land, see German and others, 2011; Nolte, 2013; and the Lands Act.


51. German, Schoneveld and Mwangi, *Contemporary processes of large-scale land acquisition by investors*, 16.


55. Ibid.


63. Chu, Young and Phiri, *Large-scale land acquisitions*, 16.

64. Chu et al., “Large-Scale Land Acquisitions, Displacement and Resettlement in Zambia”.

65. Chu et al.


67. Phiri, Chu and Young, *Large-scale land acquisitions and development-induced displacement in Zambia*, 16


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Note: The views expressed in this paper are those of the authors and should not in any way be interpreted as the official position of ECA, or of the United Nations generally.
Yin and yang of microfinance: evidence from the Southern African Development Community

Innocent Bayai

Abstract

Some authors have claimed that commercialization and financial sustainability of microfinance are complementary to its social mission – a relationship that is popularized as the yin and yang relationship of microfinance. Noting the dire poverty levels and the trend to commercialize microfinance in Southern Africa, this study questions the yin and yang relationship with the intention of synthesizing informed poverty intervention strategies in the region. Robust panel methods applied to selected Southern African microfinance institutions (MFIs) that report to the Microfinance Information Exchange failed to affirm the yin and yang relationship, but acknowledged the role of the MFI financing structure in serving the poor. MFIs are generally financially unsustainable given their cost-inefficiency and high-risk portfolios. Though findings vary when outreach depth is used as a proxy, donations remain relevant in reaching the poor. Adopting cost-efficient strategies and advancing default risk management will go a long way in making MFIs financially sustainable. Acknowledging data limitations and taking bold steps to aggregate microfinance data in the region are essential in supporting evidence-based poverty intervention programmes.

Key words: financial sustainability, outreach depth, MFIs, SADC
Résumé

Des écrits antérieurs ont présenté la commercialisation de la microfinance et la vague de viabilité financière comme complémentaires à la mission sociale – une relation popularisée comme le yin et le yang de la microfinance. Notant les niveaux de pauvreté extrêmes et l'évolution de la commercialisation de la microfinance en Afrique australe, la présente étude interroge le yin et le yang dans le but de synthétiser des stratégies d'intervention éclairées contre la pauvreté dans la région. Des méthodes de panel robustes appliquées à une sélection d'institutions de microfinance (IMF) d’Afrique australe, issue de la base de données du MIX Market, n’ont pas confirmé l’hypothèse du yin et du yang de la microfinance. Mais ces méthodes ont reconnu le rôle de la structure de financement des IMF dans le service aux pauvres. Les IMF ne sont généralement pas financièrement viables, en raison de l’inefficience des coûts et du portefeuille à risque élevé. Bien que les résultats varient selon la variable de la profondeur de diffusion, les dons restent pertinents pour atteindre les pauvres. L’adoption de stratégies de minimisation des coûts et la gestion avancée du risque de défaut contribueront grandement à la viabilité financière des IMF. Vu les limites imputables aux données, le seul moyen de soutenir les programmes d’intervention contre la pauvreté consistera à prendre des mesures audacieuses pour agréger les données de la microfinance dans la région.

Mots-clés : viabilité financière, profondeur de diffusion, IMF, SADC
Introduction

The debate on the compatibility of financial sustainability and serving the poor, dubbed the “yin and yang of microfinance”¹ (Rhyne, 1998) – translated to mean “two sides of a whole, each incomplete without the other” – was penned when microfinance and commercialization in Southern Africa was still nascent, as most microfinance institutions (MFIs) were still financed by foundations, governments and donors. The relationship between financial sustainability and serving the poor is perceived as being as complementary. The assumption is that “only by achieving a high degree of sustainability have microfinance programmes gained access to the funding they need over time to serve significant numbers of their poverty-level clients” (Rhyne, 1998:7).

Later writings by Morduch (2000:617) emphasized that:

Microfinance institutions that follow the principles of good banking² will also be those that alleviate the most poverty. By eventually eschewing subsidies and achieving financial sustainability, microfinance institutions will be able to grow without the constraints imposed by donor budgets. In the process, according to the argument, these institutions will be able to serve more poor people than can be served by programmes fuelled by subsidies.

Financial sustainability thus is portrayed as a tool to serve the poor (Brau and Woller, 2004) through innovations which proffer self-sufficiency to MFIs and consistent outreach to the poor (Darko, 2016). The realization is that, under subsidized³ financing, “the going concern of microfinance projects was limited, the poverty levels and financing needs among the communities was unlimited” (Kipesha and Zhang, 2013:136). Paul (2010) estimated that the demand for microfinance exceeded the supply of microfinance by $300 billion against the $400 million⁴ provided by donors per year. Commercialization of microfinance has therefore been widely adopted as a way of expanding outreach to the poor (outreach depth) (Sekabira, 2013). Kapper (2007) also acknowledged that insufficient outreach to the poor is a function of intermediation backed by unsound financing – endorsing claims of donor inconsistency in funding development (Ayayi and Sene, 2010; Bulir and Hamann, 2006). Already, some MFIs have managed to reach the poor without the support of donor funding (Bogan, 2012).
In the time since the yin and yang relationship began to be discussed, microfinance in Southern Africa has developed and commercialization has become a reality (Johnson, 2015; Bayai, 2017). Commercialization in Southern Africa is affirmed by the surge in profit-oriented MFIs. Commercial banks searching for new markets to expand their profits have downscaled and are extending microfinance services in Angola, the Democratic Republic of the Congo, Malawi, Mozambique, South Africa, the United Republic of Tanzania and Zimbabwe (CGAP, 2010). Some commercial banks are providing microfinance services owing to their microfinance roots – thereby validating institutional metamorphosis⁵ (Campion and White, 1999). Whereas Angola, Botswana, the United Republic of Tanzania, Zambia and Zimbabwe recorded growth in non-bank financial institutions,⁶ which are now key microfinance players in small economies in the region (i.e., Lesotho, Namibia and Eswatini) (Karim and others, 2011). Former non-governmental organizations (NGOs) in Zambia, Mozambique and the Democratic Republic of the Congo have transformed into non-bank financial institutions, thereby widening their financing base and boosting chances of financial sustainability (Bayai, 2017). This is in sync with Johnson (2015:123), who noted that “the future of microfinance as a commercial industry has become the dominant strand of thought behind several international development organizations”.

Taking a subregional perspective, the notable commercialization of microfinance in SADC is not a match for the poor financial inclusion and menacing poverty in the subregion (Demirgüç-Kunt and Klapper, 2012; Forkusam, 2014; Johnson, 2015). This reality defies the theoretical underpinning of the role of financial sustainability in poverty alleviation. SADC (2014) projected that more than half of the population in the subregion lived on less than a dollar per day. While microfinance is traditionally construed towards reducing poverty through its social mission⁷ (Brau and Woller, 2004), it seems that pursuing financial sustainability has not helped much in abating poverty. Commercialization has flourished (Johnson, 2015), whereas poverty levels have worsened. Comparing microfinance outreach (depth and breadth) in Southern Africa with other areas in Africa and around the world shows that the Southern African region is lagging (Karim and others, 2011). Given these facts, it is essential to question the yin and yang relationship of microfinance in Southern Africa to understand whether the pursuit of financial sustainability is promoting mission drift⁸ in SADC.
From the research side, evidence of the complementarity of financial sustainability and outreach to the poor remains controversial. There is evidence that an emphasis on financial sustainability is causing mission drift (Cull and others, 2006, 2009; Hermes and Lensink, 2011; Hartarska and Nadolnyak, 2007). These studies note that, as MFIs seek financial sustainability, they attempt to lower administrative costs by deliberately offering bigger loans, which are incompatible with the needs of the poor. Also, the charging of commercial interest rates on loans is thought to deter poor borrowers, thereby limiting outreach to the poor.

However, other studies endorse the compatibility of financial sustainability and outreach depth (Quayes, 2012; Manos and Yaron, 2009). These studies show that financial sustainability infuses efficiency and attracts plentiful commercial resources, which can expand outreach at a mega-scale. Financial sustainability is also perceived to induce the adoption of cost-cutting technology, as well as the use of innovative lending methods (e.g. group lending), which lower default risk, thereby making loans affordable to the poor. Ideally, financial sustainability would serve to promote the long-term viability of MFIs, which would allow them to continue to provide financial services to the poor into the future.

Acknowledging the inconsistency in the relationship between financial sustainability and outreach to the poor, this study probes the yin and yang relationship by studying selected MFIs in the SADC subregion. The subregional focus of this study is based on Cull and others (2009), who note that microfinance trade-offs differ across regions, thus requiring empirics that embody the regional features that define microfinance activity. Also, the existing evidence on financial sustainability and outreach depth steered clear of Southern Africa. On the policy side, labelling the link between financial sustainability and serving the poor goes a long way in crafting poverty intervention strategies that have a lasting effect on poverty. Although Southern Africa accounts for only 2.5 per cent of the global population, it contains 9 per cent of the global population living in extreme poverty (i.e. on less than $1.90 per day), with an estimated 45 per cent of the subregion’s population living in extreme poverty (Institute for Security Studies, 2017). Given the need for poverty alleviation strategies in the subregion, questioning the yin and yang relationship is obligatory.
The second section of the paper, following this introduction, provides the rationale behind microfinance, the need for commercialization and financial sustainability, as well as a discussion of the nexus between financial sustainability and outreach. The third section describes the methodology, while the fourth and fifth sections present empirical results, and conclusions and recommendations, respectively.

**Microfinance and financial sustainability**

Whereas Hermes and Lensink (2011:F1) noted that “[l]ack of access to credit is generally seen as one of the main reasons why people in developing economies remain poor”, microfinance promises to serve the financial needs of the poor (i.e. its social mission) in a financially viable manner (i.e. its financial mission) (Millson, 2013). Access to financial services by the poor is thought to smooth out consumption, improve access to education and health facilities, as well as unlock entrepreneurship – a widely accepted approach to reducing poverty (Quayes, 2012). A growing body of literature and evidence concur on the poverty-alleviation role of microfinance, despite it not being a perfect intervention for all (Sekabira, 2013; Ukanwa and others, 2017). Recent studies acknowledge that access to microloans enhances access to education; increases income and investment, access to tap water and hygienic toilets; and improves agriculture and animal rearing, as well as the expansion of businesses for the poor (Regmi, 2013; Haji, 2013). Cudjoe (2014), making use of data from Ghana, highlighted that “a sizeable number of the programme beneficiaries attested to a certain level of improvement in their living conditions upon joining the microfinance programme”. Other empirical studies by Kasali and others (2015), Adu and others (2014) and Minja (2015) concur on the ability of microfinance to improve the financial status of targeted people as well as improve the social status of the same. Minja (2015), however, stressed an exception that microfinance clients must have entrepreneurial skills and basic education for microfinance to have a positive effect on their lives.

Despite the colourful testimonies cementing the role that microfinance plays in alleviating poverty, there has been contention in respect of the mode of delivery of microfinance. Practitioners who emphasize the need of serving the core poor⁹ believe that microfinance services must be provided to the
poor at subsidized prices to make them affordable (Brau and Woller, 2004). To enable this, most pioneering microfinance programmes were largely financed through non-commercial means (i.e. donations, subsidies and grants) (Wagenaar, 2012). However, “the costs of these programmes mounted quickly and, since no way was found around the collateral problem, default rates ballooned” (Morduch, 2000:620) and almost all subsidized microfinance programmes were unsuccessful (Adams and others, 1984). Given the high incidence of poverty globally, subsidized programmes could not match the demand for microfinance (Helms, 2006; Paul, 2010; Minja, 2015). Expansion of microfinance in order to cope with the ballooning demand has seen innovation not only in product design, but also in the manner in which MFIs are financed (Bayai, 2017).

The realization that non-commercial financing is volatile, uncertain and limited (Morduch, 2000; Millson, 2013) has seen MFIs opting for commercial financing sources, such as deposits, borrowing and equity – in a process popularly known as commercialization (Hoque and others, 2011; Zerai and Rani, 2012; Johnson, 2015). Numerous MFIs operating as NGOs have adopted commercial financing and have turned into non-bank financial institutions in search of adequate financing (Kar, 2012). Commercialization of NGOs is also a result of donors calling upon NGOs to be sustainable (Lafourcade and others, 2006). All the same, some MFIs have transformed into banks by observing provisions that regulate efforts to attract deposits. This transformation has enhanced access to financial markets by MFIs, thereby allowing for the raising of capital (Wagenaar, 2012). The use of commercial financing is understood to push MFIs to “focus on efficiency in managing costs, innovation in product design and adoption of technology to stay competitive” (Millson, 2013:2). Commercialization, contrary to subsidized programmes, is pro-self-sufficiency of MFIs (i.e. financial sustainability) through the adoption of commercial standards for pricing services and products.10

Financial sustainability is hailed for promoting innovation, accountability, cost-efficiency and expansion of microfinance, thereby allowing the poor to be better reached (Quayes, 2012; Manos and Yaron, 2009; Hoque and others, 2011). Innovation encompasses the use of technology (e.g. mobile banking services) and the adoption of lending methods (e.g. group lending), which reduce costs, thereby making financial services affordable for the poor.
Institutionalists believe that the goal is to serve the poor on a large scale, through financially sustainable institutions that are independent of limited and expansion-stifling subsidies (Mersland and Strom, 2010). Institutionalists therefore perceive financial sustainability as a tool to further the social mission.

However, welfarists assume that the pursuit of financial sustainability makes MFIs carefully choose clients, products and services, so as to limit administrative costs, lessen defaults and monitor costs to increase their viability. As a way of being cost-efficient, MFIs naturally limit small loans and offer bigger loans, thereby limiting outreach to the poor (i.e. mission drift) (Millson, 2013). Pursuing this line of thinking, welfarists think that the drive for financial sustainability may help MFIs to attain self-sufficiency, while the poor remain unserved (Cull and others, 2009). Hermes and Lensink (2011) acknowledge that the relationship between financial sustainability and outreach is among a plethora of questions regarding microfinance that remain unanswered. However, a growing body of recent evidence tends to validate the complementarity of financial sustainability and outreach depth.

Darko (2016), applying a static count data model to 116 Ugandan MFIs, demonstrated that MFIs may exploit richer districts in their earlier years of establishment as a way of consolidating their self-sufficiency, and later deploy the gains to reach poorer districts (i.e. cross-subsidization). This finding consolidates the theoretical position that financially sustainable MFIs can expand outreach to the poor. The study also noted that commercial banks, which enjoy protection and enhanced access to capital markets, can easily spread their operations to the poor. Attaining financial sustainability is viewed as a supreme indicator of MFI viability, thereby making it easy for financially sustainable MFIs to access additional commercial financing for expanding outreach to the poor.

Muthomi (2015), making use of audited financial data for 2013 from Kenyan MFIs, illustrated that viable MFIs can serve more clients since they can establish more branches. The study also recorded a strong positive relationship between financial sustainability and outreach, thereby supporting the yin and yang relationship. Further evidence from Ethiopia concretizes the theoretical assertion that commercial MFIs serve the poor. Abate and others (2013) found that financially sustainable cooperative MFIs offer small loans and
can lend more to women clients – implying improved outreach depth. Their study also confirmed the yin and yang relationship, given the strong positive relationship recorded. Earlier, a cross-country study based on 702 MFIs from 82 countries also confirmed the compatibility of financial sustainability and outreach depth (Quayes, 2012).

Some studies, however, state that financial sustainability reduces the ability of MFIs to serve the poor. Hartaska and Nadolnyak (2007) analysed 114 MFIs in 62 countries and concluded that the transformation of MFIs into regulated institutions\(^{15}\) does not help in accentuating either the financial viability or the outreach of MFIs. This is attributed to the regulatory costs related to disclosure and capital requirements, as well as the hiring of competent personnel and the upgrading of systems when an MFI transforms into a commercial entity. Ek (2011), making use of data on 1,109 MFIs, concluded that financially sustainable institutions have higher average loan size and fewer women borrowers\(^{16}\) – pointing to limited outreach to the core poor. However, the study noted that MFIs can attain financial sustainability without needing to increase yields, implying that MFIs can realize financial sustainability without neglecting the poor. Kipesha and Zhang (2013) recorded a negative relationship between financial sustainability and outreach depth in East Africa – going against the expectation for the yin and yang relationship. The study also showed indications of a trade-off in this relationship.

The evidence illustrates that empirical results vary with the focus of the empirical work. Empirical results thus are sensitive to the region under study, as underscored by Cull and others (2009). Notable also is the failure of empirical work to consider the Southern African region; hence empirics do not speak to the features of microfinance in the region. Given that Southern Africa remains among the poorest regions, understanding the yin and yang relationship will help to inform microfinance-aligned poverty alleviation strategies.

### Outreach

Microfinance outreach refers to the varied approaches used by MFIs to reach out to the clients by providing a wide range of services and products (Bayai, 2017). Outreach depth refers to the goal of serving the poorest of the poor. This is synonymous with the welfarists paradigm, where the objective is
to alleviate poverty by targeting the core poor exclusively. Serving female clients and providing small loans are the main measures of outreach depth that are identified in microfinance literature (Schreiner, 1999). Culturally unfair practices expose women to poverty, given their weaker economic participation, which is explained by their constrained access to education (Ukanwa and others, 2017). Serving women is thus an indication of reaching the poor, and loans to women are channelled to life-enhancing uses, such as payment of school fees, access to health care, food and the running of small businesses. Beegle and others (2016) note that, although Southern Africa leads other regions in female-headed families (43 per cent), the incidence of poverty in female-headed families is less (40 per cent) compared with male-headed families (48 per cent). Placing greater focus on serving women clients is likely to have greater impact on the incidence of poverty. In addition, smaller loans are also assumed to meet the needs of the poor, compared with large loans (Cull and others, 2009). MFIs that make larger loans are more likely to serve well-to-do clients. Although these measures of outreach depth remain crude, they have been widely used in microfinance-related studies (Brau and Woller, 2004).

Outreach breadth could be defined as the provision of financial services to a large number of clients and thereby increasing the impact of microfinance. However, such clients might not be necessarily poor (Rosenburg, 2009). Outreach breadth is assumed to be a result of MFIs pursuing a financial mission. Providing unlimited commercial financing enables MFIs to serve many more clients than those that are funded through subsidies (Rhyne, 1998; Morduch, 2000). While conventional thinking posits that a focus on financial sustainability and outreach breadth precludes a focus on reaching the poor, the present study seeks to determine whether the pursuit of financial sustainability by MFIs can also be used to further outreach depth.

**Methodology**

**Data and sample**

Theoretically, financial sustainability is a result of commercialization, a process that is synonymous with a profit orientation. Cull and others (2009) note that “classification of the extent to which MFIs in the sample are profit-oriented is based on their sources of funding. We hypothesize that greater reliance on
commercial sources of funding than non-commercial sources would lead an MFI to be more profit-oriented”. The same criterion is assumed in this study. Interestingly, MFIs that are largely commercially-financed still have traces of low donations in their capital structure, augmenting earlier assertions that “smart subsidies” can still be used to finance commercial or sustainable MFIs in an effort to deepen outreach (Armendariz and Morduch, 2005).

MFIs operating as NGOs, but with financing structures that are mostly commercialized, are also considered in the present study. It has been found that such MFIs are mostly profitable – indicating their commercial orientation (Quayes, 2012). As earlier presented, fulfilling regulatory requirements enables NGOs to evolve into non-bank financial institutions. However, prior to the transformation, the business and financing models would have long since been adjusted to mimic those of commercial MFIs.

MFIs reporting on the Microfinance Information Exchange (MIX Market) are used in the present study. The MIX Market is an initiative by the Consultative Group to Assist the Poor to improve the availability and sharing of microfinance data. Since MFIs report voluntarily to the MIX Market, they often default on reporting, resulting in a data set that is affected by reporting inconsistencies. Whereas MIX Market data are self-selective and potentially fail to represent the entirety of microfinance operations in Southern Africa, MFIs that engage in extensive outreach usually report to the MIX Market. Being a publicly-accessible source of data, rigorous and influential research in microfinance has depended on data from the MIX Market. Premium access to data was achieved by subscribing to the MIX Market.

Although the intention of the study was to consider the whole SADC region, only 11 countries had MFIs reporting to the MIX Market. Although there were gaps, the data accessed spanned from 2007 to 2014. With the goal to maximize data points and achieve internal validity, the study considered the period 2005–2010, given that reporting by MFIs was more regular over that period. A total of 60 MFIs met both the core theoretical conditions (commercial orientation) and the requirement for constant reporting over the same period. Tables I and II show the sample details, along with the distribution of MFIs by country.
Despite the variation in charters assumed by the sampled institutions ((NGOs, banks, cooperatives (savings and credit cooperatives – SACCOs), non-bank financial institutions and rural banks)), their operations are all commercialized. Notable also is the fact that MFI age is independent of their commercial orientation. Thus, new MFIs can be as commercially motivated as young and mature MFIs, thereby debunking the institutional metamorphosis paradigm (Bayai and Ikhide, 2016). Regulated\(^{21}\) MFIs form the bulk (77 per cent) of the sampled MFIs, while 85 per cent of the sampled MFIs collect deposits. Deposits being cheap sources of financing enable MFIs to realize positive interest spread on their lending activities, thereby augmenting their financial sufficiency (Khawari 2004).

Table 1: Sample details

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Number of MFIs</th>
<th>Percentage of the sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>21</td>
<td>35%</td>
</tr>
<tr>
<td>Banks</td>
<td>10</td>
<td>17%</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>11</td>
<td>18%</td>
</tr>
<tr>
<td>Non-bank financial institutions</td>
<td>17</td>
<td>28%</td>
</tr>
<tr>
<td>Rural banks</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>New</td>
<td>8</td>
<td>13.3%</td>
</tr>
<tr>
<td>Young</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Mature</td>
<td>37</td>
<td>61.7%</td>
</tr>
<tr>
<td>Regulated</td>
<td>46</td>
<td>77%</td>
</tr>
<tr>
<td>Collect deposits</td>
<td>51</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

Table II shows that 5 of the 11 countries (the Democratic Republic of the Congo, Madagascar, Malawi, Mozambique and the United Republic of Tanzania) had a moderately fair representation in the sample. The remainder of the countries were poorly represented, since they had few MFIs in the sample.
Table 2: MFI distribution by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of MFIs selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>2</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>10</td>
</tr>
<tr>
<td>Madagascar</td>
<td>10</td>
</tr>
<tr>
<td>Malawi</td>
<td>7</td>
</tr>
<tr>
<td>Mozambique</td>
<td>8</td>
</tr>
<tr>
<td>Namibia</td>
<td>1</td>
</tr>
<tr>
<td>South Africa</td>
<td>3</td>
</tr>
<tr>
<td>Eswatini</td>
<td>1</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>12</td>
</tr>
<tr>
<td>Zambia</td>
<td>4</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

**Estimation technique**

The study adopts a panel framework that depends on its ability to capture the heterogeneity of MFIs given the varying operating environments that MFIs are exposed to (Wooldridge 2002). A panel framework is also efficient in handling both micro and macro panels, and has an edge over cross-sectional and time series methods, since it multiplies the degrees of freedom (i.e. data have cross-sectional and time series properties), hence more accurate inferences can be made. Time-variant effects as well as fixed features of MFIs (which are normally unobservable) are accommodated in querying the yin and yang relationship (Hsiao, 2006). The most interesting feature of the panel framework used in this study is its ability to handle missing values. Thus, unbalanced macro and micro panel analyses can be executed (Greene, 2002).

Taking $Y_{it}$ to be the explained variable (outreach to the poor) for MFI $i$ at time $t$, $X'_{it}$ as a K-dimensional vector of explanatory variables, and $U_i$ being the error term, the panel model can be expressed structurally as follows:

$$Y_{it} = \alpha + \beta X'_{it} + u_{it} \quad (Equation \ 1)$$
Where:

\[ \alpha \text{ is a constant; } i = 1, \ldots, N \text{ and } t = 1, \ldots, T \]

The error term \( (u_{it}) \) is comprised of unobservable MFI effects \( (u_i) \) and the remaining noise is captured by \( v_{it} \). In instances where unobserved MFI-specific effects \( (u_i) \) are not related to a specified explanatory variable \( (X_{it}) \), a random-effects model is assumed. A random-effects model is perfect in modelling a relationship where variation in MFIs (time-invariant) has an effect on outreach to the poor. Arandom-effects model is expressed as follows:

\[ Y_{it} = \beta X_{it} + \alpha + u_{it} + v_{it} \ (Equation \ 2) \]

Where \( u_{it} \) represents between-MFI error, and \( v_{it} \) expresses within-MFI error. However, where \( u_{it} \) is related to \( X_{it} \), then a fixed-effects model is assumed, since the time-invariant condition is relaxed and MFIs are thought to be homogenous. A fixed-effects model is presented as follows:

\[ Y_{it} = \beta_{i} X_{it} + \alpha_{i} + u_{it} \ (Equation \ 3) \]

A Hausman test is run to decide on the appropriate estimation between a random-effects model and a fixed-effects model. Although panel data are fraught with heteroskedasticity and autocorrelation weaknesses, assuming robust standard errors addresses these concerns. Using the STATA statistical software package, robustness of standard errors can be incorporated by specifying “robust” and/or “cluster” extensions in the modelling process. The Breusch–Pagan LM test\(^{23}\) is run to ascertain the appropriateness of random-effects models given the possibility of an ordinary least square being a superior specification. The Breusch–Pagan LM test for independence is employed to confirm the independence of panels as a condition necessary for non-spurious analyses, although this weakness is not normally a feature of the micro panels assumed in this study (Torres-Reyna, 2014). STATA also eliminates variables that are correlated, thereby addressing collinearity.

**Model specification**

Outreach to the poor (depth of outreach) is measured either by the percentage of women borrowers served by MFIs or by the average loan size, which must
be small. This study accommodates the two methods of measuring outreach depth. It is noted in the literature that the poor mostly demand small loans that are aligned to their needs. Where the average loan size is large, it may imply that MFIs have a preference for well-off clients, mostly as a way of evading the large administrative costs that are linked to small loans. The average loan size is computed as follows:

$$\text{Average loan} = \frac{\text{Gross amount of loans}}{\text{Number of active clients}} \quad (\text{Equation 4})$$

One prominent though crude measure of outreach depth is the percentage of women borrowers. Entrenched culturally-based disenfranchisement of women prevents them from attaining economic independence and greatly increases the likelihood of women being poor. Therefore, the higher the percentage of women borrowers, the greater the depth of outreach, and the opposite is true.

The explanatory variables include the level of financial sustainability (OSS), MFI financing structure, cost per borrower (CPB), and MFI size (lnAssets), MFI age (AGE), MFI charter (CHARTER), as well as the lending rate (YIELD). Where outreach to the poor is proxied by the average loan size, the model can therefore be expressed as follows:

$$\text{Avloan} = \alpha + \beta_1 X_{(oss)iit} + \beta_2 X_{(CAPITAL)iit} + \beta_3 X_{(CPB)iit} + \beta_4 X_{(lnAssets)iit} + \beta_5 X_{(AGE)iit} + \beta_6 X_{(PAR)iit} + \beta_7 X_{(CHARTER)iit} + \beta_8 X_{(YIELD)iit} + u_{iit} \quad (\text{Equation 5})$$

The capital used by MFIs can be equity, debt (borrowings), donations, savings and retained earnings. The study proceeds by creating dummies for each form of financing, then the n - 1 degrees of freedom rule is observed in the modelling process (only four forms of financing are included in the analyses). The same is assumed for MFI age and MFI charter. The life cycle theory defines three stages (new, young and mature) (De Sousa-Shields and Frankiewicz, 2004), while MFI charter type comprises NGOs, banks, non-bank financial institutions, rural banks and cooperatives.

**Explanatory variables: measurement and expected results**

Although financial sustainability can be quantified by way of various techniques (return on assets, return on equity, adjusted return on assets, subsidy dependency index and financial self-sufficiency), the popular measure
adopted where MIX Market data is used is operational self-sufficiency (OSS). OSS gauges the adequacy of MFI revenue (excluding donations, grants and subsidies) to provide for all operating expenses, loss provisions on loans, as well as financing costs (Khandker, 1996). As done in Bogan (2012), this study assumes the following:

- OSS < 1 — unsustainable;
- 1 < OSS < 1.1 — operationally sustainable;
- OSS > 1.1 — financially sustainable.

As per the dictates of the institutionalists, as the level of sustainability increases, the outreach to the poor is enhanced (Rhyne, 1998; Morduch, 2000). This is true where MFIs are efficient enough to knock down the costs linked to lending to the poor. Therefore, a low administrative cost per borrower (CPB) is expected to boost outreach to the poor. Considering the welfarists’ view, the form of capital used to fund MFI operations has a bearing on the ability of MFIs to serve the poor. Where MFIs use borrowed funds (debt), the cost of debt is likely to increase the lending rate to the exclusion of the poor. However, it is worth noting that the costs linked to debt financing are also a feasible reason behind the drive by MFIs to improve efficiency. Debt thus can have either a positive or negative relationship with outreach to the poor. Cheaper forms of capital (equity, deposits and donations) are normally expected to further outreach to the poor (Bayai and Ikhide, 2016).

The yield quoted in this study is the lending rate adjusted for inflation (real yield) as a way of incorporating the varying macro-fundamentals that exist in different countries. Whereas Morduch (2000) and La Cour (2010) anticipate that high yields do not lessen demand for credit by the poor, welfarists believe that high yields deter the poor from borrowing (Brau and Woller, 2004). Although institutional metamorphosis is evident in the Southern African microfinance sector, it is theorized that NGOs normally reach out to the poor more than entities operating under other types of charters (e.g. non-bank financial institutions and banks). Therefore, the study incorporates dummies for different MFI charters as a way of tracking the charter type that is consistent with greater outreach to the poor.
The life cycle theory assumes that MFIs at maturity are large, innovative\(^{27}\) and stable, and can support both deep and broad outreach (Reinke, 1998). This study adopts the De Sousa-Shields and Frankiewicz (2004) approach in categorizing MFI growth phases.\(^{28}\) This study also questions whether the size of an MFI is critical in delineating the depth of outreach. This study considers the natural logarithm of the gross loan portfolio as a measure of the size of the MFI. The rationale is that bigger MFIs have huge loan portfolios, and the same portfolios define the revenue generated by MFIs, which in turn support outreach to the poor. The effect of mounting loan delinquency is also a variable that may limit loan extension to the poor, as resources meant to support further outreach are depleted. The risk of loan non-repayment is measured by the 30-day portfolio at risk (PAR) as implemented by Bogan (2012).

The estimation, considering financing and charter dummies, is summarily stated as follows:

\[
\text{Avloan} = \alpha + \beta_1 X_{\text{oss(it)}} + \beta_2 X_{\text{(EA)it}} + \beta_3 X_{\text{(BA)it}} + \beta_4 X_{\text{(DA)it}} + \beta_5 X_{\text{(DTA)it}} + \\
\beta_6 X_{\text{(CPB)it}} + \beta_7 X_{\text{(logGLP)it}} + \beta_8 X_{\text{(new)it}} + \beta_9 X_{\text{(mature)it}} + \beta_{10} X_{\text{(PAR)it}} + \beta_{11} X_{\text{(bank)it}} + \\
\beta_{12} X_{\text{(NGO)it}} + \beta_{13} X_{\text{(RY)it}} + u_{it} \quad \text{ (Equation 6)}
\]

Where EA represents equity to assets, BA is borrowings to assets, DA is donations to assets and DTA is deposits to assets. Equity, donations and borrowings are all scaled against assets to smoothen the estimation, given the variation in the actual dollar values of the various funding sources. “New” signifies the MFI start-up phase, and “mature” signifies the maturity stage in the MFI life cycle. The same explanatory variables are assumed where the percentage of female borrowers (POFB) is used as a measure of outreach to the poor (equation 7).

\[
\text{POFB} = \alpha + \beta_1 X_{\text{oss(it)}} + \beta_2 X_{\text{(EA)it}} + \beta_3 X_{\text{(BA)it}} + \beta_4 X_{\text{(DA)it}} + \beta_5 X_{\text{(DTA)it}} + \\
\beta_6 X_{\text{(CPB)it}} + \beta_7 X_{\text{(logGLP)it}} + \beta_8 X_{\text{(new)it}} + \beta_9 X_{\text{(mature)it}} + \beta_{10} X_{\text{(PAR)it}} + \beta_{11} X_{\text{(bank)it}} + \\
\beta_{12} X_{\text{(NGO)it}} + \beta_{13} X_{\text{(RY)it}} + u_{it} \quad \text{ (Equation 7)}
\]

Table III presents a summary of the codes and variables used in the estimation.
Table 3: Summary of variables and codes used in the model

<table>
<thead>
<tr>
<th>Code</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>OSSit</td>
<td>Financial sustainability</td>
</tr>
<tr>
<td>EAit</td>
<td>Equity to total assets</td>
</tr>
<tr>
<td>DAit</td>
<td>Donations to assets</td>
</tr>
<tr>
<td>BAit</td>
<td>Borrowings to assets</td>
</tr>
<tr>
<td>DTAit</td>
<td>Deposits to total assets</td>
</tr>
<tr>
<td>newit</td>
<td>New or start-up MFIs</td>
</tr>
<tr>
<td>matureit</td>
<td>Mature MFIs</td>
</tr>
<tr>
<td>Avloan</td>
<td>Average loan</td>
</tr>
<tr>
<td>Log_GLPi</td>
<td>Logarithm of the gross loan</td>
</tr>
<tr>
<td>CPBit</td>
<td>Cost per borrower</td>
</tr>
<tr>
<td>RYit</td>
<td>Real yield (lending rate adjusted for inflation)</td>
</tr>
<tr>
<td>bankit</td>
<td>Microfinance bank</td>
</tr>
<tr>
<td>NGOit</td>
<td>NGO</td>
</tr>
<tr>
<td>PARit</td>
<td>Portfolio at risk (30 days)</td>
</tr>
<tr>
<td>POFBit</td>
<td>Percentage of female borrowers</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

Descriptive statistics

As noted by Sekabira (2013), outreach is a function of how MFIs are financed. Table IV provides a summary of how the sampled MFIs are financed. Equity is the popular financing method, averaging 42.13 percent of assets held by MFIs. Deposits are second, at 32.19 percent, substantiating an earlier claim that African MFIs attract deposits better than other global regions (Lafourcade and others, 2006). Recent changes in regulatory provisions in Southern Africa allow MFIs to attract deposits (Karim and others, 2011). Hoque and others (2011) acknowledge that the cost associated with borrowing restrains MFIs from borrowing. Given the poor and underdeveloped financial markets in Southern Africa (Franklin and others, 2012), borrowing accounts for only 19.7 percent of assets held by MFIs. As further evidence supporting the commercialization trend in Southern Africa, donations support approximately 13 per cent of MFI assets, signalling their waning role in financing microfinance operations.
Bayai: Yin and yang of microfinance

Table 4: Summary of MFI financing structure

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>overall</td>
<td>12.94651</td>
<td>38.49384</td>
<td>N =291</td>
</tr>
<tr>
<td>between</td>
<td>43.25176</td>
<td>n =60</td>
<td></td>
</tr>
<tr>
<td>within</td>
<td>15.8505</td>
<td>T-bar =4.85</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>overall</td>
<td>42.13148</td>
<td>29.94434</td>
<td>N =291</td>
</tr>
<tr>
<td>between</td>
<td>25.56795</td>
<td>n =60</td>
<td></td>
</tr>
<tr>
<td>within</td>
<td>15.31433</td>
<td>T-bar =4.85</td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>overall</td>
<td>19.70055</td>
<td>23.66717</td>
<td>N =291</td>
</tr>
<tr>
<td>between</td>
<td>18.84394</td>
<td>n =60</td>
<td></td>
</tr>
<tr>
<td>within</td>
<td>15.22961</td>
<td>T-bar =4.85</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>overall</td>
<td>32.19437</td>
<td>102.4854</td>
<td>N =291</td>
</tr>
<tr>
<td>between</td>
<td>90.06502</td>
<td>n =60</td>
<td></td>
</tr>
<tr>
<td>within</td>
<td>47.7998</td>
<td>T-bar =4.85</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

Interestingly, the financing structure of MFIs varies with countries. Table V shows that Mozambique tops the region in donor financing (33.6 percent).

Table 5: MFI financing structure by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean donations</th>
<th>Mean equity</th>
<th>Mean borrowings</th>
<th>Mean deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>.22118196</td>
<td>43.486586</td>
<td>25.488812</td>
<td>25.183663</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>14.242794</td>
<td>40.036459</td>
<td>14.054464</td>
<td>17.157477</td>
</tr>
<tr>
<td>Madagascar</td>
<td>7.0041694</td>
<td>34.265653</td>
<td>19.530308</td>
<td>27.268947</td>
</tr>
<tr>
<td>Malawi</td>
<td>15.899668</td>
<td>48.20963</td>
<td>17.237251</td>
<td>14.548397</td>
</tr>
<tr>
<td>Mozambique</td>
<td>33.60319</td>
<td>49.995151</td>
<td>12.290702</td>
<td>21.174607</td>
</tr>
<tr>
<td>Namibia</td>
<td>17.936343</td>
<td>32.631645</td>
<td>49.796308</td>
<td>12.245352</td>
</tr>
<tr>
<td>South Africa</td>
<td>.21202503</td>
<td>38.210424</td>
<td>32.759199</td>
<td>16.165277</td>
</tr>
<tr>
<td>Eswatini</td>
<td>0</td>
<td>37.736647</td>
<td>45.076526</td>
<td>8.4177302</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>8.7499172</td>
<td>38.368881</td>
<td>25.35949</td>
<td>85.06426</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>0</td>
<td>19.044565</td>
<td>4.4391037</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

NGOs furthering post-conflict poverty alleviation initiatives explain the dominance of donor financing in Mozambique. At 62.8 percent of assets, Zambian MFIs are largely financed by equity mainly because of restrictions on resourcing (Karim and others, 2011). The use of debt is prominent in
Madagascar (30.48 percent), while in the United Republic of Tanzania, deposits are the dominant source (85.06 percent) mainly because of the existence of a large SACCO.

Table VI presents summary statistics for the measures of outreach depth, financial sustainability (OSS), cost per borrower (CPB), the portfolio at risk (PAR) and the lending rate as proxied by real yield (RY). The average loan size for the sampled MFIs is generally high, at $2,182.62, compared with the average range between $50 and $1,000 (depending on various regions) as estimated by Bogan (2012). The predominant welfarist philosophy is that a lower average loan value is ideal for the poor; thus, the sampled MFIs are more likely not to serve the poor, given the high average loan value. This is cemented by that 64.55 percent of borrowers were female, which is expected to be even higher if MFIs are serving the poor. The average OSS (0.96) falls short of the threshold of financial sustainability; thus, the MFIs are generally unsustainable, financially speaking.

Table 6: Summary: Outreach depth, OSS, cost per borrower, default and real yield

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avloan</td>
<td>291</td>
<td>2182.616</td>
<td>12729.88</td>
<td>4.235362</td>
<td>146581</td>
</tr>
<tr>
<td>POFB</td>
<td>291</td>
<td>.6454759</td>
<td>.4090804</td>
<td>.0137</td>
<td>6.6891</td>
</tr>
<tr>
<td>OSS</td>
<td>291</td>
<td>.964234</td>
<td>.3582845</td>
<td>.0216</td>
<td>2.4941</td>
</tr>
<tr>
<td>CPB</td>
<td>291</td>
<td>237.6241</td>
<td>343.7253</td>
<td>.1018</td>
<td>2854.531</td>
</tr>
<tr>
<td>PAR</td>
<td>291</td>
<td>.0769458</td>
<td>.1317546</td>
<td>-.0039</td>
<td>.928</td>
</tr>
<tr>
<td>RY</td>
<td>291</td>
<td>.4184296</td>
<td>.2292916</td>
<td>-.0808</td>
<td>1.7889</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

In view of the theoretical underpinning of the yin and yang relationship, MFIs ought to be financially sustainable for them to reach out to the poor (Rhyne, 1998; Morduch, 2000); the sampled MFIs are less likely to serve the poor, since they are not financially sustainable. The average cost per borrower of $237.62 is higher than the $160 average estimated by Bogan (2012), based on a global sample – implying cost-inefficiency among the sampled MFIs. Cost-inefficiency reduces resources meant to support outreach to the poor. Also, the sampled MFIs are likely to be affected by default risk, given the 7.69 percent portfolio at risk (a measure of loan delinquency) versus the 5 percent average portfolio at risk based on a global sample of MFIs (Bogan, 2012).
The increase level of portfolio at risk is an indication of fewer resources being available for outreach to the poor. Whereas commercialization is evident, the average lending rate is absurdly high (41.84 percent). As affirmed by Khandker (1996), MFIs might set high lending rates to offset the high operating costs (CPB) in order to be financially sustainable.

Tracking OSS by country (able VII) shows that MFIs in only three countries (Angola, Eswatini and Zimbabwe) have an average OSS in excess of 1.1. Namibia has the lowest average OSS, at 0.65. Turning to the average loan size by country, Tanzanian MFIs recorded the highest average loan of $7,465.56. On the other hand, Namibian MFIs had the lowest average loan amount of $125.71, which implies that Namibian MFIs reachout to the poor in a better way. Namibia also boasts the highest percentage of female borrowers (86.84 percent), signifying the capacity of Namibian MFIs to serve the poor. Eswatini has the lowest percentage of female borrowers, at 31.46 percent. Whereas default risk (PAR) for Zambia is the highest, at 11.48 percent, Zambia still recorded a high percentage of female borrowers (81.49 per cent), allaying the impression that default risk may limit outreach to the poor.
Table 7: Summary statistics for OSS, Avloan, POFB, PAR and CPB by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean OSS</th>
<th>Avloan</th>
<th>Average POFB</th>
<th>PAR</th>
<th>CPB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>1.11</td>
<td>1572.47</td>
<td>0.58</td>
<td>0.036</td>
<td>636.42</td>
</tr>
<tr>
<td>Democratic Republic of the Congo</td>
<td>0.91</td>
<td>1793.13</td>
<td>0.63</td>
<td>0.071</td>
<td>464.99</td>
</tr>
<tr>
<td>Madagascar</td>
<td>1.03</td>
<td>568.73</td>
<td>0.49</td>
<td>0.115</td>
<td>194.10</td>
</tr>
<tr>
<td>Malawi</td>
<td>0.83</td>
<td>189.61</td>
<td>0.71</td>
<td>0.094</td>
<td>138.10</td>
</tr>
<tr>
<td>Mozambique</td>
<td>0.99</td>
<td>486.28</td>
<td>0.59</td>
<td>0.029</td>
<td>237.12</td>
</tr>
<tr>
<td>Namibia</td>
<td>0.65</td>
<td>125.71</td>
<td>0.80</td>
<td>0.010</td>
<td>88.91</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.94</td>
<td>517.10</td>
<td>0.53</td>
<td>0.160</td>
<td>261.90</td>
</tr>
<tr>
<td>Eswatini</td>
<td>1.20</td>
<td>5272.14</td>
<td>0.31</td>
<td>0.063</td>
<td>387.73</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>1.06</td>
<td>7465.56</td>
<td>0.80</td>
<td>0.050</td>
<td>114.19</td>
</tr>
<tr>
<td>Zambia</td>
<td>0.72</td>
<td>271.05</td>
<td>0.81</td>
<td>0.117</td>
<td>206.15</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1.12</td>
<td>458.67</td>
<td>0.45</td>
<td>0.043</td>
<td>239.43</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

Also, Namibia, with a PAR of 1.03 percent (the lowest in the sample), managed to achieve the best outreach to female borrowers. Deductively, the level of default risk might not have traction on the magnitude of the outreach to the poor. The cost per borrower is highest for Angolan MFIs ($636.42) and is associated with 58.20 percent of borrowers being female and a high average loan ($1572.47). The lowest cost per borrower ($114.20) is for Tanzanian MFIs, and is linked to a high percentage of female borrowers (80.36 percent). The summary statistics seem to concur with the theoretical position that the lower the cost of reaching the clients, the greater the outreach to the poor.

Although Namibia has the lowest average loan of $125 (a good indication of serving the poor), its average OSS is also the lowest, at 0.65, signifying poor financial sustainability. In sum, serving the poor is linked to financial unsustainability. Where the average loan is big (e.g., in Angola, Eswatini and the United Republic of Tanzania), the average OSS is high, indicating mission drift. These descriptive statistics discredit the expected yin and yang relationship between financial sustainability and outreach to the poor.
Empirical results

Given the descriptive statistics, further effort was made to delineate the relationship between outreach to the poor and financial sustainability. The preliminary analyses of the yin and yang relationship adopted the pair-wise (Spearman) correlation analysis. The correlation analysis is done in a piecemeal manner to enable an objective examination of individual questions around the yin and yang of microfinance.

Correlation analysis

Table VIII shows correlation analysis results for the financing structure, average loan and financial sustainability (OSS). OSS and deposits recorded a significant positive link with the average loan size, signifying that, as MFIs attract more deposits and become more financially sustainable, the average loan size also increases, thereby debunking the expected yin and yang relationship. Effectively, financially sustainable MFIs are likely not to serve the poor – same as MFIs that collect deposits. Equity and deposits recorded a significant negative relationship with the average loan size, thus additional equity and donations are not expected to increase the average loan size, thereby furthering outreach to the poor. Doing the same analysis and substituting the average loan with the percentage of female borrowers shows that equity has a significant positive link with the percentage of female borrowers, implying that equity supports outreach to the poor.

Table 8: Correlation analysis – Financing structure and the average loan

<table>
<thead>
<tr>
<th>log_Avloan</th>
<th>OSS</th>
<th>Donations</th>
<th>Equity</th>
<th>Borrowings</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>log_Avloan</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OSS</td>
<td>0.2909a</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>-0.1646a</td>
<td>-0.1556</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0049</td>
<td>0.0078</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>-0.1186a</td>
<td>0.0247</td>
<td>0.1428</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0432</td>
<td>0.6751</td>
<td>0.0148</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>0.0379</td>
<td>-0.1097</td>
<td>-0.0759</td>
<td>-0.2548</td>
<td>1.0000</td>
</tr>
<tr>
<td></td>
<td>0.5201</td>
<td>0.0617</td>
<td>0.1969</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>0.5106a</td>
<td>0.1624</td>
<td>-0.0468</td>
<td>0.1871</td>
<td>-0.1473</td>
</tr>
<tr>
<td></td>
<td>0.0000</td>
<td>0.0055</td>
<td>0.4261</td>
<td>0.0013</td>
<td>0.0119</td>
</tr>
</tbody>
</table>

Note: a5% significance.

Source: Author's compilation.
Further preliminary correlation analysis questioned whether there was an MFI charter that supports outreach to the poor in a better way. Table IX shows that banks may not serve the poor, as signified by the significant negative relationship between banks and the percentage of female borrowers. SACCOs also are not likely to support outreach to the poor, given the significant negative linkage with percentage of female borrowers. Though unsubstantiated, this finding seems to entail that members of SACCOs might not necessarily be poor. NGOs support outreach to the poor as expected. However, where the average loan value is used as a proxy for outreach depth, banks have a significant positive relationship with the average loan size. This implies that banks are more likely to issue big loans, which are not compatible with the poor. NGOs recorded a significant negative relationship, with the average loan value signalling their continued service to the poor.

**Table 9: Correlation analysis – MFI charters and percentage of female borrowers**

<table>
<thead>
<tr>
<th></th>
<th>POFB</th>
<th>bank</th>
<th>NGO</th>
<th>SACCOs</th>
<th>NBFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>POFB</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>-0.1330a</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NGO</td>
<td>0.3143a</td>
<td>-0.3531</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACCOs</td>
<td>-0.1634a</td>
<td>-0.2099</td>
<td>-0.3406a</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>NBFI</td>
<td>-0.0695</td>
<td>-0.2872</td>
<td>-0.4661</td>
<td>-0.2771</td>
<td>1.0000</td>
</tr>
<tr>
<td></td>
<td>0.2374</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Note: aXX% significance.
Source: Author’s compilation.

Additional correlation analysis shows that mature MFIs are likely to issue big loans (table A1 in the appendix), and the same mature MFIs have a significant negative relationship with female borrowers (table A2), confirming mission drift associated with mature MFIs. Correlation analyses also confirmed that the cost per borrower has a significant positive association with the average loan size, and a significant negative association with the percentage of female borrowers, pointing to mission drift (tables A3 and A4). Effectively, high cost per borrower limits MFIs from loaning to female borrowers, as such loans are usually small, hence it becomes costly to the MFIs. All the same, if cost
per borrower is high, it is economical for MFIs to issue bigger loans, although such loans may not be meant for the poor.

**Regression results**

The study considered both the percentage of female borrowers and the average loan in delineating the existence of the yin and yang relationship of microfinance in Southern Africa. Two models were therefore assumed (equations 6 and 7), with each model adopting one of the measures of outreach to the poor as an explained variable. In both instances, the fixed and random effects models are estimated, and the Hausman test is run to determine a superior estimation of the relationship. In both instances, the Hausman test confirmed the superiority of the fixed effects model over the random effects model. The study capitalized on the strength of STATA in eliminating collinear variables. By assuming robust standard errors, the weakness of heteroskedasticity was also eliminated. Cluster-robust standard errors are assumed to rope in the uniqueness of MFIs in the estimation of the relationship. Further robustness checks annulled the existence of cross-sectional dependence (contemporaneous correlation) between panels through the Breusch–Pagan LM test for independence (this is in line with the condition that micro panels are mostly uncorrelated (Torres-Reyna, 2010)). To make the findings robust, the same models were run while assuming subsamples of new MFIs and NGOs. Table X provides a summary of the four models.

The fitted four models failed to substantiate the role of financial sustainability in explaining outreach to the poor. Effectively, there is no evidence to support the supposed yin and yang relationship between financial sustainability and outreach to the poor. Rather, the evidence shows the key role played by financing sources in explaining the outreach to the poor.
Table 10: Summary of regression results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coef. (1)</th>
<th>Robust (1)</th>
<th>Coef. (2)</th>
<th>Robust (2)</th>
<th>Coef. (3)</th>
<th>Robust (3)</th>
<th>Coef. (4)</th>
<th>Robust (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OSS</td>
<td>0.005</td>
<td>0.006</td>
<td>-0.001</td>
<td>0.001</td>
<td>0.049</td>
<td>0.112</td>
<td>-0.015</td>
<td>0.013</td>
</tr>
<tr>
<td>Donations</td>
<td>-0.002b</td>
<td>0.001</td>
<td>-0.001</td>
<td>0.002</td>
<td>-0.0005</td>
<td>0.005</td>
<td>-0.004c</td>
<td>0.001</td>
</tr>
<tr>
<td>Equity</td>
<td>-0.006a</td>
<td>0.003</td>
<td>-0.0004</td>
<td>0.001</td>
<td>-0.001</td>
<td>0.001</td>
<td>-0.001</td>
<td>0.003</td>
</tr>
<tr>
<td>Borrowings</td>
<td>-0.002</td>
<td>0.003</td>
<td>-0.003b</td>
<td>0.001</td>
<td>-0.002</td>
<td>0.001</td>
<td>-0.001</td>
<td>0.002</td>
</tr>
<tr>
<td>Deposits</td>
<td>0.003c</td>
<td>0.001</td>
<td>-0.0001</td>
<td>0.001</td>
<td>-0.001b</td>
<td>0.001</td>
<td>0.001</td>
<td>0.005</td>
</tr>
<tr>
<td>Real yield</td>
<td>-0.010</td>
<td>0.270</td>
<td>-0.030</td>
<td>0.080</td>
<td>0.097</td>
<td>0.088</td>
<td>0.194</td>
<td>0.270</td>
</tr>
<tr>
<td>mature</td>
<td>0.083</td>
<td>0.079</td>
<td>-0.336</td>
<td>0.269</td>
<td>0</td>
<td>omitted</td>
<td>-0.006</td>
<td>0.116</td>
</tr>
<tr>
<td>new</td>
<td>0.077</td>
<td>0.100</td>
<td>0.070c</td>
<td>0.025</td>
<td>0</td>
<td>omitted</td>
<td>0.009</td>
<td>0.107</td>
</tr>
<tr>
<td>bank</td>
<td>0</td>
<td>omitted</td>
<td>0</td>
<td>omitted</td>
<td>0</td>
<td>omitted</td>
<td>0</td>
<td>omitted</td>
</tr>
<tr>
<td>CPB</td>
<td>0.0005</td>
<td>0.0003</td>
<td>0.00003</td>
<td>0.00005</td>
<td>0.00001</td>
<td>0.00005</td>
<td>0.002b</td>
<td>0.001</td>
</tr>
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<td>log_GLP</td>
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<td>0.019</td>
<td>0.021</td>
<td>0.015</td>
<td>0.011</td>
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<td>0.188</td>
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<td>_cons</td>
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<td>1.466</td>
<td>0.638</td>
<td>0.219</td>
<td>0.479</td>
<td>0.162</td>
<td>0.813</td>
<td>1.258</td>
</tr>
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</table>

Note: a 10% significance, b5% significance, and c1% significance.
Source: Author’s compilation.

Considering the average loan size as a measure of outreach to the poor (1), only four variables are significant (donations, equity, deposits and the gross loan portfolio). Results show that, where MFIs are funded through donations, they assume smaller loan values. Such small loans as per theoretical expectations are meant for the poor. Effectively, donations promote outreach to the poor, since donors are mostly concerned about poverty alleviation. This finding concurs with the significant negative correlation between donations and average loan size, as presented in Table VIII. Although donations support outreach depth, they remain a scarce resource (12.95 percent of MFI assets, as shown in Table IV); thus, they might not be enough to serve the poor. Equity recorded a significant negative relationship with the average loan size. Thus, equity being a cheap\textsuperscript{35} form of financing and the most abundant financing resource, averaging 42 percent of MFI assets (Table IV) can be used to further outreach to the poor. Correlation results presented in Table VIII are in tandem with this finding. Deposits, at a 1 per cent significance level, have a positive effect on the average loan value. Deposits thus are
expected to increase the average loan size, owing to the costs$^{36}$ associated with the attraction of deposits; hence, despite being the second most abundant financing resource after equity (32 percent of MFI assets), they do not support outreach to the poor. Correlation results in Table VIII ascertain this finding. The scale of lending activities proxied by the gross loan portfolio also has a significant (5 per cent) positive relationship with the average loan value. As MFIs grow their portfolios, the costs of managing such portfolios increase, especially where smaller loans are extended. In essence, the average loan value increases as the gross loan portfolio increases, and the poor are left unserved. Effectively, it is the MFIs operating with small loan portfolios that are likely to serve the poor.

Considering the percentage of female borrowers as a proxy for outreach to the poor (2), borrowings and the dummy for start-up MFIs (new) are the only significant variables. At 5 per cent significance, borrowings limit outreach to female borrowers. As alluded to earlier, borrowings, being a pricey resource in Southern Africa, are used less to support the small loans that are required by the poor. High costs of borrowing for MFIs explain the meagre 19.7 percent of MFI assets average borrowings for the sampled MFIs. Debt financing thus suppresses outreach to the poor. Contrary to the dictates of the life cycle theory (De Sousa-Shields and Frankiewicz, 2004), start-up MFIs (new), at 1 per cent significance, support outreach to female borrowers. Meehan (2004) notes that, owing to competition from established MFIs and banks, new MFIs are most likely to serve the lower end of the market. This explains the critical role played by start-up MFIs in furthering outreach to female borrowers.

Disaggregation by mature MFIs yielded no significant variables that can explain both the average loan and the percentage of female borrowers (table A5). Considering a disaggregated sample of new MFIs only, deposits have a significant (5 per cent) negative effect on the average loan value. This is because new MFIs attract the least deposits (see table A6) compared with young and mature MFIs, thus the meagre deposits cannot support larger loan sizes. All the same, new MFIs initially invest in establishing a market by serving those clients sidelined by established and big MFIs (Meehan, 2004). Deposits attracted by new MFIs thus can support outreach to the poor.

Analysis based on a disaggregated sample of NGOs shows that donations, cost per borrower and the gross loan portfolio are the only significant variables
explaining the average loan size. Donations recorded a negative relationship, with the average loan size implying that donations are mostly used by NGOs to make small loans to the poor – resonating with the significant negative correlation between donations and the average loan size (table VIII). The inefficiency of NGOs in managing costs related to lending is manifest given the significant (5 per cent) positive relationship between the cost per borrower and the average loan value. As NGOs grow their loan portfolios, their cost per borrower tends to increase, as depicted by the significant positive link between the gross loan portfolio and the average loan size (see table A8). Therefore, by maintaining lean loan portfolios, NGOs are able both to reduce the cost per borrower as well as issue small loans, thereby reaching the poor.

Limitations

The analysis of the yin and yang relationship failed to observe disaggregation of results by country to account for the heterogeneity of the environments that MFIs are exposed to. This is a function of data unavailability, given that many countries had very few reporting MFIs (see table II), thereby affecting the soundness of country-specific analysis of the relationship (STATA failed to fit estimations for most countries except for the United Republic of Tanzania, owing to few observations). In this respect, a pooled regression approach was adopted, and to enhance the robustness of the analysis, the study implemented disaggregated analysis of new MFIs as well as NGOs.

Also, since MIX data were assumed, the findings relate more to the sampled MFIs. Otherwise, the data accessed do not represent the totality of microfinance operations in Southern Africa. Despite this weakness, the findings are based on mostly big MFIs, whose operations control a greater proportion of total microfinance operations in the region. Additionally, while the study seeks to delineate the yin and yang relationship in Southern Africa, it is still possible that the outreach to the poor might have an effect on the level of financial sustainability (endogeneity). This study did not address the endogeneity issue, mainly because of the motivation of this study, which is to determine whether financial sustainability allows for the serving of the poor.
Conclusions and recommendations

The study sought to determine whether the drive to attain financial sustainability by MFIs complements the need to reach out to the poor (i.e., the yin and yang relationship) in Southern Africa. The effort is justified, given the menacing poverty in the region, which ought to be addressed through evidence-based interventions. A key conclusion is that MFIs are generally unsustainable financially. Both correlation analysis and panel-based regressions failed to confirm the yin and yang relationship, but affirmed the role of financing structure in defining outreach to the poor. Findings on the relationship vary, however, depending on the proxy for outreach being assumed. A pooled panel regression based on the average loan as a measure of outreach to the poor showed that donations and equity are associated with small average loan values that are designed for the poor. On the other hand, deposits and the scale of lending (gross loan portfolio) increase the average loan value for MFIs. Where the percentage for female borrowers is adopted as a proxy for outreach to the poor, debt is found to be limiting outreach to women, whereas new MFIs are expected to further outreach to female clients. Disaggregation by new MFIs shows that deposits are likely to keep the average loan size minimal, for the benefit of the poor. Further disaggregation by NGOs proved that high cost per borrower and the gross loan portfolio have a significant positive effect on the average loan size, whereas donations limit the growth of the average loan.

Despite the commercialization drive, donations remain relevant in reaching the poor; thus, until the microfinance sector becomes fully sustainable financially in Southern Africa, donations might still need to be used in promoting outreach to the poor. Also, going from the fact that the average cost per borrower is very high and threatens outreach to the poor, MFIs are expected to employ cost-efficient operational strategies to enhance both the chances for financial sustainability and outreach to the poor. Reducing the cost per borrower means that the cost of lending will not increase with the growth in lending activities; thus, the loan portfolio can be expanded, while still serving the poor.

This study lays bare the data problems associated with microfinance-related research in Southern Africa. Whereas earlier surveys done by Finscope lamented the lack of adequate microfinance data in the region, no solution
has been proffered to date. Making bold steps in aggregating microfinance data from registered MFIs in the region as a way of enabling evidence-based interventions, both in the microfinance sector and in poverty alleviation efforts in the region, would be commendable.
## Appendix

### Table A1: Correlation analysis: average loan and MFI development ages

<table>
<thead>
<tr>
<th></th>
<th>log_Avloan</th>
<th>mature</th>
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<td></td>
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*Source:* Author’s compilation.

### Table A2: Correlation analysis: Percentage of female borrowers and MFI development stages

<table>
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<th>mature</th>
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<th>new</th>
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*Source:* Author’s compilation.

### Table A3: Correlation analysis: Average loan, cost per borrower and portfolio at risk

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<tbody>
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<td>CPB</td>
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<td></td>
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</table>

*Source:* Author’s compilation.
Table A4: Correlation analysis: Percentage of female borrowers, cost per borrower and portfolio at risk

<table>
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<th>CPB</th>
<th>PAR</th>
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<td>0.2926</td>
<td>0.0712</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s compilation.

Table A5: Regression by mature MFIs only

|       | Coef.     | Std. Err. | t     | P>|t|  | [95% Conf. Interval] |
|-------|-----------|-----------|-------|------|----------------------|
| POFB  | -0020869  | .0004354  | -4.79 | 0.000| -.0029668 -.0012071 |
| OSS   | .0000249  | .0003434  | 0.07  | 0.943| -.0006691 .000719   |
| DA    | .0015716  | .0008539  | -1.84 | 0.073| -.0032974 .0001542  |
| EA    | -.0011435 | .0007455  | -1.53 | 0.133| -.0026501 .0003631  |
| BA    | .0002585  | .0002242  | 1.15  | 0.256| -.0001946 .0007116  |
| DTA   | .1269239  | .1057839  | -1.20 | 0.237| -.3407211 .0868734  |
| RY    | 0         | (omitted) |       |      |                      |
| NGO   | 0         | (omitted) |       |      |                      |
| _cons | .9470108  | .4497836  | 2.11  | 0.042| .0379642 1.856057   |

Source: Author’s compilation.

Table A6: Averages of financing sources by MFI age

<table>
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<th>Financing source</th>
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<th>Young</th>
<th>Mature</th>
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<td>Equity</td>
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<td>Borrowings</td>
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<td>Deposits</td>
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Source: Author’s compilation.
Table A7: Average cost per borrower by MFI charter

<table>
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<th>MFI charters</th>
<th>Average cost per borrower</th>
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<td>NGOs</td>
<td>106</td>
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<tr>
<td>Banks</td>
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<td>Non-bank financial institutions</td>
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<tr>
<td>SACCOs</td>
<td>49</td>
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Source: Author’s compilation.
References


Does information on corruption consequences affect corruption and anti-corruption behaviour? Evidence from a field experiment study

Clare Cheromoi and Richard Sebaggala

Abstract

The use of information and messages in corruption campaigns has been growing as an anti-corruption strategy. This study tests the widely held view that exposure to information on corruption inspires the corruption fight. The study examines whether exposure to information on the consequences of corruption affects corrupt and anti-corruption behaviour. Specifically, the study examines the effects of information regarding corruption consequences on individuals’ permissiveness towards corruption, and on their willingness to engage in corrupt behaviour. Using collective action and goal-framing theoretical perspectives, the study adopted a quasi-experimental, non-equivalent control group research design to collect data from university students in Uganda. During the survey, a randomly selected group of 242 students were exposed to a folder with information on the consequences of corruption (experimental group) or a folder with university information (control group). The findings show that, contrary to expectations, exposure to information on the consequences of corruption does not significantly affect permissiveness towards corruption, or the tendency to engage in corruption or anti-corruption behaviour. However, the findings were perplexing, given a priori expectations and conventional thinking that corruption and anti-corruption behaviour are inherently influenced by context and environmental factors. The study recommends that, in an environment where corruption is a collective-action problem and associated with strong normative framing, how corruption information or messages are presented has implications for their effectiveness and impact. It is recommended that, instead of promoting or disseminating scary or negative information about corruption, information that is persuasive, positive and empowering should be used. For example, in an environment where most people are corrupt or tolerant of corruption, disseminating information about people who have successfully resisted corruption is more powerful than telling people that many public servants have stolen millions of dollars.

Keywords: information, corruption, anti-corruption
Résumé

L'utilisation de l'information et de messages dans les campagnes de lutte contre la corruption a pris de l'ampleur en tant que stratégie anticorruption. La présente étude met à l'épreuve l'opinion largement partagée selon laquelle l'exposition à l'information sur la corruption inspire la lutte contre la corruption. L'étude examine si l'exposition à l'information sur les conséquences de la corruption a une incidence sur les comportements de corruption ou d'anticorruption. Plus précisément, l'étude examine les effets du niveau d'information concernant les conséquences de la corruption sur la permissivité de l'individu à la corruption ; la volonté des individus de se livrer à des comportements corrompus et à des programmes anticorruption. En utilisant les perspectives théoriques de l’action collective et de l'établissement d'objectifs, l'étude a adopté une conception quasi expérimentale non équivalente de la recherche de groupe témoin pour recueillir des données auprès d'étudiants d'universités en Ouganda. Au cours de l'enquête, un groupe de 242 étudiants sélectionnés au hasard ont été exposés à des informations sur les conséquences de la corruption dans un dossier (groupe expérimental) ou dans un dossier contenant des informations universitaires (groupe témoin). Les résultats montrent que l’exposition à l’information sur les conséquences de la corruption n’a pas d’incidence significative sur le degré de permissivité à l’égard de la corruption, la tendance à la corruption et les comportements anticorruption comme prévu. Bien que les conclusions soient perplexes, compte tenu des attentes à priori et de l’idée traditionnelle selon laquelle le comportement de corruption ou d’anticorruption des gens est intrinsèquement influencé par le contexte ou les facteurs environnementaux. L'étude recommande que, dans un environnement où la corruption est un problème d’action collective et associée à un cadre normatif solide, la manière dont les informations ou messages sur la corruption sont présentés ait des incidences sur leur efficacité et leur impact. Il est recommandé qu’au lieu de promouvoir ou de diffuser des informations « effrayantes » ou négatives sur la corruption auprès du public, des informations positives convaincantes qui donnent des moyens d’action aux gens soient utilisées à la place. Par exemple, diffuser des informations sur les personnes qui ont réussi à résister à la corruption est plus puissant que de dire aux gens que de nombreux fonctionnaires ont détourné des millions dans un environnement où la plupart des gens sont corrompus ou tolérants à la corruption comme c’est le cas en Ouganda.

Mots-clés : information, corruption, lutte contre la corruption
Background

There is enough evidence to argue that corruption is one of the major socioeconomic problems undermining development for many developing countries (Johnston, 2005: 2). In Uganda, estimates show that the country annually loses $258.6 million through corruption (Kalubanga and others, 2013: 17–27). In print media, scandal after scandal involving public servants and huge sums of money are reported every month. There is a growing belief that, over the years, corruption has become entrenched in Ugandan society, and is therefore immutable. The people have become permissive to corruption, and this has damaging consequences for fighting it. Such permissiveness has rendered ineffective the principal–agent framework that has guided anti-corruption initiatives. The control instruments based on the principal–agent framework emphasize decreasing the level of discretion among agents, limiting the monopoly of agents, and increasing the level of accountability in the system (Persson and others, 2013: 205). For example, in Costa Rica, there is evidence that an individual’s willingness to engage in corrupt behaviour is affected by one’s perception of the level of corruption in society. They found out that exposing citizens to information about the growing scope of corruption in their society made them individually more disposed to engage in corruption. This contradicts the conventional reasoning, where we would expect exposure to information to result in less engagement in corruption (Gingerich and others, 2015).

In Uganda, as in many other countries, given the destructive nature of corruption, a lot of investments have been made to curb corruption. The attempts have mainly involved the adoption of international legal instruments, use of repressive tools, law enforcement and detection of corrupt officials, and awareness campaigns (Falisse and Leszczynska, 2016). However, despite the huge steps taken to fight corruption, Persson and others (2013: 209) argued that few successes have resulted from the investments in the anti-corruption reforms, in particular in countries that are most severely plagued by corruption. They concur with other researchers (see Johnston, 2005) who have claimed that countries that have made huge investments in anti-corruption initiatives have remained more or less as corrupt as they were before the anti-corruption reforms were initiated. In situations where permissiveness towards corruption is huge and corruption is the expected behaviour, as is the case with Uganda, the short-term benefits of corruption are likely to outweigh the costs. This
requires anti-corruption interventions that go beyond the principal–agent anti-corruption framework. Nonetheless, in a country where actors engage in corrupt behaviour not because they morally approve of it or do not understand the negative consequences for society at large, successful interventions should not focus on monitoring and punishment regimes, as suggested by the principal–agent framework, but rather focus on those people who are less corrupt (Persson and others, 2013: 449–471).

However, most research efforts on anti-corruption initiatives in Uganda and elsewhere have been undertaken within the framework of the principal–agent framework, with little emphasis on interventions such as broad-based awareness campaigns. The scale of implementation of information campaigns in the corruption fight is limited. In particular, there is scarce evidence on how information on the consequences of corruption affects permissiveness, individuals’ willingness to engage in corrupt behaviour, and their willingness to engage with anti-corruption programmes. The current study therefore sheds light on how information on the consequences of corruption affects corruption and anti-corruption behaviour in Uganda.

Statement of the problem

Mbabazi and Jun Yu (2014: 1) argued that Uganda has been a den of corruption for a long time, with corruption being a “disease” that has eaten up the entire society. Given the costs of corruption to the economy, the prevalence of corruption in Uganda has attracted several government interventions to contain it. However, despite the numerous regulatory, legal and repressive anti-corruption interventions over the years, there is no consensus on what works and what does not in fighting corruption effectively in Uganda and in many developing countries. More specifically, Peiffer and Alvarez (2016: 1) have argued that, while most anti-corruption programmes include an awareness-raising element, little is known about whether and how these and other messages about corruption influence the perceptions that people hold about corruption in their environment. Falisse and Leszcynska (2016) also argued that, in relation to awareness campaigns in the corruption fight, there remains little understanding of what works and what does not. The existing studies on information and corruption have been driven by the premise that the major cause of corruption lies in the information asymmetry between members of the public, politicians and other officials in the bureaucracy
Notwithstanding the above, there is growing consensus that, where corruption is pervasive, anti-corruption interventions based on conventional principal-agent and deterrence theories that are grounded in the assumption of rational thinking are ineffective. The proponents of this thinking argue that the use of collective action and framing theories are more appealing and relevant. However, there are few studies on corruption and anti-corruption behaviour in developing countries such as Uganda that use collective action and framing theories. Although government anti-corruption agencies and civil society organizations have recently shown a preference for using information campaigns to fight corruption in Uganda, evidence on its effectiveness in the corruption fight is limited in the lens of current contemporary theoretical thinking. The present study, based on the collection action theory and borrowing from the goal-framing theory, which is gaining prominence in understanding information-based effects on behaviour outcomes, examines how information on corruption consequences might change individual corruption and anti-corruption behaviour. The broad expectation of the study is that exposing people to information on corruption consequences alters their permissiveness towards corruption, lowers their tendency to engage in corrupt behaviour, and inspires their fight against corruption.

**Literature review and theoretical framework**

Generally speaking, despite the booming interest in anti-corruption initiatives over the years, surprisingly little of the resulting research has been specifically focused on the effectiveness of information awareness campaigns in reducing corrupt behaviour. There are few empirical studies in the literature on the effects of information campaigns or messages on corruption. One of the classical examples where information campaigns have been successful in fighting against corruption is described by Klitgaard and others (2000) in their book *Corrupt Cities: A Practical Guide to Cure and Prevention*. In the book, they describe a case in Hong Kong, China, where the Community Relations Department (CRD) created a strategic innovation involving an information campaign in the fight against corruption. It is noted that CRD created local offices that gathered information about corruption from civil society as well as to engage in grass-roots educational activities about corruption’s evils. CRD also created school programmes, publicity campaigns, film strips, television dramas, a radio call-in show, special pamphlets and exhibitions. The outcomes of the intervention had a remarkable impact on corruption.
in Hong Kong in general, and on systemic corruption in the police force in particular (Hollyer, 2012: 14).

Another classic work on information and corruption is the Peiffer and Alvarez (2016: 1) study that highlights that the impact of information-based interventions or message on people’s corrupt behaviour is not straightforward in an environment where people are inundated with messages about corruption. They argued that, first, in such an environment, people may already be desensitized to messages about corruption. They describe desensitization as a function of repeated exposure, leading to the gradual reduction in responsiveness to an arousal-eliciting stimulus. The consequence is that, once someone becomes desensitized, additional exposure to similar messages does not necessarily provoke worry at all, and certainly not to the same degree as the initial exposure. Second, exposure to messages on corruption may not influence perceptions of the corruption outcomes, because people tend to ignore information that contradicts certain perceptions that they have already formed.

Most of the earliest traditional work on corruption and anti-corruption strategies relied on the logic of the principal–agent theory. As the result of principal–agent theoretical reasoning, many countries designed anti-corruption campaigns that created or strengthened mechanisms to allow principals to monitor and sanction their agents, thereby increasing overall organizational transparency and reducing the level of discretion exercised by low-level bureaucrats and employees (Carson and Prado, 2016: 56–65).

The theoretical focus of other corruption and anti-corruption studies that borrow from deterrence theory in the criminal literature emphasize the targeting of individual corrupt actors in a manner similar to that applied to those who participate in crime and other illegal activities. The assumption is that corrupt individuals are rational and therefore weigh both the costs and benefits of engaging in corrupt behaviour. This perspective treats the incentives for corrupt behaviour as being similar to profit maximization. Thus, Carson and Prado (2016) argue that, as long as the benefits of engaging in corrupt behaviour exceed the costs, it is rational to engage in corrupt behaviour. It is not surprising that most of the anti-corruption regimes and reforms in Uganda have been geared at promoting these punishment attributes.
However, with little success in deploying either the conventional principal–
agent or rational deterrence theoretical frameworks, civic anti-corruption
actors have resorted to exposing the corrupt scandals and their consequences
to the public through media information campaigns, publications and events.
A case in point has been the promotion of the so-called “Black Monday”
by a range of anti-corruption civil society organizations in Uganda under
the umbrella of the Anti-Corruption Coalition Uganda. The Black Monday
movement was born out of continuous and unprecedented levels of theft of
public resources by public officials. On the first Monday of every month,
leaders and concerned citizens are asked to wear black clothes and disseminate
or publish information on unresolved corruption scandals involving top
government officials (Larok, 2013).

Notwithstanding the growing exposure of corruption and dissemination of
information on its consequences, a theoretical understanding based on the
collective action theory and goal-framing theory would suggest a different
course of action. There is compelling evidence that corruption in Uganda
is systemic and widespread in almost all spheres of life, and is therefore a
collective action problem. The collective action theory, as proposed by Persson
and others (2013), seems to be relevant in understanding whether information
on consequences of corruption can be an effective tool in curbing corruption
in Uganda. The reasoning behind the collective action theory is that, in a
society or context where a significant number of people act corruptly, it may
be rational for the individual to choose to engage in corrupt behaviour (ibid.: 205). Carson and Prado (2016) illustrate that, if you expect others in your
community to be corrupt, you will be incentivized to act corruptly, because the
individual costs of engaging in principled behaviour outweigh the individual
benefits. Even in societies where corruption is condemned, an individual may
be more likely to engage in corrupt practices when he/she believes that his/
her fellow citizens are doing the same. In such an environment, corruption
is socially appropriate, and honesty achieves nothing. It is a classic collective
action dilemma. On the other hand, if an individual believes that his/her
peers are honest, he/she may refrain from taking advantage of opportunities
to engage in corruption in order to avoid triggering social disapproval (Zhang,

Ultimately, even an individual who would prefer to act honestly may see no
other choice but to behave corruptly when operating in a thoroughly corrupt
environment. Honesty or principled behaviour in such an environment is costly, and those who act honestly are often ostracized or ridiculed, and face stigmatization or retribution, by or at the behest of other members of the community. In the collective action theory, it is argued that – in the absence of collectively shared and supported values such as trust, reciprocity, honesty and accountability – anti-corruption initiatives are bound to fail. That is to say, people will be unlikely to embrace reform, so long as they believe that the fundamental character of their society (i.e. the rules of the game) remains unchanged (Carson and Prado, 2016: 2).

Nonetheless, framing theory – which has been used in behaviour economics, law, psychology, communications and sociology – provides a potentially useful framework to appreciate and understand how information-based interventions impact individual behaviour (see, for example, Hallahan, 1999; Lindenberg and Steg, 2007; Sunstein, 1996; Etienne, 2010). The framing theory is a rhetorical approach that focuses on how information is created, the underlying psychological processes that people use to examine information, to make judgments, and to draw inferences about the world around them (Hallahan, 1999). The empirical studies on the role and impact of information-based interventions on corruption and anti-corruption behaviour have emphasized the importance of framing effects. The goal-framing theory provides a useful analytical lens for examining the differences in how people receive, treat and make judgments about information on corruption, and the underlying goals of their behaviours. In particular, the goal-framing theory of Lindenberg and Steg (2007) identifies three goals that determine the knowledge, attitudinal and behaviour outcomes: the hedonic goal, the gain goal and the normative goal. A hedonic goal frame is defined as one that activates one or more sub-goals that promise to improve the way one feels in a particular situation (Lindenberg and Steg, 2007: 117–137). A gain goal frame relates to welfare improvement, making people very sensitive to changes in their personal resources.

The normative goal frame, which is relevant to the current study, activates all sorts of sub-goals associated with appropriateness. The normative frame makes people sensitive to what they think one ought to do (according to oneself or others) and sensitive to what one observes other people doing (Lindenberg and Steg, 2007: 121). In the lens of goal-framing theory, when it comes to corruption, one would expect that knowledge about corruption consequences
would increase people’s concern about corruption, and hence influence them to act against corruption. The present study, borrowing from the collective action and goal-framing theoretical perspectives, therefore assesses whether the use of information on corruption consequences has the potential to have an impact on permissiveness towards corruption, the tendency to engage in corruption, and participation in anti-corruption programmes. The key hypothesis of the study is that corruption is endemic in Uganda because many people may not have accurate information on corruption consequences. If people have accurate information about corruption consequences, then their level of intolerance, shame and guilt towards corruption, and their desire to fight corruption, is expected to be high.

**Research design**

To evaluate how effective information on corruption consequences can influence corrupt behaviour, and also inspire the anti-corruption fight, a quasi-experimental, non-equivalent control group research design was adopted. A quasi-experimental design is similar to true experimental research design only in that, in a quasi-experimental design, there is no random assignment of participants. The key objective of the quasi-experimental design is not to determine causal effect, but rather ascertaining group differences. The researcher adopted a static group comparison, post-test-only, non-equivalent control group design, where the treatment and non-equivalent control groups were compared on various outcomes of the study. The experimental-based research design approach was inspired by the experimental setup of a study by Denisova-Schmidt and others (2015) that investigated experimentally the effect of an anti-corruption intervention among Ukrainian university students.

In the present study, the quasi-experimental research design was used among students of Uganda Christian University. Because available information and data on corruption consequences in Uganda exist mainly for national corruption scandals, the study focused on using information on corruption consequences at the national level as the reference point. The data were collected from students who were exposed to an information folder with information on corruption consequences (experimental group), and from students who were exposed to an information folder with university information (control/comparison group).
Participants and recruitment

Overall, 300 students were signed up to participate, but during the exercise only 242 turned up for their respective participation dates. To ensure that participants were randomly assigned to either the experimental or the control group, a simple timing rule was adopted. During the interview, if the last digit of the interviewer’s electronic watch indicated an even minute as the student reached the part of the survey where the intervention would take place, then that student was assigned to the experimental group, and the letter “T” was written on the questionnaire for identification. Conversely, if the last digit of the interviewer’s electronic watch indicated an odd minute, then the student was assigned to the control group, and the letter “C” was written on the questionnaire. Once the respective folder of information was given, the student was asked to study the material therein, and the interview continued only after the respondent had finished studying the folder carefully.

Data collection instrument

The study used a survey questionnaire to collect information from students in both the experimental and control groups. The survey contained demographics and questions aimed at assessing students’ awareness of corruption and its consequences, permissiveness towards and tendency to engage in corruption, and willingness to participate in an anti-corruption programme. The level of permissiveness was measured using the index of permissiveness constructed by Moreno (2002). The index is based on individual responses to questions that address four issues: the extent to which individuals justify “claiming government benefits to which you are not entitled”, “avoiding a fare on public transport”, “cheating on taxes if you have a chance”, and “people accepting a bribe in the course of their duties”. Each variable was measured on the 10-point Likert scale (1=never justifiable and 10=always justifiable). Willingness to engage in corrupt behaviour was based on corruption tendency question items adapted from the guilt and shame proneness (GASP) scale constructed by Cohen and others (2011). The scale has four dimensions: guilt–negative behaviour evaluation (NBE); guilt–repair (REP); shame–negative self-evaluation (NSE); and shame–withdraw (WIT). To measure willingness to participate in an anti-corruption programme, participants were asked at the end of the interviews whether they would be willing to join a university anti-corruption club.
Data analysis

Data were analysed using descriptive statistics. To ascertain whether exposure to information on corruption consequences affects permissiveness towards corruption, tendency to engage in corruption and participation in an anti-corruption programme, the study tested mean differences in the three outcomes of the experimental and control groups. Evidence shows that, when the treated and control groups are comparable in terms of observed or unobserved characteristics (that potentially affect the outcomes), the test of mean differences in outcomes yields an unbiased estimate of the causal effect of intervention (Denisova-Schmidt and others, 2015, 2016). Therefore, a two-sample, mean-comparison test (t-test) was used to test the mean difference across the three outcomes (permissiveness towards corruption, tendency to engage in corruption and willingness to participate in anti-corruption programmes) across the two treatment groups.

Research findings

Characteristics of student participants

The results in Table I show that, overall, 242 students participated in the research study, with 50.8 per cent of the students (n=123) exposed to the information on consequences of corruption (experimental group) and 49.2 per cent of the students (n=119) exposed to the university information folder (comparison group).
Table 1: Characteristics of student participants

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Experimental group (N=123)</th>
<th>Control group (N=119)</th>
<th>Mean difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>%</td>
<td>Frequency</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>52</td>
<td>42.3</td>
<td>59</td>
</tr>
<tr>
<td>Female</td>
<td>71</td>
<td>57.7</td>
<td>60</td>
</tr>
<tr>
<td>Age brackets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18–23</td>
<td>101</td>
<td>82.1</td>
<td>97</td>
</tr>
<tr>
<td>24–29</td>
<td>21</td>
<td>17.1</td>
<td>18</td>
</tr>
<tr>
<td>30 and above</td>
<td>1</td>
<td>0.81</td>
<td>4</td>
</tr>
<tr>
<td>Year of study</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First year</td>
<td>47</td>
<td>38.2</td>
<td>45</td>
</tr>
<tr>
<td>Second year</td>
<td>60</td>
<td>48.8</td>
<td>56</td>
</tr>
<tr>
<td>Third year</td>
<td>16</td>
<td>13.01</td>
<td>18</td>
</tr>
<tr>
<td>Course of study</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting and finance</td>
<td>45</td>
<td>36.6</td>
<td>40</td>
</tr>
<tr>
<td>Economics and management</td>
<td>10</td>
<td>8.1</td>
<td>16</td>
</tr>
<tr>
<td>Procurement and logistics management</td>
<td>30</td>
<td>24.4</td>
<td>24</td>
</tr>
<tr>
<td>Project planning and entrepreneurship</td>
<td>11</td>
<td>8.9</td>
<td>0</td>
</tr>
<tr>
<td>Business administration</td>
<td>18</td>
<td>14.6</td>
<td>17</td>
</tr>
<tr>
<td>Human resource management</td>
<td>9</td>
<td>7.3</td>
<td>22</td>
</tr>
</tbody>
</table>

The results in Table I indicate that the comparison group had a higher percentage of males, with 49.6 per cent male and 50.4 per cent female, while the experimental group had a higher percentage of females, with 57.7 per cent male and 42.3 per cent female. The majority of those who participated in this research study belonged in the lowest age bracket of 18–23 years, and were evenly distributed across the two groups. In both groups, most students were second-year bachelor degree students, representing 48.8 and 47.1 per cent of students in the experimental and control groups, respectively. In both groups, the majority of students came from bachelor degree programmes in accounting and finance, procurement and logistics management, and business administration. The statistical insignificance of the means difference between the two groups of participants with respect to observed student’s characteristics
shows that the random assignment of the students to the experimental and control group was successful.

**Information on corruption consequences and individuals’ permissiveness**

In the study, using an index of corruption permissiveness based on justification of acts such as “claiming government benefits to which you are not entitled”, “avoiding a fare on public transport”, “cheating on taxes if you have a chance”, and “accepting a bribe in the course of duties”, students’ responses to the questions were compared. Results in Table II reflect the level of permissiveness towards corruption, and mean differences between the students who received the folders with information on corruption consequences and control group students who received the corruption-neutral information folders. Whereas significant differences were observed in respect of claiming government benefits to which one is not entitled and avoiding paying a fare on transport, the level of permissiveness towards corruption among the students was high, with an average score of 4.0 and above for each question in both groups.

The overall index of permissiveness towards corruption shows that, whereas the students in the experimental group were on average more permissive towards corruption (mean=20.5) compared with control group permissiveness (mean=18.3), the mean differences are not statistically significant, at a 5 per cent level of significance. This implies that whether students are exposed to information on the consequences of corruption does not significantly change their permissiveness towards corruption. Nevertheless, whereas there is no significant mean difference between students’ overall level of permissiveness to corruption, the fact that students who were exposed to information about corruption’s consequences score higher on average than those who were exposed to neutral information concurs with the available evidence that, in societies where corruption is high, the more information on corruption that is made available, the more people tend to be permissive towards corruption (Melgar and Rossi, 2012:10). For instance, Čábelková (2001: 5), cited in Melgar and Rossi (2012), argues that the real level of corruption affects the perception of corruption, and it facilitates the decision to take corrupt action. Therefore, it is not surprising that, when participants were exposed to information regarding corruption consequences, having access to the information increased their permissiveness towards corruption slightly more
than those who were not exposed to corruption consequences information, although the increase is not statistically significant.

Table 2: Level of permissiveness

<table>
<thead>
<tr>
<th>Level of permissiveness</th>
<th>Experimental group (N=123)</th>
<th>Control group (N=119)</th>
<th>Overall (N=242)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>Claiming government benefits to which you are not entitled</td>
<td>5.0</td>
<td>4.0</td>
<td>4.0</td>
<td>3.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Avoiding paying a fare on transport</td>
<td>5.4</td>
<td>3.9</td>
<td>4.4</td>
<td>3.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Cheating on taxes if you have a chance</td>
<td>5.3</td>
<td>4.0</td>
<td>5.0</td>
<td>3.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Someone accepting a bribe in the course of their duties</td>
<td>4.8</td>
<td>4.1</td>
<td>5.0</td>
<td>4.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Additive permissiveness index</td>
<td>20.5</td>
<td>10.4</td>
<td>18.3</td>
<td>10.8</td>
<td>19.4</td>
</tr>
</tbody>
</table>

Note: *Statistically significant at 5% level of significance.

The evidence that the level of permissiveness towards corruption is context-driven is growing in many countries. The role of context in shaping people’s behaviour is well articulated by Vasilache and Maclean (2016) in their article “Islands of integrity – anti-corruption methodology”. Citing Malcolm Gladwell’s book The Tipping Point – How Little Things Can Make a Big Difference, they argued that the context influences people’s behaviour significantly, often overwhelming their inherent predispositions. The concluding remarks of the article are that the context in which we live plays an important role and has a powerful effect on shaping our behaviour. Lavena’s (2013) study on “What determines permissiveness toward corruption? A study of attitudes in Latin America” cites many empirical studies (see Melgar, Rossi and Smith, 2010a; Moreno, 2002) that concur with the view that corruption permissiveness in any society is contextually driven – determined, among other characteristics, by how the society understands and accepts rules and rule-breaking behaviour. This implies that the society’s level of morality and values disposition has bearing on the degree to which individuals in that society perceive corruption in general and willingness to justify illegal actions in their multiple forms. For example, Lavena (2013) revealed that evidence from three different Mexican opinion surveys suggests
that the likelihood of corruption permissiveness is dependent on context. This suggests that, to address corruption in societies where it is endemic, anti-corruption interventions should be anchored in changing the culture of corruption acceptance.

**Information on corruption consequences and tendency to engage in corruption**

In the study, corruption tendency was measured using the instrument adapted from the guilt and shame proneness (GASP) scale. The GASP scale can detect an individual’s susceptibility to unethical decision-making and delinquent behaviour. In the questionnaire, participants were asked to imagine that they were in the situations illustrated in the questionnaire by 16 items consisting of 4 sub-dimensions: guilt–negative behaviour evaluation (NBE), guilt–repair (REP), shame–negative self-evaluation (NSE), and shame–withdraw (WIT). For each item, the participants were asked to indicate the likelihood of their reaction on a scale from 1 to 7 (1=very unlikely; 2= slightly unlikely; 3=unlikely; 4=about 50% likely; 5=slightly likely; 6=likely and 7=very likely). In the analysis, the greater the score obtained by the participants, the greater the shame and/or guilt felt by the participants in the situations presented, which implies less tendency to engage in corruption (Juneman and Pane, 2014).

**Guilt–negative behaviour evaluation (NBE) dimension**

The NBE dimension is assessed by the following four questions:

(a) After realizing you have received too much change at a supermarket, you decide to keep it because the salesclerk doesn’t notice. How likely would you feel uncomfortable about keeping the money?

(b) You secretly commit a felony/crime. How likely is it that you would feel guilty for breaking the law?

(c) At a co-worker’s housewarming party, you spill red wine on their new cream coloured carpet. You cover the stain with a chair so that nobody notices your mess. How likely is it that you would feel that the way you acted was pathetic?
(d) You lie to people but they never find out about it. How would this make you feel?

As Cohen and others (2011) argued, the NBE scale is intended only as a measurement of moral emotional disposition, since recognizing that an undesirable action has occurred and taking the perspective of another are the pre-requisites of moral behaviour (Wallace, 2013: 10). As Lewis (1971: 18) argued, in the present study it was expected that students who were exposed to information on the consequences of corruption would have more feelings of guilt, triggering thoughts, such as “I have done a bad thing”, which would cause them to feel distress. However, the results presented in Table III show that, whereas on average the students in both groups showed greater negative guilt behaviours regarding the situations presented to them, there were no significant mean differences between the experimental and control groups.

<table>
<thead>
<tr>
<th>Guilt–negative behaviour evaluation (NBE) questions</th>
<th>Experimental group (N=123)</th>
<th>Control group (N=119)</th>
<th>Overall (N=242)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Std. Dev.</td>
<td>Mean Std. Dev.</td>
<td>Mean Std. Dev.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>-0.070</td>
<td>0.945</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>-0.011</td>
<td>0.991</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>0.953</td>
<td>0.341</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td>-1.433</td>
<td>0.153</td>
</tr>
<tr>
<td>Overall</td>
<td>19.0 5.8</td>
<td>18.8 5.9</td>
<td>18.9 5.8</td>
<td>-0.249</td>
<td>0.804</td>
</tr>
</tbody>
</table>

**Guilt–repair (REP) dimension**

According to Wallace (2013), the guilt proneness dimension of guilt–repair serves as a reparation system of moral emotions once there is a need to repair a situation. Vaish and others (2011), cited in Wallace (2013), describe repair behaviours as those that often occur in the form of pro-social behaviours, such as an apology or attempting to correct the transgression (ibid.: 1248). The guilt–repair dimension is assessed by the following four questions:
(a) You are privately informed that you are the only one in your group who did not get a university scholarship award because you skipped too many days of lectures. How likely is it that you would become more responsible about attending lecturers?

(b) You reveal a friend’s secret, though your friend never finds out. What is the likelihood that your failure to keep the secret would lead you to exert extra effort to keep secrets in the future?

(c) You strongly defend a point of view in a discussion, and though nobody was aware of it, you realize that you were wrong. How likely is it that you would think more carefully before you speak?

(d) While discussing a heated subject with friends, you suddenly realize you are shouting though nobody seems to notice. How likely is it that you would try to act more considerately toward your friends?

In the present study, it was expected that students who were exposed to information on the consequences of corruption would be more likely to demonstrate guilt–repair behaviours.

**Table 4: Responses on the guilt–repair (REP) dimension**

<table>
<thead>
<tr>
<th>Guilt–repair (REP) questions</th>
<th>Experimental group (N=123)</th>
<th>Control group (N=119)</th>
<th>Overall (N=242)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>1</td>
<td>5.1</td>
<td>2.2</td>
<td>5.1</td>
<td>2.2</td>
<td>5.1</td>
</tr>
<tr>
<td>2</td>
<td>4.3</td>
<td>2.2</td>
<td>4.7</td>
<td>2.1</td>
<td>4.5</td>
</tr>
<tr>
<td>3</td>
<td>4.8</td>
<td>2.3</td>
<td>5.0</td>
<td>2.0</td>
<td>4.9</td>
</tr>
<tr>
<td>4</td>
<td>5.1</td>
<td>2.0</td>
<td>5.0</td>
<td>1.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Overall</td>
<td>19.3</td>
<td>5.5</td>
<td>19.8</td>
<td>4.8</td>
<td>19.6</td>
</tr>
</tbody>
</table>

*Source: Primary data.*

However, the results presented in Table IV revealed that, on average, the students in both groups showed greater guilt–repair behaviours regarding the situations presented to them, although the difference is not significant between the experimental and control groups. This implies that exposing
participants to information on corruption consequences does not significantly affect the individual’s guilt–repair behaviours.

Shame–negative self-evaluation (NSE) dimension

According Wallace (2013), the degree to which someone thinks he/she is a bad person because of a transgression is shame–negative self-evaluation. The dimension of shame is described by the following four questions:

(a) You rip an article out of a journal in the library and take it with you. Your teacher discovers what you did and tells the librarian and your entire class. How likely is it that you would feel like a bad person?

(b) You give a bad presentation at work. Afterwards, your boss tells your co-workers it was your fault that your company lost the contract. How likely is it that you would feel incompetent?

(c) You successfully exaggerate your damages in a lawsuit. Months later, your lies are discovered and you are charged with falsification. How likely is it that you would think you are a shameful human being?

(d) You make a mistake at work and find out a co-worker is blamed for the error. Later, your co-worker confronts you about your mistake. How likely is it that you would feel like a coward?
Table 5: Responses on the shame–negative self-evaluation (NSE) dimension

<table>
<thead>
<tr>
<th>Shame–negative self-evaluation (NSE) questions</th>
<th>Experimental group (N=123)</th>
<th>Control group (N=119)</th>
<th>Overall (N=242)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>1</td>
<td>4.9</td>
<td>2.2</td>
<td>5.1</td>
<td>2.2</td>
<td>5.0</td>
</tr>
<tr>
<td>2</td>
<td>5.1</td>
<td>2.2</td>
<td>5.1</td>
<td>2.3</td>
<td>5.1</td>
</tr>
<tr>
<td>3</td>
<td>5.0</td>
<td>2.2</td>
<td>5.4</td>
<td>2.0</td>
<td>5.2</td>
</tr>
<tr>
<td>4</td>
<td>4.6</td>
<td>2.2</td>
<td>5.0</td>
<td>2.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Overall</td>
<td>15.8</td>
<td>4.8</td>
<td>15.0</td>
<td>5.0</td>
<td>15.4</td>
</tr>
</tbody>
</table>

Source: Primary data.

Although it was anticipated that students who were exposed to information on the consequences of corruption would be more likely to demonstrate more feelings of being a bad person after the transgression, the results in Table IV show that there is no significant mean difference between the two groups. The results revealed that, on average, the students in both groups showed greater shame regarding the situations presented to them. This implies that exposing participants to information on corruption consequences does not significantly affect the degree to which someone thinks he is a bad person after the transgression.

**Shame–withdraw (WIT) dimension**

The shame proneness dimension of shame–withdraw describes the degree to which someone avoids a situation or person because of a transgression (Cohen and others, 2011). The shame–withdraw dimension is assessed by the following four questions:

(a) After making a big mistake on an important project at work in which people were depending on you, your boss criticizes you in front of your co-workers. How likely is it that you would feign/fake sickness and leave work?

(b) A friend tells you that you boast a great deal. How likely is it that you would stop spending time with that friend?
(c) Your home is very messy and unexpected guests knock on your door and invite themselves in. How likely is it that you would avoid the guests until they leave?

(d) You take office supplies home for personal use and are caught by your boss. How likely is it that you would quit your job?

In the present study, it was expected that students who were exposed to information on the consequences of corruption would be more likely to demonstrate behaviours of shame–withdraw. The results presented in Table VI revealed that, although on average the students in both groups showed greater shame–withdraw behaviours regarding the situations presented to them, the difference is not significant between the experimental and control groups. This implies that exposing participants to information on corruption consequences does not significantly affect the individual’s shame–withdraw behaviours.

<table>
<thead>
<tr>
<th>Shame–withdraw (WIT) questions</th>
<th>Experimental group (N=123)</th>
<th>Control group (N=119)</th>
<th>Overall (N=242)</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
<td>Std. dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>1</td>
<td>3.8</td>
<td>2.0</td>
<td>3.6</td>
<td>2.1</td>
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<td>Overall</td>
<td>19.6</td>
<td>5.9</td>
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In conclusion, it was anticipated that exposure to information on the consequences of corruption would trigger a feeling of shame and guilt in relation to corrupt behaviour. However, the results presented in Tables III, IV and V show that there were no significant differences in shame and guilt proneness across the experimental and control groups. This implies that exposure to information on corruption consequences does not trigger a feeling of shame, guilty behaviour or repair actions. Although the findings are perplexing given the a priori expectations, they are consistent with evidence on the effects of information campaigns on behaviour in behaviour
economics, law, psychology and sociology literature, which indicates that citizens or “good apples” follow norms and act in accordance to their “feeling of duty” (Etienne, 2010: 12; Lindenberg and Steg, 2007: 118). In Etienne’s study (2010), it is argued that the effects of information campaigns on behaviour-oriented outcomes directly depend on the way in which people process information and act upon the goals. He described three goals: the hedonic goal, the gain goal and the normative goal. Lindenberg and Steg (2007) defined the hedonic goal as “to feel better right now”, the gain goal as “to guard and improve one’s resources”, and the normative goal as “to act appropriately”. There is no doubt that corrupt behaviour, like environmental problems/concerns, should be classified within the domain of morality in people’s minds, and that behavioural choices are based on the evaluation of what is right or wrong.

Etienne (2010) argued that information campaigns that call for “acting appropriately” or to “do the right thing”, as was the case with the current study, evoke the normative conformity that is directly tied to social norms – that is, rules shared within a group and controlled and sanctioned by its members. People in a normative frame are not attentive to the costs of sanctions, because there are no normative prices. In other words, people in a normative frame are not ignorant of the consequences of alternatives; their concern is whether desired action or options make normative sense. As long as the normative frame is embedded in societal norms, information campaigns are likely to fail, or even backfire (Etienne, 2010: 13).

There is no doubt that corruption in Uganda is pervasive. As argued by Sunstein (1996), if a strong norm against littering prevails in a given community, then the important problem of environmental degradation can be solved without need for legal intervention (ibid.). The implication that is relevant to the study findings is that the prevailing norm dictates the expected behaviour. As already argued, in Uganda, corruption and justification of illegal behaviour are socially constructed and are embedded in social norms. Exposing people to information on corruption consequences would not significantly alter their disposition regarding antisocial behaviour. In other words, the insignificance of the differences in relation to shame and guilt proneness among those who were exposed to the information in the corruption consequences folder and those who were not, is perhaps explained
by the social norms that define the society’s feelings about corruption and anti-corruption behaviour.

Information on corruption consequences and participation in an anti-corruption programme

To ascertain whether exposure to information on corruption consequences would trigger the desire to fight corruption, study participants in both groups were asked whether they would be willing to join an anti-corruption programme that the university plans to start in the next semester. The results show that students who were not exposed to information on corruption consequences are more willing to participate in an anti-corruption programme of the university than those who were exposed.

Testing the association between willingness to participate in an anti-corruption programme and exposure to information using the chi-square test revealed that there is no significant association. However, the fact that a significant number of students in the experimental group (47.2 per cent) have reservations about joining the anti-corruption programme, the reasons that influenced their response were explored. It is observed that most students in the experimental group indicated that joining the anti-corruption group depended on issues raised, ranging from the prevalence of high corruption in society to programme-specific issues in relation to time and its outcomes. This may imply that some students who were exposed to information on corruption consequences have reservations to joining the anti-corruption programme. Some excerpts from the answers provided are given below:

“...because even if I am to participate or not, corruption will never stop” “...because it is a waste of time as many other anti-corruption programmes...”

The above findings regarding information on corruption consequences and anti-corruption behaviours may resonate with the arguments advanced by Peiffer (2017) in her study “Message received? How messages about corruption shape perceptions”. The results from a survey experiment involving 1,000 households in Jakarta revealed that messages focused on widespread corruption heightened worries about its ill effects, depressed confidence in government, and reduced the belief that ordinary people could fight
corruption (ibid.). The other explanation of why exposure to information on consequences of corruption does not increase anti-corruption behaviour may be that people either become numb to a message if they have heard it repeatedly and often, or they discount new information that they are exposed to if it challenges preconceived perceptions.

If the majority of people perceive corruption to be widespread, more people will be willing to engage in corruption themselves. In respect of the anti-corruption fight, in such situations more people would be less confident that their own efforts to control corruption would work and hence less likely to engage in the anti-corruption fight. There is growing evidence that a high level of knowledge about corruption reduces the willingness among many people to fight corruption. Recent studies have revealed that, in many developing countries where corruption is widespread, there is corruption fatigue, namely the feeling that corruption is normal, which causes people to not have the motivation to do anything to fight it.

Overall, the results presented above on the level of permissiveness towards corruption, the tendency to engage in corruption and the anti-corruption behaviour of student participants resonate well with the findings reached by the Peiffer and Alvarez study (2016). They discovered that, in an environment where people are inundated with messages about corruption, any additional messages about corruption may not have any significant impact at all. This is because, in such an environment, many people may have already become desensitized to messages about corruption. Citing Krane and others (2011), Peiffer and Alvarez (2016) state that desensitization refers to the gradual reduction in responsiveness to an arousal-eliciting stimulus as a function of repeated exposure. For instance, if a person has become desensitized to a message about corruption deeply harming development, although a message on this topic might have initially heightened fears about corruption’s consequences, additional exposure to similar messages would not necessarily stimulate worry at all, and certainly not to the same degree that happened with the initial exposure.

Conclusions and recommendations

The major conclusion of the study is that exposure to information on the consequences of corruption does not significantly affect the level of
permissiveness towards corruption, the tendency to engage corruption and anti-corruption behaviour as expected. Although the findings were perplexing given a priori expectations, the researcher found out that the outcome of the experiment resonates with other empirical studies and literature on the outcomes of exposure to information on corruption and anti-corruption behaviour. For instance, given the prior level of knowledge and awareness of corruption and its consequences that the students exhibited – and known widespread perception about corruption in Uganda (as revealed by Transparency International and other national surveys) – the overall findings perhaps might not be as surprising as they seem.

There are many reasons to believe that young people would not be bothered so much by information on the consequences of corruption, and thus the outcomes were different from the desired responses. It is plausible to assume that, in a corrupt society, rational and real opportunities to fight corruption are few among young people.

The conclusion of the study is in line with a collective action theoretical perspective, in that people’s corruption and anti-corruption behaviour are inherently influenced by the context – the perceived level of corruption in the country. This implies that shaping corruption and anti-corruption behaviour, in particular among young people, which was the focus of the current experiment, may require interventions that shape the context and the perception of corruption. In relation to a goal-framing theoretical perspective, the results show that, unlike in the environmental behaviour studies, increasing awareness of the problems caused by corruption does not increase the likelihood of engaging in anti-corruption behaviour, due to strong normative frames. For example, much evidence in studies on tobacco consumption shows that there are many factors that undermine the effectiveness of scary or negative information and messages in influencing people’s behaviour. The present study shows that corruption or anti-corruption behaviour is not an exception. The limited impact of health warnings on behaviour outcomes is true even for corruption interventions, and therefore anti-corruption reformers need to consider the promotion of positive messages that empower people.

Therefore, in an environment where corruption is a collective action problem associated with strong normative frames, information-based anti-corruption
interventions should aim to provide much-needed information that would help to sustain good morals and norms in respect to corruption. In other words, exposure to information that promotes or moralizes anti-corruption behaviour may have more positive returns than negative information that arouses emotions about anti-corruption behaviour. For instance, praising or rewarding honest people in public and private organizations, which echoes anti-corruption behaviour more than negative information and messages on corruption, may be effective in curbing corruption. As the discussion of results has shown, in a desensitized society, negative messages, or messages that remind people of the extent of corruption, are counterproductive in relation to anti-corruption behaviour. Therefore, disseminating information about those people who have successfully resisted corruption is more powerful than telling people that so many public servants have stolen millions of dollars.

Notes


34. Pearson chi2(2) =2.7036Pr = 0.25.

References


Commentary

Challenges and opportunities of the fourth industrial revolution for African universities

Paul Tiyambe Zeleza

Abstract

This commentary focuses on the fourth industrial revolution and how it will impact the future of higher education in Africa. It underscores the major trends in the global political economy, shifting power equations, spatial demographic shifts and the changing nature of work, along with the implications of the above for higher education in Africa. The fourth industrial revolution will no doubt change the nature, texture, format and packaging of higher education, by adapting it to a digitalized new world of artificial intelligence and instant information flow. Orthodox forms of higher education will have to be reinvented to remain relevant in the disruptive yet progressive brave new world of the fourth industrial revolution.

Key words: Industrial revolution, disruptive, artificial intelligence, higher education
Résumé


Mots-clés : Révolution industrielle, disruptif, intelligence artificielle, enseignement supérieur
Introduction

Like many of you, I try to keep up with trends in higher education, which are of course firmly latched to wider transformations in the global political economy, in all its bewildering complexity and contradictions, and tethered to particular national and local contexts. Of late, one cannot avoid the infectious hope, hysteria and hyperbole about the disruptive power of the fourth industrial revolution in every sector, including higher education. It was partly to make sense of the discourse and debate about this new-fangled revolution that I chose this topic.

But I was also inspired by numerous conversations with colleagues in my capacity as Chair of the Board of Trustees of the Kenya Educational Network, Kenya’s national research and education network, which provides Internet connectivity and related services to enhance education and research to the county’s education and research institutions. Also, my university has ambitious plans to significantly expand its programmes in science, technology, engineering and mathematics, the health sciences, and the cinematic and creative arts, in which discussions about rapid technological changes and their impact on our educational enterprise feature prominently.

I begin by briefly underlining the diverging perspectives on the complex, contradictory and rapidly changing connections between the fourth industrial revolution and higher education. Then I seek to place it in the context of wider changes: (a) first, in terms of global politics and economics; (b) second, with reference to the changing nature of work; (c) third, in the context of other key trends in higher education. Situating the fourth industrial revolution among these varied and intersected changes and dynamics underscores a simple point: that it is part of a complex mosaic of profound transformations taking place in the contemporary world that precede and supersede it.

As a historian and social scientist, I’m only too aware that technology is always historically and socially embedded; it is socially constructed insofar as its creation, dissemination and consumption are always socially marked. In short, technological changes, however momentous, produce and reproduce both old and new opportunity structures and trajectories that are simultaneously uneven and unequal because they are conditioned by the enduring social markers of class, gender, race, nationality, ethnicity and other markers, as
well as the stubborn geographies and hierarchies of the international division of labour.

**Fourth industrial revolution**

As with any major social phenomena or process, the fourth industrial revolution has its detractors, cheerleaders and fence-sitters. The term often refers to the emergence of quantum computing, artificial intelligence, the Internet of Things, machine learning, data analytics, big data, robotics, biotechnology, nanotechnology, and the convergence of the digital, biological and physical domains of life. Critics dismiss the fourth industrial revolution as a myth, arguing that it is not a revolution but rather a collection of innovations that are extensions of previous innovations. Some even find the euphoric discourse about it elitist, masculinist and racist. Some fear its potential to destroy jobs and livelihoods, along with privacy and freedom, as surveillance capitalism spreads its tentacles.

To those who espouse its radical impact, the fourth industrial revolution will profoundly transform all spheres of economic, social, cultural and political life. It is altering the interaction of humans with technology, leading to the emergence of what Yuval Noah Harari calls *homo deus*, for those who worship at the temple of data in the name of algorithms. More soberly, some welcome the fourth industrial revolution for its leapfrogging opportunities for developing countries and marginalized communities. But even the sceptics seek to hedge their bets on the promises and perils of the much-hyped revolution by engaging it.

In the education sector, universities are urged to help drive the fourth industrial revolution by pushing the boundaries of their triple mission of teaching and learning, research and scholarship, and public service and engagement. Much attention focuses on curricula reform, the need to develop what one author calls “future-readiness” curricula that prepare students holistically for the skills of both today and tomorrow; curricula that integrate the liberal arts and the sciences, digital literacy and intercultural literacy, technical competence and ethical values; curricula that foster self-directed and personalized learning. Because of the convergences of the fourth industrial revolution, universities are exhorted to promote interdisciplinary and transdisciplinary teaching,
research and innovation, and to pursue new modes of internationalization of knowledge production, collaboration and consumption.

**Changes in the global political economy**

From Africa’s vantage point, I would argue there are three critical global forces that we need to pay special attention to. First, the world system is in the midst of a historic hegemonic shift. This is evident in the growing importance of Asia and emerging economies, including those in Africa, and the impending closure of half a millennium of global dominance by Europe and the United States of America. Emblematic of this monumental transition is the mounting rivalry between a slumping United States and a rising China that is flexing its global muscles, not least through the Belt and Road Initiative.

The struggle between the two nations and their respective allies or spheres of influence marks the end of America’s supremacy as the sole post-Cold War superpower. The outbreak of the trade war between the two in 2018 represents the first skirmishes of a bitter hegemonic rivalry that will probably engulf at least the first half of the twenty-first century. The question we have to ask ourselves is: How should Africa manage and position itself in this global hegemonic shift?

This is the third such shift over the last 200 years. The first occurred between 1870 and 1914, following the rise of Germany and its rivalry with the world’s first industrial power, the United Kingdom. For the world as a whole, this led to a new imperialism, which culminated in the First World War, and culminated in colonization for Africa and Asia. The second hegemonic shift emerged out of the ashes of the Second World War with the rise of two superpowers, the former Soviet Union and the United States. For the world, this led to the Cold War and, for Asia and Africa, decolonization. Can Africa leverage the current shift to achieve its long-cherished but deferred dream of sustainable development?

As the highest concentrations of collective intellectual prowess, African universities and researchers have a responsibility to promote comprehensive understanding of the stakes for Africa and to inform policy options on how best to navigate the emerging treacherous quagmire of the new superpower rivalries, to maximize the possibilities and minimize the perils. More broadly,
insofar as China’s and Asia’s rise are as much economic as they are epistemic, as evident in the exponential ascent of Asian universities in global rankings, the challenge and opportunity for our universities and knowledge production systems is how best to pluralize worldly engagements that simultaneously curtail the Western stranglehold rooted in colonial and neo-colonial histories of intellectual dependency, without succumbing to the hegemonic ambitions of China and Asia.

Second, world demography is undergoing a major metamorphosis. On the one hand, this is evident in the aging populations of many countries in the global North. China is also on the same demographic treadmill, thanks to its ill-guided one-child policy imposed in 1979, which was abolished only in 2015. On the other hand, Africa is enjoying a population explosion. Currently, 60 per cent of the African population is below 25 years of age. On the basis of current trends, Africa is expected to have 1.7 billion people in 2030 (20 per cent of the world’s population), rising to 2.53 billion (26 per cent) in 2050, and 4.5 billion (40 per cent) in 2100.

What are the development implications of Africa’s demographic bulge, and Africa’s global position, as it becomes the reservoir of the world’s largest labour force? The role of education institutions in this demographic equation is clear. Whether Africa’s skyrocketing population is to be a demographic dividend will depend on the quality of education, skills development and employability of its young people. Hordes of hundreds of millions of ill-educated, unskilled and unemployable young people would turn the youth population surge into a demographic disaster, a malthusian nightmare for African economies, polities and societies.

The third major transformative force centres on the impact of the fourth industrial revolution. During the first industrial revolution of the mid-eighteenth century, Africa paid a huge price through the Atlantic slave trade, which laid the foundations of the industrial economies of Europe and the Americas. In the second industrial revolution of the late nineteenth century, Africa was colonized. The third industrial revolution, which emerged in the second half of the twentieth century, coincided with the tightening clutches of neo-colonialism for Africa. What is and will be the nature of Africa’s participation in the fourth industrial revolution – as a player or as a pawn, as it was in the other three industrial revolutions?
Future of work

There is a rapidly growing number of academic studies and consultancy reports on the future of work. An informative summary can be found in a short monograph published by The Chronicle of Higher Education. In The Future of Work: How Colleges Can Prepare Students for the Jobs Ahead (Carlson, 2017), it is argued that the digitalization of the economic and social life spawned by the fourth industrial revolution will continue transforming the nature of work as old industries are disrupted and new ones emerge. In the United States, it is projected that the fastest-growing fields will be in science, technology, engineering and healthcare, while employment in manufacturing will decline. This will enhance the importance of the soft skills that are developed by studying the liberal arts, such as oral and written communication, critical thinking and problem-solving, teamwork and collaboration, and intercultural competency, combined with hard technical skills such as coding.

In short, while it is difficult to predict the future of work, more jobs will increasingly require graduates to fully merge their training in hard skills with soft skills, with training in both the liberal arts and science, technology, engineering and mathematics, with skills for complex human interactions, and capacities for flexibility, adaptability, versatility and resilience. In a world of rapidly changing occupations, the hybridization of skills, competencies and literacies, together with life-long learning, will become assets. In a digitalized economy, routine tasks will be more prone to automation than highly skilled, non-routine jobs. Successful universities will include those that impart academic and experiential learning to both traditional students and to older students who are seeking retraining.

The need to strengthen interdisciplinary and experiential teaching and learning, career services centres and retraining programmes for older students on college campuses is likely to grow. So will partnerships between universities and employers, as both seek to enhance students’ employability and skills and reduce the much-bemoaned mismatch between graduates and the labour market. The roles of career services centres will need to expand in response to pressures for better integration of curricula programmes, co-curricular activities, community engagement, and career preparedness and placement.
Of course, some university leaders and faculty bristle at the vocationalization of universities, insisting on the primacy of intellectual inquiry, learning for its own sake, and students’ personal development. But the fraught calculus between academe and return on investment cannot be wished away for many students and parents. For students from poorer backgrounds, intellectual development and career preparedness both matter, as university education maybe their only shot at acquiring the social capital that richer students can acquire by other avenues.

**Trends in higher education**

**Digital disruptions**

Clearly, digital disruptions constitute one of the four key interconnected trends in higher education that I seek to discuss. The other three include rising demand for public service and engagement, unbundling of the degree, and the escalating imperative for lifelong learning. More and more, digitalization affects every aspect of higher education, including research, teaching and institutional operations. Information technologies have impacted research in various ways, including by expanding opportunities for “big science” and increasing capacities for international collaboration. The latter is evident in the exponential growth in international co-authorship.

Also, the explosion of information has altered libraries from repositories of print and audiovisual materials into nerve centres for communication of digital information, which raises the need for information literacy. Moreover, academic publishing has been transformed by the acceleration and commercialization of scholarly communication. The role of powerful academic publishing and database firms has greatly been strengthened. The open source movement is trying to counteract that.

Similarly far-reaching, is the impact of information technology on teaching and learning. Opportunities have grown for technology-mediated forms of teaching and learning that encompass blended learning, flipped classrooms, adaptive and active learning, and online education. This has led to the emergence of a complex melange of teaching and learning models encompassing the face-to-face-teaching model without information and communications technology (ICT) enhancement, the ICT-enhanced face-
to-face teaching model, the ICT-enhanced distance teaching model, and the online teaching model.

Spurred by the student success movement arising out of growing public concern about the quality of learning and the employability and skills of graduates, “the black box of college” — teaching and learning — has been opened, argues another recent monograph by The Chronicle of Higher Education entitled The Future of Learning: How Colleges Can Transform the Educational Experience (McMurtrie, 2018). The report notes, “Some innovative colleges are deploying big data and predictive analytics, along with intrusive advising and guided pathways, to try to engineer a more effective educational experience. Experiments in revamping gateway courses, better connecting academic and extracurricular work, and lowering textbook costs also hold promise to support more students through college.” For critics of surveillance capitalism, the arrival of Big Brother on university campuses is truly frightening in its orwellian implications.

There are other teaching methods that are increasingly driven by artificial intelligence and technology, including immersive technology, gaming and mobile learning, as well as massive open online courses and the emergence of robot tutors. In some institutions, instructors who worship at the altar of innovation are also incorporating free, web-based content, online collaboration tools, simulation or educational games, lecture captures, e-books, in-class polling tools, as well as student smart phones and tablets, social media, and e-portfolios as teaching and learning tools.

Some of these instructional technologies make personalized learning for students increasingly possible. The Chronicle monograph (ibid.) argues that, for these technologies and innovations, such as predictive analytics to work, it is essential to use the right data and algorithms, cultivate buy-in from those who work most closely with students, pair analytics with appropriate interventions, and invest enough money. Managing these innovations entails confronting entrenched structural, financial and cultural barriers, and requires investments in training and personnel. For many under-resourced African universities with inadequate or dilapidated physical and electronic infrastructures, the digital revolution remains a pipe dream.
But such is the spread of smartphones and tablets, even among growing segments of African university students, that they can no longer be effectively taught using old pedagogical methods of the born-before-computers generation. After spending the past two decades catering to Millennials, universities now have to accommodate Gen Z, the first generation of truly digital natives. Another study from *The Chronicle of Higher Education*, entitled *The New Generation of Students: How Colleges Can Recruit, Teach, and Serve Gen Z*, argues that this “is a generation accustomed to learning by toggling between the real and virtual worlds… They favour a mix of learning environments and activities led by a professor but with options to create their own blend of independent and group work and experiential opportunities” (Selingo, 2018).

For Gen Z, knowledge is everywhere. “They are accustomed to finding answers instantaneously on Google while doing homework or sitting at dinner… They are used to customization. And the instant communication of texting and status updates means they expect faster feedback from everyone, on everything” (ibid.). For such students, the instructor is no longer the sage on stage from whom hapless students passively imbibe information through lectures, but a facilitator or coach, who engages students in active and adaptive learning. Their ideal instructor makes class interesting and engaging, is enthusiastic about teaching, communicates clearly, understands students’ challenges and issues, gives guidance, and challenges them to do better as a student or as a person, among several other attributes.

Teaching faculty to teach the digital generation, equipping faculty with digital competency, design thinking, and curriculum curation, is increasingly imperative. The deployment of digital technologies and tools in institutional operations is expected to grow, as universities seek to improve efficiency and data-driven decision-making. As noted earlier, the explosion of data about almost everything that happens in higher education is leading to data mining and analytics becoming more important than ever. Activities that readily lend themselves to ICT interventions include enrolment, advising students, and management of campus facilities. By the same token, institutions have to pay more attention to issues of data privacy and security.
Public service engagement

The second major trend centres on rising expectations for public engagement and service. This manifests itself in three ways. First, demands for mutually beneficial university–society relationships and the social impact of universities are increasing. As doubts grow about the value proposition of higher education, pressures will intensify for universities to demonstrate their contribution to the public good by contributing to national development and competitiveness, notwithstanding the prevailing neoliberal conception of higher education as a private good.

On the other hand, universities’ concerns about the escalating demands of society are also likely to grow. The intensification of global challenges – from climate change to socioeconomic inequality to geopolitical security – will demand more research and policy interventions by higher education institutions. A harbinger of things to come is the launch in 2019 by the Times Higher Education of a new global ranking system that assesses universities on the social and economic impact of their innovations, policies and practices.

Second, the question of graduate employability will become more pressing for universities to address. As the commercialization and commodification of learning persists, and maybe even intensifies, demands on universities to demonstrate that their academic programmes prepare students for employability (i.e. being ready to get or create gainful employment) can only be expected to grow. Pressure will increase on both universities and employers to close the widely bemoaned gap between college and jobs, between graduate qualifications and the needs of the labour market.

Third is the growth of public–private partnerships. As financial and political pressures mount, and higher education institutions seek to focus on their core academic functions of teaching, learning, and generating research and scholarship, many universities have been outsourcing more and more of the financing, design, building and maintenance of facilities and services, including student housing, food services, parking and energy. Emerging partnerships encompass enrolment and academic programme management such as online programme expansion, skills training, student mentoring and career counselling.
Another *Chronicle of Higher Education* monograph, *The Outsourced University: How Public–private Partnerships Can Benefit Your Campus* (Carlson, 2019), traces the growth of public–private partnerships. These partnerships vary in form and duration. It is critical for institutions pursuing such partnerships to determine whether a “project should be handled through a P3”, clearly “articulate your objectives, and measure your outputs”, to “be clear about the tradeoffs”, “bid competitively”, and “be clear in the contract” (ibid.).

The growth of public–private partnerships will lead to greater mobility between the public and private sectors and academia, as pressures grow to continuously update the skills of students, graduates and employees in a world of rapidly changing jobs and occupations. This will be done through the growth of experiential learning, work-related learning and secondments.

*Unbundling the degree*

The third major transformation that universities need to pay attention to centres on their core business as providers of degrees. This is the subject of another fascinating monograph in *The Chronicle of Higher Education* entitled *The Future of the Degree: How Colleges Can Survive the New Credential Economy* (Selingo, 2017). The study shows how the university degree evolved over time in the nineteenth and twentieth centuries to become a highly prized currency in the job market, a signal that one has acquired a certain level of education and skills.

As economies undergo “transformative change, a degree based on a standard of time in a seat is no longer sufficient in an era where mastery is the key. As a result, we are living in a new period in the development of the degree, where different methods of measuring learning are materializing, and so too are diverse and efficient packages of credentials based on data” (ibid.). In a digital economy, where continuous updating of skills becomes a constant, the college degree as a one-off certification of competence, as a badge certifying the acquisition of desirable social and cultural capital, and as a convenient screening mechanism for employers, is less sustainable.

Clearly, as more employers focus on experience and skills in hiring, and as the mismatch between graduates and employability persists or even intensifies, traditional degrees will increasingly become less dominant as a signal of
job readiness, and universities will lose their monopoly over certification as alternative credentialing systems emerge. As experiential learning becomes more important, the degree will increasingly need to embody three key elements. First, it needs to “signify the duality of the learning experience, both inside and outside the classroom. Historically, credentials measured the learning that happened only inside the university, specifically seat time inside a classroom”.

Second, the “credential should convey an integrated experience...” While students are unlikely to experience all of their learning for a credential on a single campus in the future, some entity will still need to help integrate and certify the entire package of courses, internships, and badges throughout a person’s lifetime” (ibid.). Third, credentials “must operate with some common standard… For new credentials to matter in the future, institutions will need to create a common language of exchange” beyond the current singular currency of a tertiary-institution degree.

The rise of predictive hiring to evaluate job candidates, and people analytics in the search for talent, will further weaken the primacy of the degree signal. Also disruptive is the fact that human knowledge, which used to take hundreds of years, and later decades, to double, is now “doubling every 13 months, on average, and IBM predicts that in the next couple of years, with the expansion of the Internet of Things, information will double every 11 hours. That requires colleges and universities to broaden their definition of a degree and their credential offerings” (ibid.).

All these likely developments have serious implications for the current business model of higher education. Universities need “to rethink what higher education needs to be – not a specific one-time experience but a lifelong opportunity for learners to acquire skills useful thorough multiple careers. In many ways, the journey to acquire higher education will never end. From the age of 18 years on, adults will need to step in and out of a higher-education system that will give them the credentials for experiences that will carry currency in the job market” (ibid.).

In short, as lifelong careers recede and people engage in multiple careers, not just jobs, the quest for higher education will become continuous, no longer confined to young people between 18 and 24 years of age. Indeed,
“rather than existing as a single document, credentials will be conveyed with portfolios of assets and data from learners demonstrating what they know”. Increasing pressures for life-long learning will lead to the unbundling of the degree into project-based degrees, hybrid baccalaureate and master’s degrees, “micro-degrees” and badges. Students will increasingly stack their credentials of degrees and certificates “to create a mosaic of experiences that they hope will set them apart in the job market” (ibid.).

As African educators, we must ask ourselves: How prepared are our universities for the emergence and proliferation of new credentialing systems? How are African universities effectively integrating curricular and co-curricular forms of learning, in person and with online learning? How prepared and responsive are African universities to multigenerational learners, traditional and emerging degree configurations and certificates? What are the implications of the explosion of instructional information technologies for styles of student teaching and learning, the pedagogical roles of instructors, and the dynamics of knowledge production, dissemination and consumption?

**Life-long learning**

The imperatives of the digitalized economy and society for continuous updating and upgrading of skills entail life-long and life-wide learning. The curricula and teaching for life-long learning must be inclusive, innovative, intersectional and interdisciplinary. It entails identifying and developing the intersections of markets, places, people and programmes, and helping to illuminate the powerful intersection of learning, life and work. Universities need to develop more agile admission systems through smarter segmentation of prospective student markets (for example, flexible admission by age group and academic programme); some are exploring life-long enrolment for students (e.g. the National University of Singapore).

Life-long learning involves developing and delivering personalized learning, not cohort learning: assessing competence, not seat time, as most universities currently do. “Competency-based education allows students to move at their own pace, showcasing what they know instead of simply sitting in a classroom for a specific time period” (ibid.). Life-long learning requires encouraging enterprise education and an entrepreneurial spirit among students, instilling resilience in them, providing supportive environments for learning and
personal development, and placing greater emphasis on “learning to learn” rather than rote learning of specific content.

As leaders and practitioners in higher education, we need to ask ourselves some of the following questions:

(a) How are African universities preparing to manage life-long learning?

(b) How can universities effectively provide competency-based education?

(c) How can African universities encourage entrepreneurial education without becoming glorified vocational institutions, and maintain their role as producers and disseminators of scholarly knowledge that is critical for scientific progress and informed citizenship?

Conclusion

In conclusion, the fourth industrial revolution is only one of many factors forcing transformations in higher education. As such, we should assess its challenges and opportunities with a healthy dose of intellectual sobriety, neither dismissing it with luddite ideological fervour, nor investing it with the omniscience beloved by techno-worshippers. In the end, the fate of technological change is not predetermined – it is always shaped by human choice and agency.

At my university, United States International University–Africa, we’ve long required all incoming students to take an information technology placement test as a way of promoting information literacy; we use an ICT instructional platform (Blackboard), embed ICT in all our institutional operations, and are increasingly using data analytics in our decision-making processes. We also have a robust range of ICT degree programmes and are introducing new ones (bachelor of science programmes in software engineering, data science and analytics, artificial intelligence and robotics, a master of science programme in cybersecurity, and a doctoral programme in information science and technology), and what we’re calling USIU–Online.
Note

References


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JOURNAL OF AFRICAN TRANSFORMATION

Reflections on Policy and Practice

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The Journal of African Transformation is an inter-disciplinary and internationally peer-reviewed journal committed to publishing high-quality and original research that makes cutting-edge advances on African development issues. It seeks to publish and disseminate original theoretical and empirical research that identifies ways of improving the socioeconomic transformation of Africa, focusing on industrialization, agriculture, economic diversification, unemployment, poverty and inequality, trade, finance, natural resources management and the environment, governance, conflict, technology and migration. Twice a year, we disseminate new knowledge to a broad audience that includes governments, development organizations and practitioners, researchers, universities and the public.

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The abstract must be written in no more than 250 words and must highlight the originality and contribution of the paper. The abstract must give a clear summary of the paper, including its objectives, basic assumptions or hypothesis, core arguments and conclusion. At the end of the abstract, there should be no more than six key words and two to three JEL codes, following the guidelines of the American Economic Association.

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