



In pursuit of policy influence:

Can lobbying be a legitimate alternative to corruption in developing countries?

This Brief reviews recent research on transition countries which suggests, conceptually and empirically, that lobbying is not only more prevalent in non-developed countries than currently thought, but can be more effective than corruption as a means of influencing policy, if adequately regulated.

To many, the differences between lobbying and corruption may not be obvious. The OECD (2008) acknowledges that there is no single definition of lobbying, but describes it as “the existence of powerful interests – corporate, private or other jurisdictions such as sub-national governments – that make efforts to influence government decisions, in particular policy making, legislation or the award of contracts”. Crucial distinctions between bribery and lobbying include the following:

1. Corrupt practices are often considered to be illegal and always illegitimate
2. Corrupt practices tend to involve bribes or illegal payments
3. Corrupt practices tend to directly benefit a small number of users, usually one single user, while lobbying activities are carried out in order to benefit a group of users that share a specific interest.

How does lobbying differ in developed and transition countries?

Lobbying in developed countries is a highly heterogeneous activity. In their quantitative overview of lobbying regulations in the USA, Canada, Germany, and the EU, Chari, Murphy and Hogan (2007) observe important differences even across developed countries. For instance, lobbying in the United States behaves like an industry with established firms operating very much under careful judicial scrutiny with explicit disclosure requirements. In the United Kingdom the lobbying sector is a more informal affair, taking many different forms and involving a much larger and varied set of users. For example, the UK's government is an important client, while that is not the case in the US. The authors find that, in highly regulated jurisdictions, regulations helped ensure accountability in government than in less regulated environments. Therefore, the stronger the rules in place governing lobbyists, the more accountable the political system is believed to be.

Given the diversity of lobbying across North America and Europe, one should expect the variety of lobbying experiences in the rest of the world to be even wider. Yet, we still know little about lobbying in developing countries. Indeed, the sparse evidence we do have originates from transition economies.¹ In general, this group of countries has stronger institutional frameworks as well as better organised civil societies than Sub-Saharan Africa, the Middle East, and North Africa.

Thomas and Hrebenar (2008)² identify five major characteristics of interest groups in Argentina, India, China, Lithuania, Czech Republic, South Africa, and Tanzania:

1. Authoritarian leadership in most of these countries significantly restricted freedom of association, which affected both the vitality and the forms taken by lobbying in such countries
2. In these countries, special interests groups are often viewed as illegitimate
3. Informal groups are the norm as opposed to associational interests
4. Strategies and tactics are less formalised
5. Interest groups are normally less significant vehicles of political representation than political parties. Therefore, the level of institutional development and its recent history are central to understanding lobbying in these countries.

Albeit not a developing country, Russia provides an interesting example when it comes to the role of lobbying in general and of trade associations in particular. Frye (2002) presents evidence that membership in a Russian business association is strongly associated with success in influencing legislation at the regional and local levels. Although it remains unclear whether membership in such associations is the main form lobbying takes in transition countries,

it is one form with which transition economies have had relatively long experience. Most of these associations existed under communism, although for different purposes and with very different roles and relevance. Pyle (2006) provides additional evidence that firms that are members of trade organisations systematically grow faster than those that are not. He reports that in addition to lobbying regional and national governments, trade associations are important for their members because of their assistance in attracting new investment, new technologies and finance as well as encouraging the interchange of technical information.

“the stronger the rules in place governing lobbyists, the more accountable the political system”

Although Russia is likely a unique case, the transition economies as a group offer fertile ground on which to test the relative importance of lobbying and corruption as mechanisms to influence political agendas. This set of countries' political and economic systems were very similar until the collapse of communism in 1989. Afterwards, they followed different strategies of political and economic reform, with many becoming fully-fledged democracies and members of the European Union (e.g. Hungary and Poland), while others experienced heavy economic turmoil and limited improvement in terms of political rights and civil liberties, including freedom of association (e.g. Turkmenistan and Belarus). Moreover, many of these countries are perceived as highly corrupt so it is valuable to investigate how lobbying would fare vis-à-vis corruption in influencing policy in such contexts.

The evidence: does lobbying influence policy in transition countries?

New research (Campos and Giovannoni, 2007 and 2008) has explored whether and how extensive lobbying affects the political decision-making process vis-à-vis corruption and whether firms benefit economically from membership in such associations.

The analysis of Campos and Giovannoni (2007) focuses on two main questions:

1. What are the factors that determine the likelihood of a firm being a member of a lobby group?
2. What is the relative role of corruption and lobbying in explaining the probability of a firm's influence in terms of government laws, regulations, and policies?

In this work, lobbying is defined as whether or not the firm is a member of a trade association or lobby group, while corruption is defined as whether or not the firm pays 10 per cent or more of its revenue in unofficial payments to public officials per annum. Concerning political influence, business firms were asked how influential they have been in affecting the content of any new laws, rules, regulations or decrees that could have a substantial impact on their businesses. Importantly, they also answered this question about influence in relation to four spheres: the executive branch, the legislative branch, the ministries, and the regulatory agencies.

Using 1999 survey data for about 4000 firms in 25 transition economies, Campos and Giovannoni (2007) show that lobbying is an important alternative instrument of political influence vis-à-vis corruption in such countries. Their analysis also suggests that political institutions have a significant effect on the ability of lobbying to be used as a tool for influencing policy. In particular, they find that lobbying is systematically more prevalent in parliamentary systems. Investigating the profile of firms that are members of lobby groups, they find that the number of full-time workers (firm size), whether the firm is foreign-owned, the level of economic development, and political stability have a significant and positive impact on the decision to join a lobby group.

Finally, Campos and Giovannoni study the relative effects of lobbying and corruption in terms of the production of political influence in four different public sector spheres: executive, legislative, ministries, and regulatory agencies. First, they find that the effect of lobbying on policy is always statistically significant, while on corruption it seldom is. Second, and most important, the effect of lobbying on political influence is much greater than that of corruption. These findings support the notion that lobbying seems to be a considerably more effective way than corruption for firms to exert political influence.

Campos and Giovannoni (2008) extend this work in substantial ways. They delve deeper into the different determinants of lobbying and corruption with emphasis on a more comprehensive set of political institutions. They also go beyond political influence to investigate whether lobbying and corruption affect the actual growth of business firms. Using 2002 survey data for about 6000 firms in 26 transition countries, their results suggest that lobbying and corruption are fundamentally different. The research also reinforces the previous study's findings that political institutions play a central role, and that older, larger and foreign-owned enterprises are more likely to engage in lobbying. Taking these into account, they find that firms that favour lobbying tend to be in countries that are less politically unstable, more democratic, likely to be federal states, have a more independent media, and have experienced more changes in political leadership. In presidential systems, firms are more likely to join lobbying groups where the president has fewer de jure and de facto powers.

Campos and Giovannoni (2008) also find that lobbying is more effective as a means of influencing policy where the electoral system features closed lists and smaller electoral districts. Crucially, the significant determinants they find for corruption are essentially the same but carry opposite signs. For example, they find that corruption is more prevalent when the electoral system does not feature closed lists and has larger electoral districts. Finally, they put forward evidence that lobbying is a much more effective instrument than corruption for exerting political influence and that lobbying is also a much stronger explanatory factor than corruption for firm performance, even in countries often perceived as highly corrupt.

Next steps towards informed development policy

Research is still necessary in order to understand lobbying in developing countries (understanding the forms, relative effectiveness, actual workings of lobbying, and corruption in such countries). Furthermore, there is a need to compare lobbying and corruption as this area of research is new, under-investigated, and focuses on limited sets of countries. The findings presented above suggest that more institutionalised forms of exerting political influence tend to be associated with further consolidation of the democratic process and with tangible economic benefits to the firms that engage in lobbying activities. Yet these results come mostly

from transition economies and refer to commercial enterprises.

In order to substantiate the policy implications that such findings support, it seems urgent to learn more about

lobbying in developing countries. Particularly, it is necessary to learn more about the types of lobbying activities and actors other than trade associations, such as the role NGOs play in this regard. It would also be relevant to learn more about the types of strategies and tactics used by lobbying groups in developing countries. For example:

1. The role of campaign contributions versus informational advertising campaigns on specific issues in which the lobbying group is perceived to have special knowledge
2. The benefits such groups generate for their membership and the public at large
3. The costs of lobbying activity in terms of the steering of policy towards groups with better access to policy-makers to the detriment of less articulated groups in society.

“anti-corruption efforts should be premised on better knowledge about the practice of lobbying”

The latter is an important issue because groups other than trade associations normally target specific spheres of government in particular ways that may differ from cases in which such activities are fostered and carried out by firms or commercial enterprises.

To date, development partners have demonstrated little interest in lobbying. Recent evidence from transition economies shows that lobbying can decrease incentives for political corruption. Therefore, any anti-corruption efforts should be premised on better knowledge about the practice of lobbying in partner countries (maybe working with chambers of commerce or established lobbying groups). In addition, where lobbying activities exist, support may be needed to establish regulatory frameworks so that it is clear who can exercise influence on decision makers, through which legal means, and whether and how this information should be disclosed. ■

References

- Campos, N. and F. Giovannoni (2007), "Lobbying, Corruption and Political Influence," *Public Choice* 131(1):1–21
- Campos, N. and F. Giovannoni (2008), "Lobbying, Corruption and Other Banes," London, CEPR Discussion Paper 6962, September
- Chari, R., G. Murphy, and J. W. Hogan (2007), "Regulating Lobbyists: A Comparative Analysis of the USA, Canada, Germany and the European Union," *The Political Quarterly* 78(3):422–438
- Commission of the European Communities (2006), "Green Paper: European Transparency Initiative" (http://ec.europa.eu/commission_barroso/kallas/doc/com2006_0194_4_en.pdf, retrieved as of 14.10.08)
- Coates, D., J. C. Heckelman, and B. Wilson (2007), "Determinants of Interest Group Formation," *Public Choice* 133 (3–4):377–391
- Council of Europe (2008), "Corruption and Democracy: Political Finances, Conflicts of Interest, Lobbying and Justice", Council of Europe Publishing
- Frye, T. (2002), "Capture or Exchange? Business Lobbying in Russia," *Europe-Asia Studies* 54(7):1017–1036
- Harstad, B. and J. Svensson (2008), "From Corruption to Lobbying and Economic Growth," Northwestern University, mimeo, May
- OECD (2008), "Lobbyists, Governments and Public Trust: Building a Legislative Framework for Enhancing Transparency and Accountability in Lobbying," OECD: Paris
- Pile, W. (2006), "Collective Action and Post-Communist Enterprise: The Economic Logic of Russia's Business Associations," *Europe-Asia Studies* 58(4):491–521
- Thomas, C. and R. Hrebenar (2008), "Understanding Interest Groups, Lobbying and Lobbyists in Developing Democracies," *Journal of Public Affairs* 8 (1-2):1–14

Endnotes

¹ Transition economies are understood as countries emerging from a socialist-type command economy towards a market-based economy. Examples include countries in the Eastern European region.

² Thomas and Hrebenar (2008) is the introductory paper of a special issue of the *Journal of Public Affairs* which contains articles on lobbying in each of these developing countries.

Photo by wulfmachine at:

<http://www.flickr.com/photos/wulfmachine/>