



EQUITABLE GROWTH, FINANCE & INSTITUTIONS NOTES

State Capture Analysis

A How to Guide for Practitioners

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State Capture Analysis A How to Guide for Practitioners¹

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Introduction

This note describes how political economy analysis can be used to promote development, focusing specifically on state capture.² It is intended to help practitioners within the World Bank execute and disseminate political economy analysis of state capture. It is not intended to be comprehensive but serves as a “how-to guide” for those not intimately familiar with the topic.

The note complements a number of other notes and sector specific tools for political economy analysis that have been developed in recent years.³ It also complements a recent Discussion Paper (Fiebelkorn 2019) that reviews existing literature on measuring state capture, and expounds various methods used to quantify its costs.

Addressing political economy challenges such as state capture is critical to ensure that development assistance ends up producing its intended outcomes. It is imperative that the World Bank and other donors invest in studies to diagnose and redress capture or, at minimum, prevent their assistance from inadvertently exacerbating the problem.

Although policy advice for countries experiencing slow economic development often focuses on remedying its symptoms (such as weak job creation and innovation), evidence from across the globe, including post-communist countries (e.g., Balabushko et al. 2018), Southeast Asia (e.g., Johnson and Mitton 2001) and Middle East and North Africa (e.g., Benhassine et al. 2009, Freund et al. 2017) points to state capture as one of the root causes of economic stagnation: the benefits of competition and contestability are systematically sacrificed to favor a select few politically connected families and/or elite networks.

Hence, identifying policy distortions associated with capture and analyzing their costs is an important dimension of the World Bank’s overall engagement and for several areas of work in particular (governance, procurement, trade and competitiveness, energy, etc.).

This note discusses options and methods to acquire and analyze data and then presents some relevant examples. We end by discussing lessons learned.

2. According to Fiebelkorn (2019) state capture is the exercise of power by private actors — through control over resources, threat of violence, or other forms of influence — to shape state policies and/or their implementation to favor their interests. State capture is perpetrated by interconnected corrupt economic and political actors targeting state assets and (ab)using weak institutions for their private benefit. A related concept is ‘Elite capture’ which describes a similar phenomenon: resources are usurped by a few, usually politically and/or economically powerful groups, at the expense of the less economically and/or politically influential groups.

3. Much of this material can be accessed through the intranet site of the Political Economy Community of Practice.



Diagnosing the Problem

Diagnosing state capture requires demonstrating that policy formulation and/or implementation are manipulated to the advantage of a select few (typically politically connected) private agents.

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BOX 1 - The Main Required Identification at the Beginning of the Process

It typically requires the three following identifications:

1. A set of economic outcomes considered problematic
2. Key stakeholders and their political connections
3. Information on the mechanism by which advantages are conferred on those with ties to those in power

A quick stock taking exercise of which policy areas are most likely to be prone to potential rent-seeking can facilitate this process.

While capture can manifest itself in myriad of ways, it tends to be most prevalent in contexts where government actions are an important determinant of firms' success. This is the case in markets with high natural (or policy-induced) barriers to entry, and when rents are large and concentrated. Classic manifestations of capture include, but are not limited to: (i) the provision of privileged access to inputs – including credit, import licenses and land (ii) perverted public procurement where contracts are awarded on the basis of connections rather than the quality of the bids (iii) selective tax enforcement (iv) regulatory protection for incumbents (either because of de jure rules or because of selective enforcement of regulation) and (v) excessively generous subsidies, grants and/or tax exemptions. Assessing whether any of these might be at play by talking to knowledgeable colleagues can be a useful first step in figuring out what (not) to focus on.

Identifying problematic economic outcomes can be facilitated by benchmarking outcomes against relevant comparators; to detect tariff evasion, for example, it can be useful to compare the imports of a particular product recorded in the importing country with exports recorded by source countries. Major discrepancies are potentially indicative of tariff evasion,

especially when they are correlated with tariffs. Similarly, to detect monopoly power in the telecommunications market, it can be useful to compare the costs of a phone call to the costs in neighboring countries and/or countries at a similar stage of development.

While it is often easy to identify firms that benefit from certain policies, it may not be easy to identify whether there are ties, and if so which ones, between those benefitting from policy-induced privilege and those in power. Some relationships are salient however. Politicians have been shown to bestow privileges upon their family members and friends.⁴ Some of them also implement policies favoring those from their own ethnicity, birth regions, and those who finance their campaigns. To identify potentially problematic connections, it can be useful to examine asset disclosure registries (where they exist) and patterns of political financing. Yet, in many cases ownership links are difficult to document due to the use of a network of shell companies.

Even when ties between the ruling elite and those benefiting from certain policies can be established, it is important to identify the mechanism by which policies are manipulated. Often-

4. For example, Mobarak, and Purbasari (2006) show that former Indonesian President Suharto (1968-1998) granted privileged access to import licenses to companies where family members were on the firm's board. Freund, Nucifora, and Rijkers (2014) provide evidence that, in Tunisia, former President Ben Ali (1987–2011) and his family established regulatory barriers that favored firms under their control.

times policies do not discriminate de jure, but de facto policy implementation can be manipulated to favor a select connected few. To diagnose state capture it is important to identify evidence of such discriminatory implementation of policies.

A number of common complications arise when diagnosing capture, however. To start with, oftentimes the political economy problems at the root of a particular economic ailment may not be immediately visible to the uninformed observer. Conversely, some outcomes that look like they could be the product of capture can have more innocent explanations. Identification of political connections and the mechanisms by which rents are derived is usually challenging, given that those involved have incentives to hide their activities. Accus-

ing people without evidence can be harmful. Another complication arises from the fact that state capture is often perfectly legal. In fact, many of the policies that are frequently captured (such as entry regulation) often have a sound underlying nominal rationale.

A useful starting point for diagnosing capture is conducting qualitative interviews with those who have knowledge about the local context. Anecdotal evidence on abuse of power can often be a useful guide on what type of data to consider collecting. Of course, it is important to ensure that such evidence is sufficiently representative of systematic abuse before investing a lot of time and resources into collecting systematic data.



Getting the Right Data

Approaches to acquire and/or access data must be adjusted to the local context, taking into consideration both the capacity of local (research) institutions, and prevailing local laws and norms regarding data sharing. Countries differ considerably in their willingness to share data. For example, in some countries, databases on procurement contracts are readily available. In others, such data are nearly impossible to obtain. Local academics or think tanks can frequently provide access to important and sensitive data but sometimes such local partners are hard to find, and they may not always feel comfortable sharing data.

Local presence (collaborating with a staff member based in a country or a local consultant) is often critical for studies related to assessing the prevalence and costs of state capture. Successful studies require establishing a trust relationship with key decision-makers, institutions and/or well-informed individuals. Such relationships not only serve as a conduit for obtaining crucial (and often confidentially provided) knowledge but also enable data access, which is often contingent on trust. Cultivating personal relationships with the right actors requires 'people skills' from the Bank team.

Obtaining data is typically easier when the Bank team uses them to (first) help policy-makers/implementers meet their immediate objectives, such as increased revenue collection for a tax administration, generating more electricity for an electricity company or Ministry, or better value for money for procurement. Data requests are very rarely successful when framed as studies solely concerned with understanding political economy dynamics or 'state or elite capture' specifically.

Data requirements also depend on the nature of the study. Typically, the broader the question, the harder it is to obtain the requisite data. It is often easier to deliver a compelling answer to a very narrowly defined development problem (price of electricity or transport, tax evasion, and so on...), than to answer a broad brush question (e.g. what explains poor governance?). This may help explain why the most actionable (and hence most impactful) studies have been the sectoral rather than broad ones.

Investing in data provided by experts can often help expose the costs of capture and related governance distortions. For example, sectoral regional or global industry benchmarks may be critical to demonstrate price anomalies. The value added of such benchmarks is especially high when obtaining data access is prohibitively difficult (this may be the case for capture in infrastructure markets or through State-Owned Enterprises). In this regard, when sectoral benchmarking is undertaken, it is critical for the Bank team to benefit from the best technical expertise available. With this end in view, several teams have used firm competitive bidding to be able to recruit experts benefiting from large cross-country databases⁵.

Whichever methodology is best suited for analyzing capture depends on the nature of the data. Simple descriptive statistics can go a long way towards identifying potentially problematic patterns, but compellingly demonstrating capture typically involves ruling out competing explanations. This, in turn, can require more sophisticated methods.

5. The World Bank has a competition policy team (<https://www.worldbank.org/en/topic/competition-policy>) that can help you find the relevant expertise and data.



Maximizing Policy Impact: How to Present Findings

In order to maximize policy impact of political economy analysis, it is crucial to consider the main audience's interest and needs, which in turn requires reflecting on their remit of influence and responsibility. Conclusions and recommendations that are succinct, substantiated, and actionable are most likely to be effective.

Studies focusing on rent-seeking and capture can help to better inform powerful but losing actors (e.g., citizens, firms, or public officials) and hence may increase pressure for change. They may also contribute to the formation of coalitions of losers motivated to implement reforms that reduce rent-seeking opportunities.

There is usually a lag between the production of such political economy studies and their impact on the ground. Patience is usually required to record change of approach or a new design of Bank operations. It may take months or even years before policies are altered and/or operational designs are modified. For example, based on the experience in MENA, Mahmood and Slimane (2018) highlight that addressing capture requires a long-term programmatic approach which uses a mix of various World Bank tools deployed in sequence. Some critical policy actions may be supported through DPOs while others may be better supported by advisory activities, and results-based or investment operations. A well-sequenced set of reforms –and the exploitation of synergies across various parts of the World Bank– may have a cumulative effect over

time and gradually contribute to creating a more open and competitive environment.

Compelling data analytics that shed light on the impact of rent-seeking and capture on the efficiency of public administration are often a fruitful starting point. Studies that quantify excessive private gains/cost of corruption or excessively high mark-ups tend to be most impactful, especially if they quantify the returns to taking remedial action.

Providing quantitative analysis helps demonstrate the scale of the problem and its development impact and can provide more neutral and objective information (see Ogien, 2010). Quantitative studies can be an important trigger for reform efforts. At the same time, for the purposes of World Bank operations and underlying analysis, practitioners will need to keep in mind the trade-offs outlined in section 3: narrow questions can be more readily evidenced through data than broader ones, and the availability and accessibility of relevant data can vary across issues and countries.

Data visualization can also play an important role to convince policy-makers. Short notes, blogs, and powerpoint presentations are often more widely read than long papers. A good strategy is therefore to summarize the main takeaways of your analysis as succinctly and simply as possible. Graphs are often a great way to convince readers and make sure that messages stick.



Selected Recent Examples of Impactful State Capture Analysis

Political economy analysis that contributes to reducing state capture can improve the development benefits of World Bank financed support. In Haiti, for instance, political economy analysis conducted in the context of the Haiti Energy Integration and Trade Study ([P153043](#)) provided the impetus for a shift in the World Bank's engagement after two decades of stale progress. The study documented that energy prices in Haiti are very high relative to comparator countries and production methods excessively pollutive as a result of monopolistic energy provision. The lack of competition and investment in the energy sector was shown to be due to a combination of clientelism and corruption that benefitted a select few powerful families, and a parallel black market benefitting a variety of politically connected brokers and gangs. The World Bank's new engagement fosters increased competition by stimulating the decentralized provision of renewable energy and discontinuing funding projects with designs that historically failed to achieve their desired outcomes.

Similarly, in Madagascar, analysis undertaken in the context of a public sector reform project documented widespread collusion in customs. Customs brokers paid officials in the IT department to be paired with their preferred inspector who, in exchange for a bribe, would turn a blind eye on fraud. This system was costly; tax yield on declarations whose assignment was manipulated would have been 27% higher in the absence of systemic collusion. This analysis led to the sanctioning of several inspectors and the divestment of the assignment of declarations to customs inspectors to a third party. The World

Bank project in Madagascar coincided with an increase in tax revenue collection at the border in excess of 100 million USD (the equivalent of a 1% increase in the tax/GDP ratio).

In Ukraine, state capture analysis (Balabushko et al. 2018) conducted in light of the new Country Partnership Framework (CPF) 2017-2021 showed that politically connected firms are dominant in Ukraine's economy using various channels⁶ to access economic rents, while being less productive and growing slower. The findings indicate potentially large payoffs from policies that promote a more competitive playing field. The study helped inform analytical and advisory support on some of the key mitigation measures, including establishing an anticorruption framework, and independent anticorruption court on the one hand, and the use of the electronic procurement system, Prozorro, on the other.⁷ The study also shifted the focus of strategic engagement in Ukraine. The CPF 2017-2021 identified corruption and state capture as fundamental constraints to addressing the country's development challenges. Interventions to curtail capture in resource management and an additional focus on governance aspects of land reform, and the ongoing anti-corruption agenda were introduced.

Another example is the World Bank's engagement with the Senegalese tax authorities. A research project unveiled how selective tax enforcement prevented certain politically connected firms from being audited. The World Bank research team is now piloting the use of algorithm-based initiation of audits to promote tax equity.

6. Such as public procurement, subsidized loans, transfers from the budget, trade regulations that restrict imports, privileged access to state assets through privatizations, and beneficial tax regimes.
7. One of the avenues was leveraging an innovate corruption impact study and bank management commitment to engage directly on corruption issues to generate interest and impact in local media outlets, including print media, online publications and TV shows.



Lessons from Practitioners

What are the “must dos” in order to be able to generate impactful studies?

It is important to acknowledge that data quality is usually an important challenge and data access is often partial. That is why task teams have to be innovative, use proxies (like industry benchmarks), transfer knowledge and strengthen, as much as possible, data analytics capabilities.

Learning from Common Mistakes

A number of common mistakes offer important lessons on how to conduct state capture analysis:

Overly burdensome data requests and ambition: In numerous cases, data requests may be overly burdensome for counterparts. Requests that are too complex and comprehensive in countries where data are usually scarce and scattered and data analytics not necessarily developed may prove counterproductive. Such large ‘ideal’ requests may undermine goodwill to undertake such studies. The best chance of being successful is to proceed in small steps; start with relatively simple data requests that yield initial results, and successively ask for expanded data access.

Similarly, many studies are overly ambitious in scope; doing good research typically requires significant resources and a substantial time commitment. Impactful studies tend to have long gestation periods, so it is important not to set unrealistically short deadlines and to resist the temptation to try to tackle too many issues simultaneously.

Avoid abstract political studies: Frequently studies focus too much on high-level political analysis and do not sufficiently connect this to addressing concrete development problems (such as low revenue collection for a tax administration or corruption in procurement for a procurement agency and so forth...). As a consequence, even when studies are rigorous and well-executed, their impact on the ground usually remains limited as operationalization of what can be done in specific policy areas and administrative functions is not addressed. It is important to provide pragmatic prescriptions.

The Must Do’s

Impactful studies have common characteristics that seem conducive to success (i) strong intrinsic motivation from opportunistic task teams with technical expertise, (ii) support from the CMU, (iii) data sharing which is facilitated by cultivating trust and personal relationships between Bank teams and policy-makers and/or researchers, and finally (iv) results are succinctly presented in language that is easy to understand, and framed as being directly relevant for the development objectives of the counterpart with economic impacts assessed.

Find the right people: Building a team of people who have the relevant expertise is one of the key challenges for task team interested in conducting quantitative political economy analysis. Practice managers, and (senior) colleagues, who have worked on comparable topics can often point a task team to people with relevant skills. Help from DECRG researchers can also be obtained (see the DECRG website for a [list of all researchers by area of expertise](#)) by posting a request for support on the [research matchmaker](#). DECRG researchers that may have relevant expertise (or who work on related topics) should also be contacted directly.

Be opportunistic and pragmatic: The approaches taken to diagnose capture, to access data and present results are critical. In a first instance, teams willing to undertake such studies have to be opportunistic. Openings may happen in some sectors/institutions whereas they may be impossible in some other areas for various reasons. Such work is also usually more impactful when done below the radar and jointly with Bank technical teams.

Obtain buy-in from CMU and sectoral colleagues: Support from CMU of a motivated task team is essential. Due to potential political sensitivity, CMU support is a prerequisite. This requires budget resources in order to finance, at minima, technical expertise and strong presence on the ground.

Cultivate political will: ‘Political will’ of decision-makers is usually not exogenous and can be cultivated over time. In some cases, a virtuous circle can be initiated: data sharing enables initial impact reforms that lead to tangible results,

which convince decision-makers to share more information to undertake bolder reforms that, if successful, will lead to even bolder reforms and data sharing.

Estimate economic impacts: Such studies have to assess, as much as possible, the economic impact of state or elite capture in order to be (potentially) impactful. Indeed, the most

impactful studies are the ones documenting and estimating the economic impact of state/elite capture in terms of access to finance, unfair competition, revenue losses, additional rents for selected connected companies and so on. Without numbers and figures, political economy analysis remains easier to trivialize and discredit which can limit its impacts.



Concluding Remarks

This note described the practical approaches to measure and present state capture, as an illustration of how political economy analysis can help promote development. Even though the topic is often politically sensitive and difficult to tackle, this note shows that with the right approach, data access and adequate presentation of the findings, the potential impact of quantitative political economy analytics is substantial, and can also prevent the Bank from undertaking flawed projects that prove counterproductive.



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