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Demystifying the concept of state or regulatory capture from a theoretical public economics perspective

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State capture is one form of corruption that has received very little research interest over the years. This could be attributed to the fact that many societies particularly in the developing world seem to have institutionalized it. State capture is a manifestation of government failure which involves the manipulation of bureaucratic rule and formal procedures by business and political elites through family ties, friendship or social groups so as to influence state policies and laws in their favor. The aim of this paper was threefold: First, to give an elaborate and detailed discussion surrounding the phenomenon of state capture from a public finance perspective; second, to discuss the extent of state capture in Zambia citing instances of state capture and how this negatively impacts on society at large; and third, to examine the effects of state capture on key socioeconomic outcomes and broader governance while making comparisons with other countries. Analysis took the form of extensive review of literature and descriptive analysis focusing on frequencies, trend analysis and simple measures of association. This paper outlines that state capture is a manifestation of government failure and is based on the principles of the predatory government view of the state in which state agents act as utility maximizers. It establishes that state capture is a combination of a weak institutional and governance structure which gives room for rent-seeking, lobbying, election rigging and class formation. Further, the study establishes that in Zambia, although the perception of state capture has reduced slightly, it exists and has an effect on socioeconomic outcomes such as human development and the growth of firms. The paper concludes by stressing the need to put in place strong social and political institutions that will help reverse this dangerous trend.

Key words: State capture, corruption, market failure, pareto optimum, rent seeking, lobbying, class formation, logrolling.

INTRODUCTION

While there is a plethora of literature on the causes and effects of different forms of corruption (Kaufmann 1998; Mashal, 2011; Samura, 2016; Dimant and Tosato, 2017),

few systematic efforts have been made to examine and compare the extent of state or regulatory capture as a form of corruption, particularly more so in sub-Saharan

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Africa (SSA).¹ This is despite the growing trend of the vice being established in studies in other developing regions such as Central Asia and, Eastern and Central Europe (World Bank, 1997; Sitoris, 2011). Recently, however, there have been an increased number of studies on the concept of state capture particularly in South Africa. The concept rose to prominence in the political and economic arena of South Africa (Sebake, 2017) during the reign of President Jacob Zuma. The controversy was as a result of the strong ties between the South African president and the Gupta family (Martin and Solomon, 2016) – a wealthy, Indian-born South African family whose business empire spans from computer equipment and media to mining. The strong ties led to widespread claims of corruption, undue influence and state capture of state institutions (Dassah, 2017; Martin and Solomon, 2016). It is believed that state capture is the main cause of many societal problems within the South African state (Martin and Solomon, 2016).

The seemingly lack of academic interest in this particular subject may be due to the fact that it has been institutionalized by society therefore not regarded harmful or it may be due to what is termed as rational ignorance in the public economics sphere. Ignorance about an issue is said to be rational if the cost of educating oneself about an issue outweighs any potential benefit one might reasonably expect to get (Chirwa and Masanjala, 2009). State capture is not a new concept; it has been in existence for a long time in many developing countries particularly those with weak institutions³. It persists in societies with low quality institutions (Kyle and Belasen, 2010). The term 'state capture' was first introduced in the early 2000s by the World Bank to describe the new dimension of corruption arising from the transitioning of East European and Central Asian countries from planned to market driven economies (Hellman et al., 2000; Meirotti and Masterson, 2018). It was applied to situations where small corrupt groups using their influence over government officials to appropriate government decision-making so as to strengthen their own economic positions (Crabtree and Durand, 2017). It also manifests itself by way of rich powerful countries capturing the economic systems of poor countries and establishing linkages with key leaders in the public service so as to influence their decisions.

State capture is derived from the concept of regulatory capture in the economics literature (World Bank, 2000). From the classical standpoint, state capture or political corruption refers to the way bureaucratic rule and formal

procedures are manipulated by private firms or social groups such as ethnic and military groups in their attempt to influence state policies and laws in their favor (Uzelac et al., 2003; Hellman and Kaufmann, 2001; Pradhan, 2000). According to the World Bank (2000), 'state regulatory agencies are said to be "captured" when they regulate businesses in accordance with the private interests of the regulated as opposed to the public interest for which they were established'. It is a form of corruption. Transparency International (2016) further defines state capture or political corruption as the manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth. According to Meirotti and Masterson (2018), state capture has shown profound implications for the consolidation of democracy, systematically eroding democratic processes by undermining the election of public representatives, the institutionalization and normalization of democracy and the socioeconomic transformation processes.

State capture as a form of corruption affects various aspects of the economy such as firms' performance as well as the socioeconomic aspect of it. In terms of firms' performance, the literature linking corruption to firms' performance is mixed. While some studies have shown that corruption has a positive effect on firms' performance (Williams and Martinez-Perez, 2016; Demenet et al., 2017), others have found a negative relationship between the two variables (Gaviria, 2002; Sohail et al., 2014).

State capture has also been linked to human development and poverty (Sebake, 2017). A study by UNDP (2008) observed that human development can reduce corruption. However, other studies (Becherair and Tahtane, 2017; Absalyamova et al., 2016) also established a negative correlation between corruption and human development in MENA countries implying that when HDI increases corruption reduces. In terms of poverty, studies have established that corruption does not affect poverty directly, rather through intermediaries such as economic and governance factors that in turn produce poverty. In addition, studies have established that corruption impedes economic growth by discouraging foreign and domestic investment (Chetwynd, and Spector, 2003; Ndulo, 2014).

In Zambia, NORAD et al. (2011) note that corruption is mainly driven by red tape, liberalization and democracy as it has brought greater business and political competition. Such competition causes business managers and political actors try to influence policy makers and abuse public resources respectively in order to out-compete others. About 10% of firms reported to have made political contributions during the past election campaigns to receive favorable treatment (NORAD et al., 2011). TIZ (2014) highlights that corruption remains a serious issue in Zambia, affecting the lives of ordinary citizens and their access to public services. In the same vein, Ndulo (2014) noted that corruption hits the poor the

¹ Among the few studies undertaken on state capture particularly in SSA include: Iroghama, 2005; Martin and Solomon, 2016; Dassah, 2017; Meirotti and Masterson, 2018;

³ Developing countries are generally characterized with weak institutions and it is through weak institutions that corruption thrives. As Mauro (1996) states "corruption is widespread in developing countries, not because their people are different from people elsewhere but because conditions are ripe for it."

hardest who heavily depend on public services and are unable to give bribes for essential services. This paper aims to give an elaborate and detailed discussion surrounding the phenomenon of state capture from a public economics perspective. The study also discusses the extent of state capture in Zambia citing instances of state capture and how this negatively impacts on society at large. The study also aims at examining the effects of state capture on key socioeconomic outcomes and broader governance while making comparisons with other countries.

THEORETICAL FRAMEWORK

According to the public finance literature, there are two fundamental theorems of welfare economics that have to be fulfilled by any economic structure if any allocation of resources is to be pareto-optimum (a situation in which no one can be made better-off without making some else worse-off) (Chirwa and Masanjala, 2009). The first fundamental theorem of welfare economics states that 'A competitive market economy leads to a Pareto Optimum (Output Maximization) provided that certain conditions are met'. These conditions being: (i) A complete set of markets with well-defined and costlessly enforced property rights (ii) Market behavior in which agents maximize benefits and minimize costs (iii) Perfect competitive markets and (iv) Zero transaction costs (Blaug, 2007; Chirwa and Masanjala, 2009). The second fundamental theorem on the other hand states that 'After a suitable redistribution of initial endowments and property rights, any desired Pareto-efficient allocation can be achieved by a perfectly competitive economy' (Blaug, 2007). The two fundamental theorems presume the existence of a competitive market model with the inherent belief that it has a natural tendency for self-correction – a view that was also held by Adam Smith. However, the problem arises when the economy fails to conform to the idealized competitive model as prescribed by the fundamental theorems of welfare economics. This results in a phenomenon called Market Failure – a situation when the assumptions of the competitive model are violated and the outcome is not pareto-efficient (Myers, 2016). Because of the innate tendency for markets to fail, the government gains its legitimacy. However, is it enough, to find market failure and conclude that the government should take action? The answer to the question above is that, there is need for government involvement and action as it will perform those economic functions that markets cannot perform at all or that markets perform badly. This view is also supported by Milton Friedman, a Nobel Prize-winning advocate of free markets who consistently emphasized that the existence of a free market does not eliminate the need for government (Myers, 2016). However, when the government intervenes in the market, there is potential that it can make the situation worse than it was before.

This is referred to as Government Failure - a situation where allocative efficiency may have been reduced following government intervention in markets designed to correct market failure (Chirwa and Masanjala, 2009). According to Rasmusen (2017), government failure is an outcome where the government actually destroys wealth compared to even an imperfect market. The question therefore that arises is, 'which is a lesser of two evils, market failure or Government failure?' This answer depends on ones view about government. There are basically two views of government in public economics: The Benevolent Dictator view and the Predatory Government view (Chirwa and Masanjala, 2009).

The Benevolent Dictator view of government is a theoretical view which argues that public decisions will be made that give the greatest utility to the maximum number of people. In as much as the dictator exercises absolute political power over the state, he may allow for some economic liberalization or democratic decision-making through elected representatives with limited power to make decisions that essentially maximize social welfare. Therefore, this view favors the involvement of government because it does so for the benefit of the population as a whole. In contrast, the Predatory Government view argues that politicians, bureaucrats and others acting on behalf of the public may act in their own self-interest as utility maximizers (Chirwa and Masanjala, 2009). This view is a clear indication that government's involvement in the economy will not lead to an optimal allocation of resources as individuals charged with the responsibility of acting on behalf of the citizens pursue agendas that will maximize their benefits at the expense of the preferences of their constituents. However, ignoring the preferences of the public is clearly a severe limitation to government's involvement in the economy in the event that market failure occurs. It is therefore quite clear that state capture falls under the domain of the predatory government view as those who are in power make decisions in ways that maximize their utility which further consolidate their hold of power.

MATERIALS AND METHODS

Data

To establish the corruption (state capture levels) this study used secondary data on corruption and governance perceptions obtained from Transparency International (TI) and World Bank websites, respectively. The TI provides the corruption perception index (CPI) while the World Bank provides the worldwide governance index (WGI). The WGI are composite governance indicators based on over 30 underlying data sources. These data sources are rescaled and combined to create the six aggregate indicators using a statistical methodology known as an unobserved components model. The six indicators include; voice and accountability, political stability and absence of violence, governance effectiveness, regulatory quality, rule of law, and control of corruption. Key to this study is the "control of corruption" and "government effectiveness" dimensions. The control of corruption indicator captures perceptions of the extent to which public power is exercised for private gain,

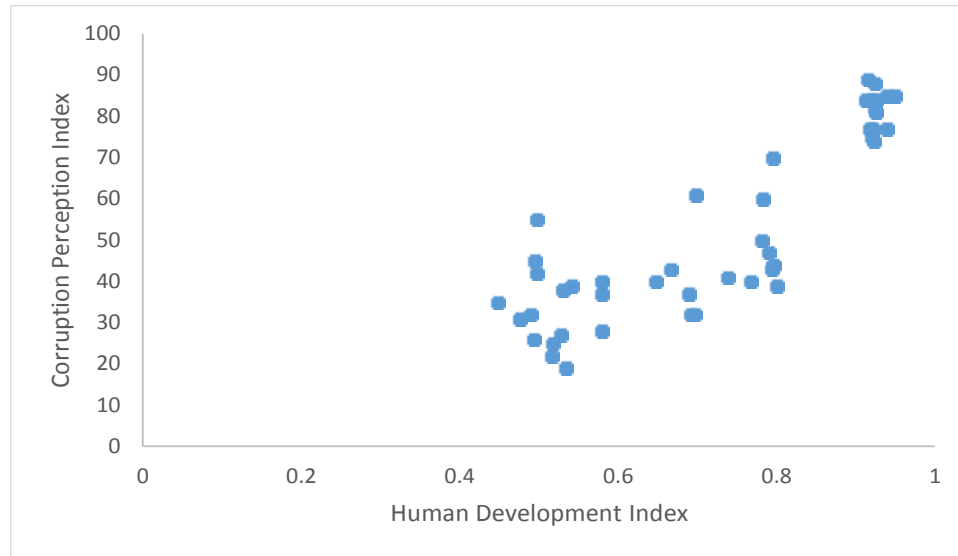


Figure 1. Correlation between corruption and human development.
Source: Author's analysis using UNDP and TI data.

including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The government effectiveness indicator reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (WGI, 2018). The study also obtained the Human Development Index (HDI) series from the United Nations Development Programme (UNDP) website. The study further made use of the 2013 World Bank's Enterprise Survey data on Zambia. The World Bank Enterprise Survey is a cross-sectional dataset which gives us the firm level perspective on corruption. The survey collected information from 720 firms operating in Lusaka, Livingstone, Ndola and Kitwe. The study also undertook an analysis of the Auditor General's Reports in Zambia.

Methods

The analysis took the form of extensive review of literature and descriptive analysis focusing on frequencies, trend analysis and simple measures of association. It is worth noting that the measures of association do not imply causality. Therefore it's difficult to establish causality because is difficult to prove and measure. The corruption perception index (CPI) as well as the World Bank Enterprise Survey data used in this study is based on perceptions and raised concerns of perception bias. However, it gives us some indication of the levels of corruption.

RESULTS AND DISCUSSION

Descriptive analysis

Corruption and human development

According to the descriptive analysis, corruption has been associated with lower levels of human development.

Figure 1 presents the scatterplot showing that countries with less corruption have higher HDI.

State capture/corruption and governance

State capture as highlighted earlier can exist in various forms. Figure 2 shows the trends in the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The indicator takes values ranging from approximately -2.5 (weak) to 2.5 (strong). The time series in the control of corruption indicator shows that Zambia is still in a weak position. It indicates that there has been steady improvement in control of corruption from -0.84 in 1998 to -0.39 in 2008, and then a fall to -0.51 in 2010 then improvement -0.28 in 2012. The indicator has fallen slightly in the recent years. The governance effectiveness followed a similar path.

Firm level experience of corruption

Figure 3 shows the Zambian firms' experience of corruption. It shows an indication of the levels of corruption at firm level. About 30% of the firms identified corruption as a major constraint and this is lower than the sub-Saharan African (SSA) countries' average of 41%. The average number of firms that were expected to give gifts to public officials to get things done was about 10%. Those firms that were expected to give gifts to secure government contracts was 28%. The bribery incident rate stood at 16%. All the indicators are lower than the SSA

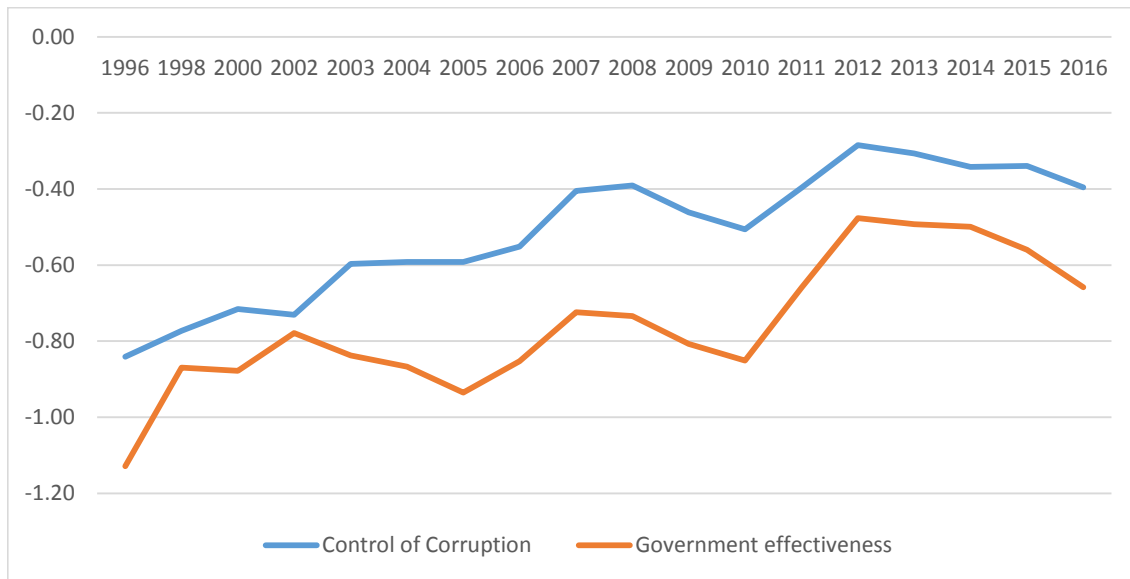


Figure 2. Trends in the level of state capture and governance effectiveness.
Source: Author’s analysis using Worldwide Governance Indicator (WGI).

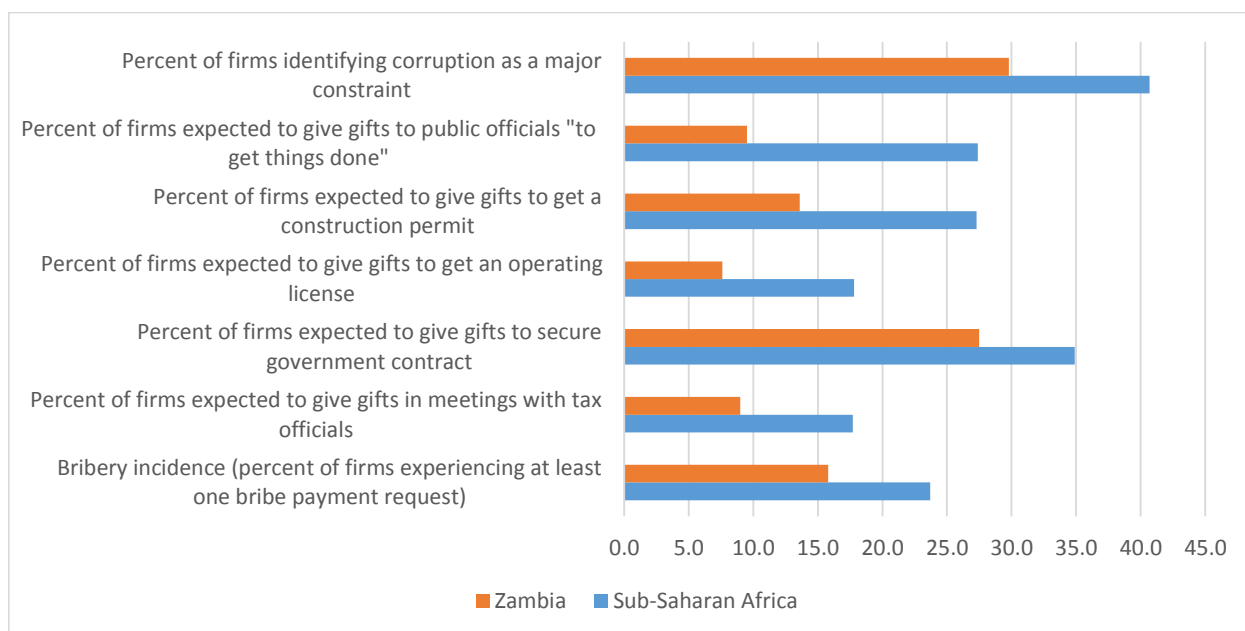


Figure 3. Firm level experience of corruption.
Source: Author’s analysis using 2013 World Bank Enterprise Survey data on Zambia.

indicators.

Insights from the auditor general and finance intelligence center reports

The Auditor General (AG) and Finance Intelligence Center (FIC) Reports provide insights into the levels of

corruption in the public sector. The most recent of these reports indicate that corruption is still a problem in Zambia.

According to the public finance literature, one way in which government failure manifests itself is through state capture which as outlined above is a form of corruption. It gathers its theoretical basis from the predatory government view of the state which argues that

politicians, bureaucrats and others acting on behalf of the public may act in their own self-interest as utility maximizers. However, in as much as state capture is a form of corruption, it has certain features that differentiate it from the usual administrative corruption of giving and receiving bribes (Pestic, 2007). Firstly, in the case of corruption the intent is on the selective enforcement of already existing laws; however, in the case of state capture, the intent is on influencing the very formation of laws to protect the interest of influential private firms and companies (Edwards, 2017). Secondly, in many instances the influence of state capture is never overt. Take for instance the case of class formation (what is class formation in this context?), where large amounts of economic resources may be transferred directly to business and political elites through family ties or friendships who have legitimate businesses or who establish businesses just for the purpose of benefitting from this transfer. These transfers are legitimate; however, the only concern is that they only stand to benefit those closely aligned to political office bearers. Thirdly, while in the case of corruption, the outcome (of policy or regulatory decisions) is not certain, in the case of a captured state, the outcome of the decision is known and is to a very high probability beneficial to the captors of the state (Netshitenzhe, 2016). Lastly, in the case of corruption (even rampant) there is plurality and competition of corruptors to influence the outcome of the policy or distribution of resources. However, in the case of a captured state, the decision makers are usually more in a position of agents to the principals (captors) who function either in monopolistic or oligopolistic (non-competitive) fashion (Netshitenzhe, 2016).

The rationalization and ultimate institutionalization of certain practices in many societies particularly those with weak social and political institutions have given ground to the emergence of state capture. This could be the reason why despite its existence for many years, it has attracted very little interest from academics and researchers. State capture which is a manifestation of government failure is a combination of politics of poverty, weak leadership and a struggling economy. This combination gives room for rent-seeking by the elected representatives and their agents in government on the one hand and the business elite, friends and families of those in political positions on the other hand. From the political standpoint, politicians exhibit rent-seeking behavior when their private interests have a significant influence on their decision making ability resulting into decisions that advantage them at the cost of society. For instance in their aim to hold and maintain political office, politicians often involve themselves in activities that border on state capture. These include vote rigging, a flawed voter registration, unequal and biased media coverage, and improper use of state resources. The existence of these election irregularities makes it rather impossible to have a free and fair electoral process which may yield an

incorruptible governance structure. From the business standpoint, Hellman and Kaufman (2001) assert that “firms seek to shape decisions taken by the state to gain specific advantages, often through the imposition of anticompetitive barriers that generate highly concentrated gains to selected powerful firms at a significant social cost. Because such firms use their influence to block any policy reforms that might eliminate these advantages, state capture has become not merely a symptom but also a fundamental cause of poor governance. In this view, the captured economy is trapped in a vicious circle in which the policy and institutional reforms necessary to improve governance are undermined by collusion between powerful firms and state officials who reap substantial private gains from the continuation of weak governance.” This collusion between the political and business elites creates an oligarchic social structure that undermines effective institutional building and the rule of law (Pestic, 2007).

The main risk of state capture is that decisions no longer take into consideration the public interest but instead favor a specific group which ultimately results in a less than efficient allocation of resources. State capture robs the nation and its people huge sums of money which would have been used to alleviate poverty and vulnerability and essentially develop our societies. These resources go into the hands of a few individuals in the political arena and their associates who reap substantial gains at the expense of the poor majority. State capture also serves as a threat to national development as it has an innate tendency to induce a spirit of selfishness and greed rather than a spirit of service and collective responsibility. This results in the diversion of attention from transforming the economy for the benefit of the nation to extracting as much as possible from the economy for the benefit of specific individuals or groups in society. State capture also has the potential to cause capital flight from the captured state as the gains from the business and political network are better saved and hidden outside the country in order to avoid detection and confiscation. Another effect of state capture is that it may lead to demoralization and let alone induce laziness among those outside the business and political network. Whenever people realize that despite their commitment and hard work, benefits seem to accrue only to those few people connected to the political or business elite, a feeling of demotivation and laziness creeps in, leading to negative attitude to work. Furthermore, once state capture is institutionalized, it becomes very costly and makes it rather impossible to come up with proper institutions as resources are diverted away from more sustainable development programmes.

Extent of the problem in Zambia

The adoption of the Structural Adjustment Programmes in

the early 1990s led to the economic liberalization of the country which saw the privatization of over 280 state owned enterprises, the removal of controls on interest rates, imports and exports, reduction in tariffs on trade and the floating of the country's currency (GRZ, 2001; WTO, 2016). However, sadly enough this was the dawn of an era of corruption and massive plunder of the nation's resources. The ugly face of state capture has been seen through consecutive rigging of elections as claimed by the opposition political parties and the ensuing litigations following almost each election. Most if not all elections since the reintroduction of multi-partism in Zambia have been disputed by the main opposition political parties. They have cited gross irregularities with the campaign and election, including vote rigging, flawed voter registration, unequal and biased media coverage, and improper use of state resources by the political party in power (www.africaliberalnetwork.org). They have attributed the rampant vote rigging particularly in the last elections held in 2016 to highly flawed electoral and judicial systems (www.voanews.com). Suffice to say, the current systems make it quite unlikely or rather impossible for the electoral commissioners and the judges to conduct their work freely and independent of political persuasion and influence as both systems are at the mercy of the politicians as they are the appointing authorities. As such it is claimed that these very important institutions have been unable to make decision which may not be in favor of the appointing authority. This is as a result of a weak institutional set up put in place and cemented by successive political parties voted into power in their quest to consolidate and maintain power.

State capture has also emerged through the behavior and actions of those in political office and their agents who have continued to enrich themselves at the expense of the people. There have been many allegations of plunder of national resources against those in political power with some past presidents seeing their immunity lifted by the national assembly so as to enable them face these allegations in the courts of law. The cases of abuse of office have been so rampant over the years, ranging from the awarding of road and other infrastructural project contracts to the procurement process of various government goods and services at huge and in most cases hyper inflated amounts without following laid down procedures. This has come to be known as tenderpreneurship⁴. The bone of contention here is that these contracts are given to close business associates of those in political power and in return the businesses give financial kick-backs to the politicians in the deals. This has seen many politicians amass so much unexplained wealth within very short periods of time. These are typical cases of rent-seeking behavior by the politicians and their

agents. Their actions have serious consequences to society as resources end up in the hands of very few people while the masses are subjected to poverty and economic hardship. Another bold move in the direction of state capture has been seen in the mining sector. The mining sector is one of the strategic sectors in the Zambian economy with copper exports accounting for over 70% of the value of merchandise exports in 2014 (WTO, 2016). Because of the strategic importance of the mining sector to the economy, the state has to work hand in hand with the businesses in the mining sector. Borrowing from the developmental state model, the state should continually interact with all social role-players and mobilize them behind a vision and strategy for growth and development (Netshitenzhe, 2016). This entails that the state should be embedded among business (and other sectors). The major problem that arises from this model is that businesses tend to arm-twist the government to make decisions that are always in their (business) interest and not in the interests of society as a whole. Many a time have situations arisen when mining firms have threatened to withdraw labor and in some cases threatened to shut down their operations entirely as a result of governments' imposition of certain policies that may not seem to go in their favor. Cases in point include; the introduction of the windfall tax in 2008 which was aimed at benefitting the country as there was a windfall in the revenues earned by the mining firms owing to the high international metal prices; and the recent increase in electricity tariffs in which mines have threatened to downsize their workforce (Is this in Zambia or in all countries? It is not clear from what you have written.) This constitutes state capture as the mining firms have in this regard held the state hostage as they seek to assert their interests by using leverages they command to attain their own objectives. The state actors are therefore forced under duress to make decisions that are in the interests of the few businesses at the expense of society.

The descriptive analysis gives us an understanding of the extent of corruption/state capture in Zambia. Generally, the study has established that corruption can have an influence on key socioeconomic indicators such as the HDI across selected countries. This was observed in various studies which have established association between corruption and socioeconomic indicators such as economic growth and development (Sebake, 2017; UNDP, 2008) and poverty (Becherair and Tahtane, 2017; Absalyamova et al., 2016). They all point to the fact that ending corruption is a one of the necessary preconditions to the achievement of the key socioeconomic outcomes. However, it should be noted that association does not imply causation.

From the descriptive analysis the study has also established that corruption (state capture) is still rife in Zambia although there has been some improvement in the perceptions over the years. This was also noted by DFID (2013). The improvement in corruption perception between 2001 and 2008 is mainly attributed to President

⁴ The term tenderpreneurship emanates from the term tenderpreneur which is a portmanteau of "tendering" and "entrepreneur". According to the Star - a South African newspaper, a tenderpreneur is "someone politically well-connected and who has gotten rich through the government tendering system".

Mwanawasa's efforts to fight corruption. During this period various institutions were established to fight grand corruption such as the Task Force on Corruption (TFC) to prosecute the former President Chiluba and other former top government officials for plunder of national resources. In addition, the fight against corruption was included in the Fifth National Development Plan 2006 - 2011 (FNDP). However, during the period 2008 to 2010, the fight against corruption received a major blow as the TFC was disbanded under President Rupiah Banda's tenure. Following this, Zambia experienced an escalation in corrupt activities particularly in the health sector, causing the perceptions on corruption to get worse. In 2010, various institutions and policies were put in place such as the National Anti-Corruption Policy (NACP), introduction of the Forfeiture of Proceeds of Crime Act no. 1 of 2010, Whistleblower Protection Act No 4 of 2010 and Financial Intelligence Act No. 4 of 2010. Later, Anti-Corruption Act No. 3 of 2012 was enacted (NORAD et al., 2011). After 2011, President Sata committed to intensify the fight against corruption and launched investigations against several former ministers and senior officials (TIZ, 2014)

The study further established that Zambian firms face corruption as one of the major constraints to their operation and growth. TIZ (2014) and NORAD et al. (2011) also noted that corruption is a major impediment to business activity in Zambia. At firm level, the existence of corruption may retard growth of businesses that are not involved in corruption. Corruption distorts the marketplace by substituting corruption for competition in the allocation of businesses and business contracts. This in turn affects the growth of the economy and employment creation. This is because economic growth and employment creation result from the growth of firms. Ndulo (2014) observes that economic development is stunted because foreign direct investment is discouraged and small businesses within the country often find it impossible to overcome the "startup costs" required because of corruption.

Conclusion

The institutionalization of state capture in many societies particularly those in developing countries has contributed to the lack of academic interest in the phenomenon. This paper outlines that state capture is a manifestation of government failure and is based on the principles of the predatory government view of the state in which state agents act as utility maximizers. State capture is a combination of a weak institutional and governance structure which gives room for rent-seeking, lobbying, election rigging and class formation. With weak institutions politicians have significant influence and authority to manipulate the electoral system, appoint the judiciary and the electoral body resulting into decisions that advantage them at the cost of society on the one

hand. On the other hand, firms are able to shape the decisions taken by the state so as to gain specific advantages, often through the imposition of anticompetitive barriers that generate highly concentrated gains to selected powerful firms at a significant social cost.

The paper has laid down that state capture is not merely a symptom but also a fundamental cause of poor governance as the captured economy is trapped in a vicious cycle in which the policy and institutional reforms necessary to improve governance are undermined by collusion between powerful firms and state officials who reap substantial private gains from the continuation of weak governance. The study has established that corruption is rife in Zambia and state capture exists although the perception of state capture/corruption has reduced slightly. The study also reveals corruption/state capture has an influence on socioeconomic outcomes i.e. there is a positive association between corruption/state capture and human development. Further, it has been established that state capture/corruption is one of the major constraints to the operations of businesses particularly those that are not involved in corruption. This in turn affects the growth of the economy and employment creation. This is because economic growth and employment creation result from the growth of firms.

RECOMMENDATIONS

Based on the literature review and analyses, this study recommends that;

- (1) In order to help achieve government's objective of poverty reduction, sustained economic growth, employment creation among others, there is great need to ensure that the various forms of corruption are addressed.
- (2) Strengthening institutions particularly with regard to electoral and judicial systems and ensuring that they are fully independent. This can be done by amending the necessary clauses of the constitution. This can help reduce the levels of corruption/state capture.
- (3) Corruption retards growth of firms therefore addressing it would help enhance growth of firms which would in turn spur economic growth and employment creation.
- (4) It is important that those elected are given a constant reminder that, their interests should be in fulfilling their duties to the nation that they were elected as opposed to fulfilling self-interest.
- (5) Lastly, as advocated by the developmental state, it is recommended that the state should remain autonomous in terms of the content and processes of decision-making. In as much as it has to work hand in hand with businesses, this must not translate into state actors working for, and at the instruction of, a particular business entity.

(6) Much of the analysis has focused on grand corruption, rather than other forms of corruption. This may render any efforts to fight corruption ineffective.

ABBREVIATIONS

CPI, Corruption Perception Index; **GRZ**, Government of the Republic of Zambia; **HDI**, Human Development Index; **SSA**, Sub-Saharan Africa; **TI**, Transparency International; **UNDP**, United Nations Development Programme; **WGI**, worldwide governance index; **WTO**, World Trade Organization.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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