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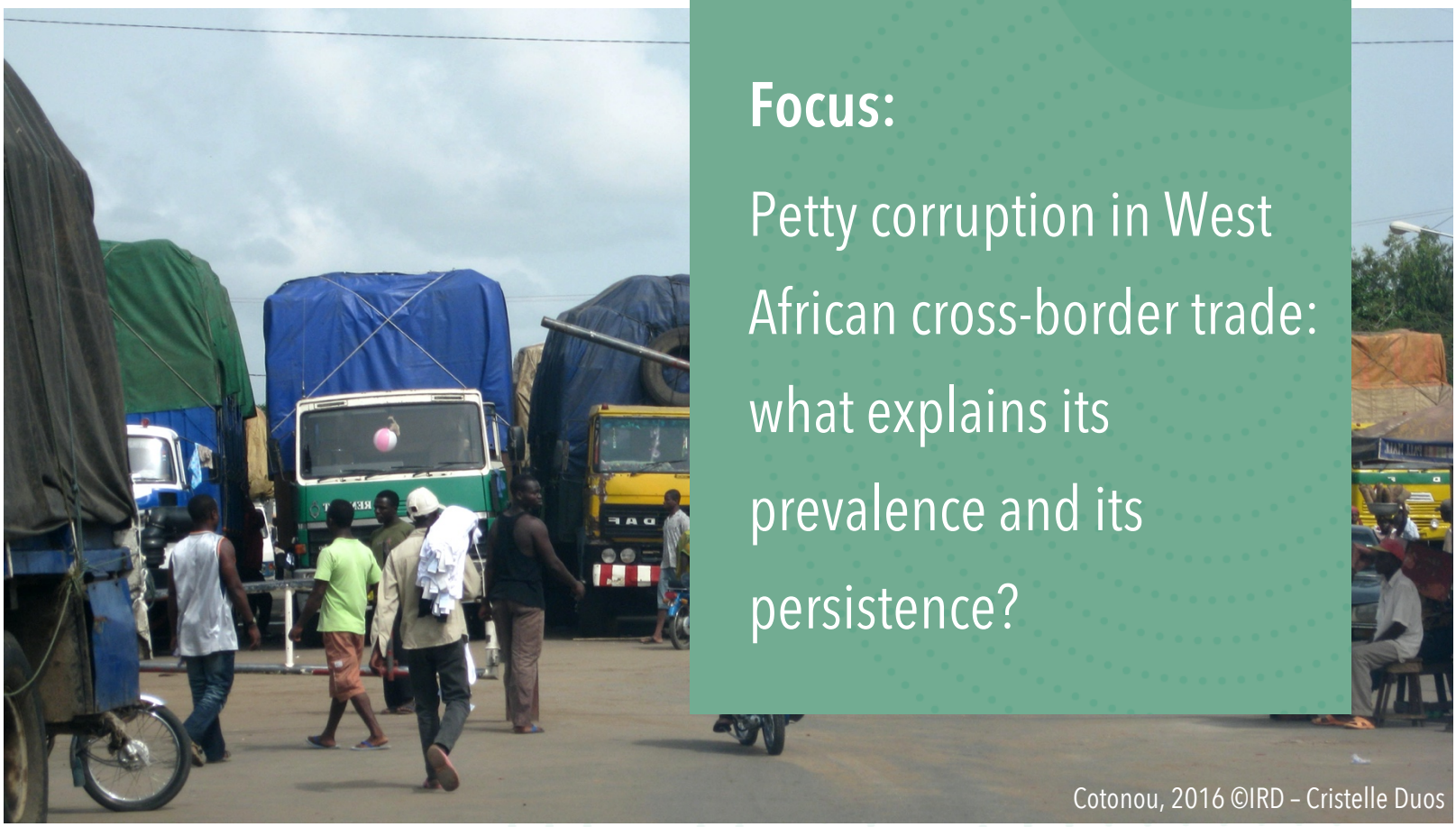

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Focus:

Petty corruption in West African cross-border trade: what explains its prevalence and its persistence?

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Corruption is pervasive in many developing countries. If the word is often associated with large sums involving high-rank officials, big firms, and several intermediaries receiving a cut, *petty corruption,* if less spectacular, should receive no less attention. The day-to-day interactions between middle- or low-rank public agents – police officers, teachers, municipality workers, clerks – and citizens create opportunities for bribery. In many countries, these opportunities are often seized and exploited by said agents for their profit.

Transport is notably one sector where petty corruption is particularly prevalent. To anyone who has traveled on West African roads, bribes are familiar. It is not rare to encounter roads stops manned by officials (police, army, forest administration officials...), where a payment is required for vehicles to continue.

If the phenomenon is well known, understanding its determinants is less easy. Who pays, and how much? Do bribes make up a significant share of firms' costs? Answering these questions is evidently made difficult by the illegal nature of the object of study.

Yet, the pervasiveness of the phenomenon raises several important questions. If one considers bribery as similar to a form of taxation (at least from the point of view of payers), then what is its incidence? Are the poor relatively more or less "taxed", under this system? Results from the literature on this are contrasted (Hunt, 2012).

Another part of the literature has analyzed what sustains bribery – and this clearly matters for anyone who intends to fight the phenomenon. Economists will generally consider bribe-taking as the rational action from an official using his position to increase his profit, taking into account the demand for the

service he provides, and the risk of sanction faced. Convincing evidence has supported this view, showing, for instance, that police officials at road posts in Indonesia set the price optimally as a function of their own position and that of other posts on the road (Olken and Barron, 2009).

This view leads to a distinction between two forms of bribery. First, payments could serve to avoid a tax or a regulation. This type of *collusion* yields a gain to both parties – the official and the payer – at the expense of the general public, since public revenues will be lower or a regulation has been avoided. Second, an official could be simply using his or her power to demand illegal payment, for access to a service that the payer should in principle be freely entailed to. This is called *coercive corruption* (Schleifer and Vishny, 1993). Both forms could coexist. But knowing which form dominates corruption matters to understand what could be done to reduce it. For example, collusive corruption would generally be seen as harder to eradicate, since it aligns the interests of both parties. The willingness of the bribe payer to report misconduct should be higher in the case of coercion.

An original survey of traders in Benin

A recent effort in Benin to survey *informal traders* across the country's borders has given us a unique opportunity to study the mechanics of bribe-setting.[1]

In 2010 and 2011, the national statistics of Benin (INSAE) conducted a unique survey of *informal trade* flows across the land borders between Benin and its direct neighbors (essentially Nigeria and Togo).

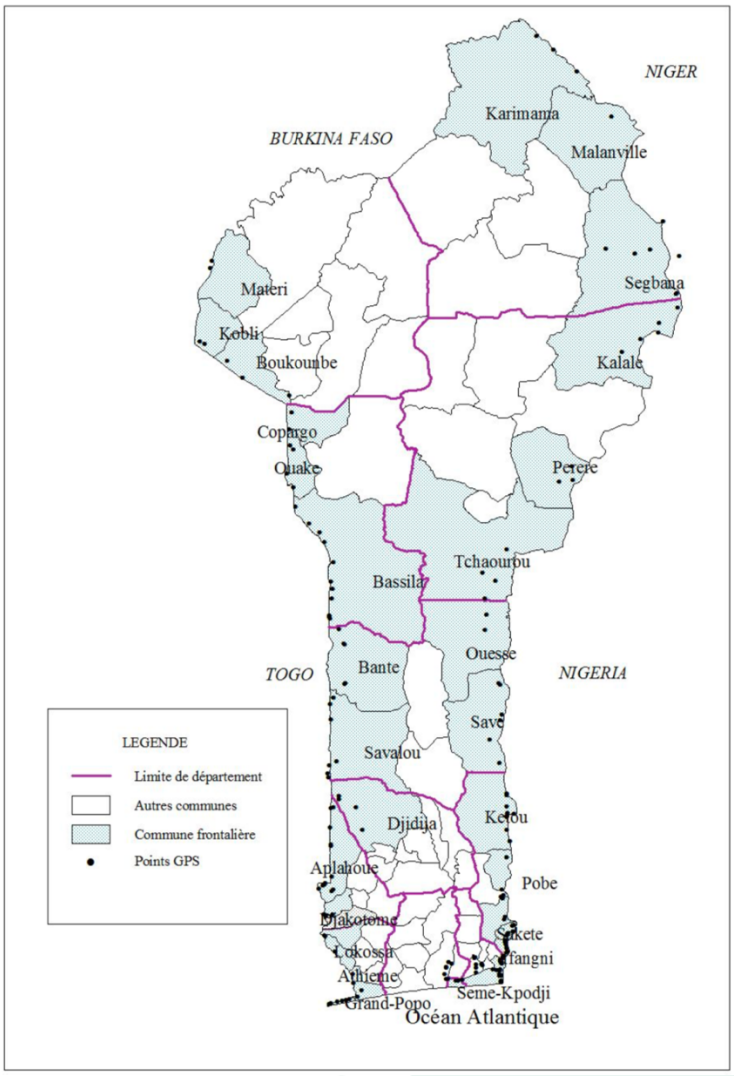
Informal cross-border trade – trade flows that do not go through official border posts – is estimated to make up a large share of regional trade in Sub-Saharan Africa (Lesser and Moise-Leeman 2009). Putting aside trade in illegal goods (arms or drugs, which are not considered here), informal trade involves many products, in particular staple food commodities, consumer goods (e.g. clothes, small manufactured goods; either produced locally or imported from China or Europe); used cars (imported from Europe); wood, and gasoline.

[1] *cf.* Bensassi & Jarreau, 2019

For many of these goods, trade is most often informal, either to avoid duties and non-tariff barriers applying to these products; to avoid the risk and uncertainty associated with customs posts (e.g. if trade preferences are not applied transparently, or complex rules of origin apply); or else, because of free movement applying to some products (untransformed local products) within the area of regional trade agreements[2]. Thus, the term informality covers here a continuum from illegality (in the case of the smuggling of gasoline) to legality (in the case of local products).

The survey, which covered a high number (171) of unauthorized border crossings along Benin's land borders, offers one of the most comprehensive data sources on informal trade. It made it possible to estimate the informal share in total trade in the region, which showed that the value of informal trade was of a similar magnitude to officially recorded trade flows. It also offers a comprehensive view of the product composition of these flows, showing a high level of product diversity.

[2] Benin is a member of a customs union, the WAEMU, with Togo and Niger, and five other countries. Benin and Nigeria are also both members the ECOWAS, a free trade agreement. Unprocessed local products (produits du cru in French) are applied free movement within the WAEMU area (thus between Benin, Togo, and Niger), as well as, in principle, within ECOWAS.



Map of surveyed border crossings (2011 survey). Source: INSAE.

In addition to information on products traded, prices, and transport costs, the survey also asked traders about the *informal taxes*, or bribes, paid by them during their cross-border travel. This was defined as any type of payment made to an official (police, customs agents…) on either side of the border, for which no receipt was given.

The large number of traders surveyed (more than 13,500, over two survey waves which took place during a total of 17 days) and high rate of response to this question[3] (93%) reveal that no particular stigma associates either to informal trade; or to the fact, for these traders, of paying a bribe. It allowed to

study quantitatively a phenomenon that is known to be pervasive in many sub-Saharan countries, but rarely measured in such a systematic way.

In particular, the data allowed to link the level of bribes paid to the economic characteristics of the transaction being "taxed": the type, quantity, and value of products transported; the customs regime applying to them; the origin and destination of the cargo; and the mode of transport.

One could think that bribes are generally more frequent in the informal sector of the economy, than in the formal sector. Investigating this question is still relevant. The informal sector is notably large in West African economies, making up the majority of employment. Thus, even if corruption was a phenomenon specific to the informal sector (which many studies show it is not), it would still have a large impact in these economies.

Results

Our analysis shows, first, that bribe payments are highly frequent in informal trade: about 80% of traders reported paying a bribe to conduct their activity. This rate remains high across all trade and product categories, including trade that is, in principle, entirely liberalized in the region, like untransformed local products: even for these products, the incidence of bribe payments is above 70%.

This suggests that bribery is, at least in part, coercive, taking the form of pure harassment. It also echoes concerns that trade liberalization in West Africa is not as effective on the ground, as it is on paper. In practice, free movement does not seem to apply to traders of local products within the WAEMU and ECOWAS areas. "Informal taxes" at borders may restrict trade integration, and the gains associated with it.

The ratio of bribes to traded value generally varies between 1 and 3%. Bribes make up a significant share of transport costs. Using a question on fuel costs, which is likely to be the largest part of transport costs, we find that, the ratio of bribes to fuel costs has a median value of 26% in the data. Foltz and Opoku-

Agyemang (2015) have used data from a survey of formal truck drivers transporting goods between Ghana and Burkina Faso.

The probability of paying a bribe at a stop is at more than 80% in their data: showing that bribes are not specific of the informal sector. However, a comparison of amounts paid indicates lower amounts in their data than in ours, for similar transport modes (trucks). This is consistent with a report from the World Bank (Teravaninthorn and Raballand, 2009), which found that bribes paid by informal traders were higher than for formal actors.

Second, we find evidence that bribes levels differ according to the characteristics of the trader, such as the mode of transport used. A large share of border trade uses motorcycles and pirogues. These traders pay lower bribes, as a share of cargo value, than those using cars or trucks, controlling for other characteristics (distance traveled, product category, market of origin). This indicates price discrimination in bribes: an official's capacity to extract a payment from a trader is likely to be relatively lower if this trader can more easily avoid controls and stops.

Finally, we found that the level of bribes was related to trade barriers. In particular, Nigeria maintains a list of prohibited products for import. If bribes are a form of "collusion", serving to circumvent a regulation or a ban, then one would expect that traders of products under ban pay higher bribes. This is indeed what the data shows. In July 2011 – after the first wave of the survey, but before the second -, the list of import prohibitions in Nigeria was shortened. We used this change to test if bribes decreased for products which were removed from the list. Bribes paid by traders of banned products are estimated to be about twice higher than others (controlling for other cargo and trader characteristics).

Cross-border trade is one sector where bribery seems to be the norm more than the exception in West Africa. Although bribes are related to trade barriers, the removal of these barriers does not, apparently, suffice to eliminate them: bribes remain very frequent at WAEMU borders and for all products, despite free movement of goods.

In the perspective of further liberalization at the continental level, one might believe that the removal of trade barriers would suffice to formalize informal traders, and to eliminate corruption at borders. Our results, based on data for trade at WAEMU and ECOWAS borders, suggest otherwise.

Joachim Jarreau

Further reading:

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