



# Private Enterprise Development in Low-Income Countries

## Political Behaviour and Private Enterprises' Growth in Burkina Faso

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***Based on primary data collected from private enterprises, we show that political connection is practiced in Burkina Faso's public procurements. Although politically connected enterprises receive more government procurements and pay fewer taxes, they are less productive and hire fewer labourers than other organisations.***

### Background

According to the corruption perception index of Transparency International, corruption practices are well entrenched in Burkina Faso. In 2010, Burkina Faso was ranked 98th of 178 countries in terms of honest dealings but improved to 83rd of 175 countries by 2013. Does this progress imply that corruption practices have decreased? A study carried out in 2013 showed that it is still very difficult to secure public procurements in Burkina Faso without paying bribes. The same study showed that enterprises that seek government procurements do not rely on performance for the awarding of public contracts. One can assume, therefore, that they compete within the sphere of corruption.

The study was based on the hypothesis that if there is tough competition in hand-to-hand corruption, then large enterprises will establish political connections to gain public procurements. A company establishes a political connection by financing political campaigns. At the same time, political connections are profitable for an enterprise: they help the connected enterprise gain easy access to bank credit, pay fewer taxes, obtain more public contracts, and generate more profit. However, if political connections are actually beneficial, then politically connected enterprises must be innovative and attract more qualified workers. Is this the case or large private enterprises in Burkina Faso are actually less innovative and less dynamic, say, than informal ones in creating jobs and survive only thanks to corruption?

Our study analyses the political connections of private enterprises and their capacity to innovate and employ qualified workers. There are numerous reasons to pursue this analysis, the foremost being the high unemployment rate of qualified youth in Burkina Faso. Informal enterprises are unable to employ all of the available qualified labour, particularly engineers and similar professionals. Politically connected enterprises generate more profits, thus having the financial means to stimulate innovation. The high unemployment rate of this particular sector can thus only be explained by the lethargy of large enterprises. We, therefore, hypothesise that these enterprises are less interested in investing in R&D.

Our study is one of the first to empirically explore the relationship between political connections and private enterprise growth in West Africa. Moreover, our approach makes particular use of data collected from enterprises, which can be deemed as more tangible and more closely related to the dynamics of corruption with regards to the widely used macroeconomic applications, utilising corruption perception variables.



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## Data collection

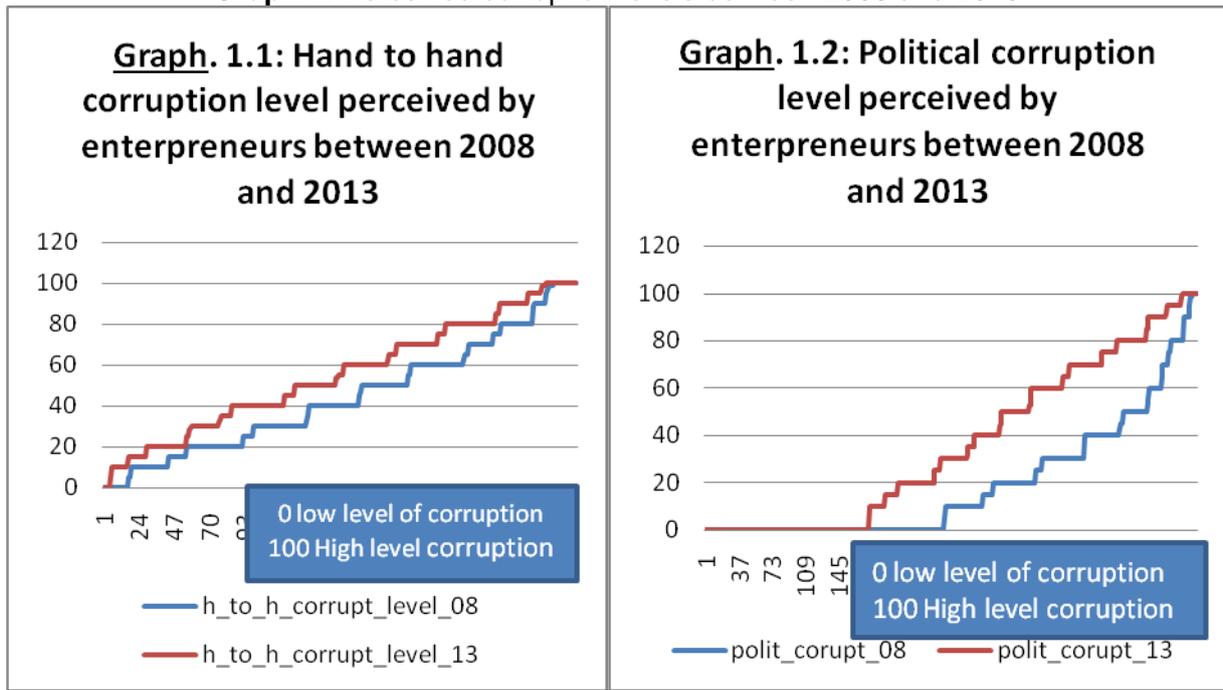
The data for this study were collected between January and July 2014 from 660 enterprises that pursue government tenders (see photos of an interview with a business owner (right-hand side), and an appliance store and its owner (above)), 30 public institutions that offer government tenders, and political parties that presently or formerly occupied Burkina Faso's National Assembly. Information relative to enterprise performances on public procurements (number of contracts obtained, annual turnover, number of employees, hired labour charges, participation in hand-to-hand corruption, political connections, etc.) was collected for a period ranging from 2008 to 2013. This period was selected to cover the two previous legislative elections (2007 and 2013) and presidential election (2010) that occurred in Burkina Faso.



## Main results

Our data show that corruption is practiced in public procurements. Specifically, 16% of entrepreneurs attested to practicing hand-to-hand corruption to secure government procurements, and 11% admitted to having been allotted public procurements due to political connections. Graph 1 shows that private enterprises in Burkina Faso did not perceive any decrease of corruption in the public procurement process. This can be seen from the 2013 curve, which is above the 2008 one.

**Graph 1: Perceived corruption levels between 2008 and 2013**



Other important results can be summarised as follows:



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- Enterprises that utilise political connections also address hand-to-hand corruption. Broadly speaking, enterprises that utilise political connections are mostly medium sized.
- Politically connected enterprises have less access to bank credit, and the data show that enterprises with access to bank credit do not typically utilise political connections.
- Politically connected enterprises have fewer employees than “honest” firms. Our data show that political connections negatively impact enterprise productivity as measured by their added value. The data also show that politically connected firms are less technically advanced.

### Policy implications

- Corruption in public procurement can be compared to an iceberg. Its visible part is the hand-to-hand corruption, and the invisible part is the political connection. In reality, public agents in charge of contracting government procurements know that influential politicians attribute illicit public procurements to various enterprises; this is what leads them to practice or accept hand-to-hand corruption when possible. To break this iceberg, one must strike the invisible part first. Consequently, politicians who occupy high public responsibility positions must stop attributing public procurements to enterprises that finance their political campaigns. The fight against corruption must start from the government.
- It has been shown elsewhere that political connections help enterprises gain easy access to bank credit. However, we found that politically connected companies do not have this advantage in Burkina Faso. We also found that enterprises with access to bank credit are more productive. In reality, however, access to bank credit is a difficult goal for enterprises in Burkina Faso; only 58.1% of the enterprises in our sample have access to bank credit. Hence, policies aiming to reduce corruption practices in Burkina Faso should support banks to ease the conditions for credit access for companies. The use of political connections is not profitable in Burkina Faso. Although these connections certainly enable connected firms to obtain more public procurements, the resulting contracts do not help them in the long term. Politically connected firms in our sample were no more productive than other firms (Table 1). In addition, 56.2% of the entrepreneurs in the sample admitted that political connections are very dangerous compared to hand-to-hand corruption. We recommend that efficient enterprises resist falling into the trap of corruption for fear of losing their expertise.

**Table 1: Enterprises' characteristics**

Variables	Corrupt firms			Non-corrupt firms		
	Min	Mean	Max	Min	Mean	Max
<b>Nb. PP.</b>	1	27	298	1	22	180
<b>Labour_P</b>	1	09	177	1	11	351
<b>Labour_O</b>	0	10	200	0	09	245
<b>AV.</b>	1.4 <sup>E</sup> 4	2.7 <sup>E</sup> 7	5.5 <sup>E</sup> 8	2.5 <sup>E</sup> 5	5.8 <sup>E</sup> 10	2.4 <sup>E</sup> 13
<b>Taxes</b>	2 <sup>E</sup> 5	7 <sup>E</sup> 6	2 <sup>E</sup> 8	2.5 <sup>E</sup> 4	1.0 <sup>E</sup> 7	5 <sup>E</sup> 8

*Legend:* Nb.: Number; PP: public procurement; P: permanent; O: Occasional; AV: Added value.



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### Moving Forward...

Access to bank credit is an important factor in the promotion of private sector development. It has been shown that enterprises in least developing countries (LDCs) arrange political connections to facilitate their access to bank credit. However, we have shown in this study that private banks in Burkina do not grant illicit loans to politically connected enterprises. It would be interesting to carry out a study to determine whether facilitating access to bank credit for private enterprises could reduce corruption practices in Burkina Faso's public procurements.

Data from our study also showed that there are large private enterprises in Burkina Faso that do not participate in corruption; they compete for and gain public procurements in neighbouring countries. Similarly, some secondary data showed that private enterprises in neighbouring countries gained public procurements in Burkina Faso. It would be interesting to see whether there was a political connection between countries, i.e., two or more governments of different countries collaborating to hide traces of political connections. Under these conditions, governments could be attributing public procurements to foreign private enterprises while pretending they are competent, thus concealing an international political connection.