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CHAPTER 4:

CAMPAIGN FINANCE AND STATE CAPTURE

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Abstract

This chapter uses a novel database on contractual arrangements between politicians, political brokers, and businessmen in Benin to investigate the way the nature of these arrangements depends on the level of political competition. We find that firms provide financial support to local and national politicians in exchange for policy concessions, direct budget support, 'favourable' procurement auctions (bid-rigging), and various forms of state capture. In addition, while bid-rigging features constantly in politician–firm contracts, increased electoral uncertainty is associated with less demand for policy concession and stronger preference for direct forms of state capture, i.e. the appointment of firms' agents or cronies to key government positions. In other words, electoral uncertainty could simultaneously contribute to democratic consolidation through political turnover, and to the worse forms of corruption through state capture by business elites.

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1 Introduction

A large number of studies show that patron–client relationships between politicians and voters deter democratisation and development (Wantchekon 2003; Stokes 2005; Stokes *et al*. 2013; Bardhan and Mookherjee 2017; Robinson and Verdier 2013; Gallego, Li and Wantchekon 2018). However, while most studies focus on the interaction between politicians and voters, and more recently on the role of political brokers,[1] most fail to characterise the influence of interest groups on political distortions.

In developing countries, where government budgets are limited, the costs of clientelistic contracts are borne by politicians who, for the most part, are paid by corporations in return for control of government actions and policy concessions. As a result, corporations become underlying patrons of the politician–voter contract. The role of firms is even stronger when no public funding is provided for campaigns, or where politicians need to sustain clientelistic contracts far beyond electoral campaign time periods.

The consequences of leaving aside the role of firms in studies of patron–client relationships between politicians and voters are twofold. First, by assuming that sponsoring interests and vote-buying political parties are unified actors that hold the same incentive structure, studies fail to recognise the role played by firms themselves as political actors, and how clientelistic contracts between politicians, political brokers, and voters are endogenous to private preferences and actions.

Second, the clientelism literature has understudied firms' strategic decision-making when faced by shocks from the political system and have thus missed an important democratic paradox: interest groups may seek to undermine democratic consolidation – which thrives with electoral uncertainty – through increasing levels of intervention, corruption, and capture. In other words, democracy thrives with electoral uncertainty through political turnover. However, electoral uncertainty also leads to higher financial risk by sponsoring firms – particularly in settings where winning margins are close – and/or higher bribing/sponsoring costs as the number of political candidates increases.

We can identify the mechanisms of this paradox from the supply viewpoint of sponsoring interests or looking at the demand side of politicians' bargaining power. From the former, as electoral uncertainty increases so does the incentive for firms to mitigate financial risk through the appointment of cronies to key government positions, making politicians irrelevant to policy implementation. In other words, increasing risk leads firms to arrange contracts with candidates that replace political intermediaries with direct patrons. Patrons then act as electoral risk mitigating tools for special interests.

From the latter, demand-side viewpoint, as electoral uncertainty increases (e.g. with smaller winning margins or a vast number of candidates contending for office) politicians' electoral power diminishes vis-à-vis other political contenders, decreasing their bargaining power at the politician–firm contractual arrangement phase, allowing stronger forms of private intervention and capture. Notice, importantly, that electoral uncertainty surges not from bad or good politicians who engage with voters through a cheap-talk game to hide their type, but from the political environment and electoral institutional design.

[1] See Gallego, Li, and Wantchekon (2018), for example, on how brokers are crucial but were also neglected by the clientelism literature until more recent theoretical (Stokes *et al*. 2013; Gingerich and Medina 2013; Camp, Dixit, and Stokes 2014) and empirical work (Baldwin 2014; Koter 2016; Larreguy, Marshall, and Querubín 2016; Larreguy, Montiel, and Querubín 2017; Kadt and Larreguy 2018).

In that regard, this chapter uses a novel database on contractual arrangements between politicians, political brokers, and businessmen in Benin to investigate the way the nature of these arrangements depends on the level of political competition. To do so, the chapter pursues four objectives.

First, we propose a reconfiguration of the clientelism and political distortion literature by bringing it together with the elite capture and special interest group literatures. The cronyism and special interests and lobbying literatures have moved separately from the clientelism literature and have focused on showing, among other things, that political distortions from clientelism are 'fundamentally different in nature from elite capture' (Bardhan and Mookherjee 2012, p. 2). With regards to distributional politics, for instance, clientelism is typically progressive, as poor voters are willing to sell their votes at a lower 'price'. Capture is regressive, as richer interest groups are willing/able to pay more. Moreover, clientelism decreases public good allocation by favouring private use of public resources, while the implications of capture for public goods remains ambiguous and highly dependent on interest groups preference and type. In other words, the special interest literature has stressed that while clientelism and capture represent important forms of political distortion and institutional weakness, especially in developing countries, they are qualitatively different. However, by doing so they have overlooked what politicians do with the financial and non-financial resources provided by firms, and thus they have theoretically mis-specified their utility function, and the effect of electoral constraints on firms' investment maximisation problem. Consider, for instance, that politicians' strategies of voter mobilisation have to be financed. Thus, campaign finance affects the decision to choose one mobilisation strategy over another[2].

Second, we characterise empirically the existent firm–politician–broker–voter contractual arrangement, focusing mainly on the relationship between the gifts/resources given to politicians and the different payback demands established by corporations. The chapter uses a novel database on contractual arrangements between politicians, political brokers, and (local and foreign) businessmen in Benin to investigate the nature of these arrangements and their dependence on the degree of electoral competition. Obtaining information on the underlying 'sponsoring system' is difficult, and to our knowledge no study has tried to depict the bilateral relation in terms of resources and paychecks between firms and national and local politicians. To do this, we carried out structured interviews with key political actors to build a contractual-level dataset covering Benin's 12 departments and 24 electoral districts from 1991 to 2018, for legislative and municipal-level elections. The results allow us to construct national- and local-level contractual arrangements between politicians, political brokers, and firms, including both the financial amounts given to politicians as well as specific concessions granted to interest groups.

Thirdly, we look at determinants of the form of firm–politician contracts. To do so, we consider two alternatives. First, we estimate the effect of political competition as proxied by municipal-level winning margins on firms' strategic decision-making at the local level, controlling for various cross-municipal socio-demographic differences, surveyor, and municipal fixed effects. To push forth causal identification we provide placebo tests on legislative-level elections. Elections for Members of Parliament (MPs) in Benin provides an ideal placebo since they do not hold control over national or regional level procurement and budgeting, and they have no say on national or regional bureaucratic positions. Contrary to other settings, MPs are not allocated to relevant committees in the parliament in charge of budgeting but rely on party and executive lines for general voting patterns in the assembly. Thus, electoral shocks that modify

[2] Additionally, the literature has wrongly viewed interest groups as actors on the demand side of the cronyism market, when actually they act as financial suppliers for politicians who need extra-governmental resources to advance their political careers through elections, giving institutional concessions as payment.

the overall electoral uncertainty faced by MPs should not lead to firms' stronger preference towards more direct forms of state capture or the appointment of cronies to key government positions. Second, we exploit a quasi-exogenous shock introduced by the 2018 electoral reform that –among other features – collapsed the existent multi-party system to a two-party block competition[3]. The reform allows us to compare those communes and electoral districts with multiple parties competing for office and suddenly collapsed to one of the two proposed party blocks, decreasing electoral competition (our treatment group), to those districts that were already under a de facto two-party system (our control). Our expectation, later confirmed empirically, is that those districts that experience a decrease in electoral uncertainty experience a decrease in firms' preference for direct forms of state capture. Both empirical strategies then allow us to observe the existent simultaneity of democratic consolidation – which thrives with electoral uncertainty through political turnover – and special interests' state capture.

Finally, the fourth objective of the chapter is to contribute to the study of institutional reforms that aim to reduce the influence of interest groups and the negative effects of clientelism in developing countries. In particular, we pinpoint the need for multi-level reforms to prevent business interference, limit bureaucratic capture by brokers, promote transparent appointment processes, and strengthen accountability through the promotion of voter civic engagement in Benin.

In fact, since the democratic renewal of Benin in 1991, political actors initiated reforms aiming to reduce the cost of campaigning. However, the reforms yield mixed results. The attempts include the following. First, the imposition of campaign spending caps per election type (presidential, parliamentary and local). However, the caps have not been respected or enforced. Furthermore, by 1998, a provision in the electoral code removed the Supreme Court's verification capacity -the institution in charge of the control of campaign spending of candidates and parties-. By 1999 a new electoral restriction was introduced forbidding the distribution of campaign gadgets (T-Shirts, Caps, Pens, etc.) with parties and candidates' logos within 6 Months from national elections (presidential and parliamentarian). The electoral change had mixed results, with parties and candidates utilizing specific colors for branding instead of logos. Lastly, a limitation of campaign period to 2 weeks was established (contrary to countries where there is no limitation at all like Ghana or where the campaign period is long such as Nigeria of 3 months). This restriction is supposed to contribute to the reduction of campaign costs. Except for the incumbent, this measure has seemed to be by and large successful.

It is important to note that Benin has three traits that make it an ideal setting in which to study the relationship between economic and electoral risk and firms' state capture strategies. First, the dynamics of electoral competition and economic power vary substantially across the country's 77 communes and 12 departments. Figure 1 shows the winning margin and the Herfnidhal-Hirschman Index of vote share concentration by political party for the commune-level 2015 elections. As noted, not only are winning margins substantially low, but Benin can be characterised as a low concentrated party system in terms of vote share. Moreover, between communes and within communes across time we notice large variability in the actions taken by influence groups to achieve their desired outcomes. Second, Benin provides a case of thriving democratisation mixed with poor governance and various degrees of local state capacity, an important mediator to consider when studying politician–private sector contracts.

[3] The electoral reform introduced various other changes, including a higher deposit required for candidates to contend for the presidential election; a reduction in the amount of state resources to finance local, communal, and municipal elections, which decreased by 50% from Central African Franc (CFA) 20,000 to CFA 10,000; the introduction of campaign caps; and restrictions on former customs officers and forest agents running for legislative seats unless they resigned one year prior to the election, among others.

Lastly, a pseudo decentralised political system allows for local politicians to have substantial freedom to shape local campaigns and agree to different contractual arrangements with their financial sponsors.

Our results show three main findings. First, around 34% of mayors and city councils competing for municipal-level positions, and deputies competing for legislative seats, face budget constraints in regard to developing their political campaigns. This creates a need to negotiate their budget deficit with businessmen in order to run for elections, allowing for contracts through narrow commitment over policies. Second, the most recurrent policy concessions made by businessmen are public procurement arrangements (71% of contracts include such concession), followed by policy commitments related to firms' interests (46% of cases), and the direct appointment of businessmen's relatives to public positions (39% of cases). In part, this rank ordering is due to the fact that public procurement allows for firms to cash in and for politicians to keep a share of the procurement (a minimum of 10% in Benin's case). Note that policy concessions add more than a 100% which implies that contracts contain more than one concession petition.

Most interesting are firms' strategic decisions when faced with political uncertainty. If incumbents do not comply with the contract with firms, the latter may finance riots against the former to increase economic concessions and payment. Moreover, firms seek to support challengers with contracts that are characterised by higher concessions, increasing the overall control of firms over local governments and national politics. Regarding the estimation of the effect of winning margins on firms' capture preferences, we find that a one standard deviation increase in winning margin decreases the reliance on more direct forms of state capture by -0.1684 standard deviations for municipal-level elections, a result that is significant to the 1% level and robust to surveyor and municipal fixed effects and socio-demographic controls. However, interestingly, positive and non-significant results are found for MPs elections, showing that electoral shocks only have an effect on firms' capture preferences when political actors are relevant for electoral risk management.

Relative to the status quo concession benchmark, when elections become more uncertain due to the introduction of more challengers, firms modify their demands in relation to incumbents. In particular, they rely more heavily on demanding that incumbents' platform commitments are similar to firms' interests during the electoral campaign (a prevalence of 68%), while decreasing the proportion of public procurement petitions to 67%, holding the second place, followed by an increase in pushing forward the political careers of businessmen's acquaintances, which reaches an occurrence of 64%. Moreover, in this case of higher electoral uncertainty the influence and control over the recruitment in all public sectors increases from 17% to 51%. Lastly, in the absence of what firms consider a 'good' candidate to fund, firms increase their participation in elections by running for election themselves.

These results are tied to those on the effect of Benin's 2018 electoral reform on party collapse in that electoral uncertainty drives firms' capture preference. In particular, multi-party districts affected by the reform show a decrease of -0.259 standard deviations on firms' capture preferences in the current 2019 commune-level elections. In other words, as the number of candidates decreases – and thus the cost of bribes – firms rely less heavily on more direct forms of state capture, such as the appointment of firms' agents or cronies to key government positions. Specifically, firms decrease their use of patronage to move forward the political careers of friends and family members (decrease of -0.437 standard deviations), they decrease their use of patronage of members from the company (-0.436), and they reduce the demands on bureaucratic recruitment control (-0.606). The results are robust to including controls on politician-level characteristics, as well as commune fixed effects. Moreover, we show that the sample of politicians used show a balance on multiple covariates between districts that hold multi-party competition in the 2015 elections (the treatment), to those with a de facto two-party competition (the control). While this balance does not rule out commune- and firm-level differences between treatment and control, they show that the results are not driven by sample selection bias. As with the effect of winning margins on firms' capture preferences, we also find positive and non-significant effects for legislative-level elections, which provides an important placebo to take into consideration.

We believe differentiating sponsoring interest groups, politicians, and voters will lead to interesting developments in the clientelism literature. First, this chapter provides an explanation of the coordination between politicians and private interests in order to marginalise poor voters, especially in the face of increasing demands for redistribution. Second, it makes it possible to explain the paradoxical result of stronger degrees of direct involvement of interest groups through personal nominations in highly democratised (i.e. highly uncertain) settings. Thirdly, the chapter helps increase our understanding of the variation in strategic decision-making of interest groups between different levels of uncertainty across time and space, either caused by variation in electoral risk or interest groups' risk. In the spirit of Kitschelt and Wilkinson (2007), where politicians prefer to use clientelism when they can predict voters' electoral conduct and elasticity, interest groups prefer to rely on direct capture strategies when uncertainty is high, and they rely on sponsoring political campaigns only when politicians can predict voters' behaviour well. This point is closely related to the literature on the link between economic and political structural conditions and strategic choices made by firms to mobilise citizens (Magaloni, Diaz-Cayeros, and Estevez 2007; Diaz-Cayeros, Estevez, and Magaloni, 2016).

This chapter is closely related to work on mapping *de facto* institutions. Starting with Dahl's (1961) description of the power structure in New Haven and moving to more recent literature on family networks and politicians (for example, Cruz, Labonne, and Querubin 2017; Querubin 2016), there has been a need to characterise the full power dynamics affecting electoral politics. Moreover, this chapter speaks directly to the large literature on interest groups and cronyism. The crony governance literature focuses on systems in which economic policies are chosen with the goal of benefiting connected actors (Klor, Saiegh, and Satyanath 2017). Our study, in contrast, focuses on showing how interest groups develop crony networks in local institutions as the degree of uncertainty increases. Most importantly, this chapter connects the seemingly distant but actually highly related literatures of clientelism and cronyism, showing that electoral risk encountered in clientelism settings affects firms' (sponsors') strategic decisions to create and fund networks in high-level bureaucratic and political positions.

This chapter is more closely related to the literature on elite capture of local institutions in developing countries. Ch *et al*. (2018), for example, show that illegal armed interest groups in Colombia – both left-wing guerrilla forces and right-wing paramilitary groups – shaped policy outcomes by influencing local officials who implemented the groups' policy preferences. Likewise, Sanchez-Talanquer (2018) and Pardelli (2018) find that landowners transform local institutions in their favour by appointments to key local bureaucracy and political positions, which result in pushing forward beneficial policies in terms of taxes, property rights, and property land values, and which increase the relative power of local governments *vis-à-vis* higher levels of government. This chapter shows how firms use various strategies to control local institutions, and not only promote policy change through violence (as in the case of Colombia), policy change, political campaign sponsoring, or direct appointments to bureaucratic positions.

2 Theory and testable hypotheses

Consider Anderson, Francois, and Kotwal’s (2015) clientelistic relationship analysis in India, where elite minorities can undermine policies that push forward redistribution in favour of the poor majority. In this case, the capture mechanism runs through land ownership dominance and the use of cultural hierarchies to achieve political control. However, while empirical evidence shows that elites undermine democracy even in a non-coerced setting, the existent strategic relationship between firms and politicians is not clearly described and is actually not considered. There could be at least two possible type of relationships between firms and politicians, depending on the source of uncertainty. First, politicians could renege on delivering investments to sponsors. Under this setting firms face uncertainty due to politicians’ type, which allows a cheap-talk strategic setting: politicians act as agents that hold a private information advantage in respect to their sponsors or the principal, and ‘bad’ politician types renege on their contractual arrangement or benefit from their advantageous information standpoint. Second, firms might face uncertainty coming not from politicians’ type but from the political environment and institutional design. From a *supply-side* standpoint, i.e. from the perspective of political sponsors like firms, high electoral competition leads to high risk on campaign financial investments. As a response to higher financial risk, firms increase their demand for more direct forms of capture, moving from procurement demands to requesting political appointments and recruitment bureaucratic control. Cronies are then selected to such positions, bypassing politicians entirely.

From a demand-side standpoint, high electoral competition implies politicians’ bargaining power is weaker at the time of negotiating the terms and clauses of the contractual arrangement with firms. Not only is there at least one other candidate with similar electoral strength that could compete for funding, but electoral competition increases both the marginal cost of a vote as well as total campaign costs. The result is needy politicians facing risk-averse firms who move to stronger preferences for direct forms of state capture through the appointment of key government positions.

What does the contract look like? Sponsors fund politicians in order to receive a payback. The payback takes a wide range of forms, running from more indirect to more direct forms of state hijacking: refunds on financial investment; policies and platform changes; public procurement; control of budget lines; patronage; and bureaucratic recruitment control.

We hypothesise that variation in electoral uncertainty will relate strongly with variation in firms’ preferences for more direct forms of state capture. Specifically, from a sponsor viewpoint, the testable hypotheses of the project are as follows:

- <u>Hypothesis 1</u>: More political competition implies higher electoral uncertainty, then firms will prefer government control.
- <u>Hypothesis 2</u>: Less political competition implies lower electoral uncertainty, then firms will prefer policy concessions.

Note that the two hypotheses depict a *democratic paradox*: business interest may undermine democratic consolidation, which thrives with electoral uncertainty. In other words, business interest explains part of the democratic backsliding seen across the world, as business interests prefer to capture government when faced with strong democratic uncertainty.

3 Data and methodology

To test how political competition affects firms' uncertainty and modifies their preference for more direct forms of state capture, we study the relationship between international and domestic companies and electoral politics at various levels of aggregation – national and local – in Benin, covering all elections from 1991 to 2019. Benin exemplifies a thriving nascent democracy, with poor governance and economic performance. While being what has been labelled as a successful democracy, Benin has been characterised by a high level of corporate capture of local and national politics. As noted by Fujiwara and Wantchekon (2013), the country's institutional development has allowed for clientelistic promises to narrow groups of citizens and has favoured private use of local government resources. Benin contains over 3,000 villages (called quartiers) in 77 communes, and they vary widely in the type of productive activities carried out, as well as in the political competition in a multi-party system.

Our methodology exploits two sources of variation. First, variation in firms' political investment or contractual choice. To measure this, we rely on a novel database on contractual arrangements between politicians, political brokers, and firms in Benin. In particular, we carried out structured interviews with key players, including campaign managers, CEOs of politically connected firms, local brokers, and politicians and candidates, among others[4]. The result is a dataset with a sample of more than 300 Beninese politicians (deputies, ministries, mayors, etc.), as well as political brokers, covering Benin's 12 departments and 77 communes.

The data collection took place in Beninese constituencies with targeted populations from 6 February to 21 February 2019. Given the difficulty in identifying potential subjects to survey, a snowball sampling technique (or chain-referral sampling) was used. This is a non-probability sampling technique where existing politicians surveyed recruited future subjects from among their acquaintances. Prior to the interviews, the controller -in charge of coordinating interviews- arranged an appointment with the politician via phone call to establish the contact between the latter and his enumerators to prepare the interview. Then, enumerators met the politician alone, or in a team of two or three, depending on the category (national or local) and/or the agenda of the latter to conduct the interviews. Overall, 311 political actors and brokers were surveyed: 256 politicians, including 191 local politicians (mayors, councillors, etc.), and 83 national politicians (deputies, ministries, cabinets staff, etc.), with 18 who have run for both local and national positions, and 55 brokers (18% of the full sample). Given that elections were scheduled for March and April 2019, we were able to acquire information on contemporary campaigns as well as past ones since 1991. Of the full sample, 76% were running as candidate for the next elections. This dataset allowed us to depict existent politician–firm contracts (such as funding amounts and sources, for instance), and contract types, ranging from those that demand policy and procurement concessions from politicians, to those that seek to influence political platforms during campaign periods, and those that seek to influence direct appointments of firms' acquaintances, or direct intervention through control of budget lines or key bureaucratic positions.

It is important to note some overall characteristics of the politicians in the database. First, 54% of the 215 surveyed individuals who were running for the next election were running for municipal-level elections, while the rest were competing for legislative ones. On average, individuals have 47 years of age and hold a high variety of education degrees, especially high-level ones, with the majority having either undergraduate or graduate degrees. Moreover, as noted in Table 1, only 27% are first-time runners and those who have recurrently participated in elections in the past have participated in a large number of different type of elections, from

4 These were conducted by the Institute of Empirical Research in Political Economy (IERPE).

commune- to presidential-level ones. It is important to note that Benin is characterised as a highly dynamic electoral setting: more than half of the surveyed politicians have switched political parties. A wide majority have switched not due to opposition to their former political parties, but in opposition to party platform changes. In other words, the highly dynamic party system hides a seemingly conservative underlying ideology spectrum. Noteworthy, additionally, is the fact that almost all politicians and political brokers (87%) are members of a political party. Lastly, it is important to see that of the full sample, 36% say they have held private positions in the past.

The second source of variation we exploit is national and local variation in electoral uncertainty. We rely on two measures of electoral uncertainty: first, the use of winning margins; second, the number of political candidates contending for office. We believe the former constitutes a benchmark measure of electoral competition, given that winning margins are positively related to a candidate's likelihood of winning office or the risk associated with a candidate losing. Related to the latter, as the number of political candidates increases, so does the total amount of bribes that firms need to allocate in order to achieve their desired policy preference. In other words, the number of candidates represents a cost of contractual arrangements. Both the costs and electoral competition form part of what we define as electoral uncertainty in this particular setting. As an example, the highest level of electoral uncertainty will be that where low winning margins coincide with a plethora of political candidates running for office with relatively equal electoral strength.

For identification we rely on two empirical tests, given these two sources of variation, firms' preferences for direct capture and electoral uncertainty. First, we analyse the relationship between winning margins and firms' state capture preferences as stated in contractual arrangements. In particular, we estimate the following ordinary least squares (OLS) specification:

$$\mathrm{y}_d = \alpha + \gamma_d + \beta \text{Winning Margin}_d + \Phi \mathbf{X}_d + \Theta \mathbf{W}_i + s_d \tag{1}$$

where y_d is either a dummy of any of the preferences for state capture or intervention pushed by firms on politicians, including: demanding a refund of resources, and demanding policy and programme modification during a campaign; demanding support for future candidates close to firms; demanding a local budget line; demanding public procurement; patronage both for close family members and friends or members from the firm; and taking control of bureaucratic recruitment control in a district d; Winning Margin$_d$ is a continuous variable on the winning margin of the incumbent relative to the second runner for the 2015 commune-level elections; $\mathbf{X}_d$ is a vector of commune- level control variables;[5] $\mathbf{W}_i$ is a vector of politician-level characteristics, listed in Table 8, including age, education, title, former occupation, political experience, a dummy to account for party switch and reasons for such a switch, and electoral political experience as candidates in different types of elections; we also include a district fixed effect, γ_d, to account for any district-level time-invariant heterogeneity. Thus, our estimates account for the change in firms' preferences for direct forms of state capture in districts that have experienced high electoral uncertainty, as proxied by smaller winning margins. We report robust standard errors throughout, clustered at the electoral district level.[6]

[5] GDP, poverty, and 2015 electoral measures, including number of candidates, and Herfindhal-Hirschman Index of party vote share concentration.
[6] We believe this to be a conservative approach. If we simply use robust standard errors all results become somewhat stronger statistically.

Note, however, that this specification does not allow us to rule out time-variant and other sources of potential endogeneity. To push forth identification we estimate equation (1) for municipal-level elections and run a placebo test on legislative-level elections. Elections for MPs in Benin provide an ideal placebo since MPs do not exercise control over national- or regional-level procurement and budgeting, and they have no say on national or regional bureaucratic positions. Contrary to other settings, MPs are not allocated to relevant committees in parliament in charge of budgeting but rather they rely on party and executive lines for general voting patterns in the assembly. Thus, electoral shocks that modify the overall electoral uncertainty faced by MPs should not lead to firms' stronger preference for more direct forms of state capture or the appointment of cronies to key government positions.

As a second identification strategy, we use quasi-exogenous variation introduced by the electoral reform in Benin in 2018, which collapsed the multi-party system to an effective two-party block competition. The reform allows for the existence of multiple parties but forces parties to join a block to compete, and no more than two blocks can contend for any political position in the country. The reform allows us to compare those communes (or seats) that had multiple parties competing for office and higher degrees of electoral competition and suddenly were affected by the reform (our treatment group) to those communes that already had an effective two-party system (our control). The expectation is that communes affected by the electoral reform reduce the number of effective political parties and thus candidates, decreasing the overall financial costs of bribery faced by sponsoring firms, making them less desirous of more direct forms of state intervention. Interestingly, the number of candidates is highly negatively correlated with the winning margin, and positively correlated with voter turnout for the commune-level 2015 elections (see Figure 5). Thus, while we believe the effective number of parties (and candidates) acts as a proxy for capture costs of firms, it also represents an indirect measure of electoral competition, and thus electoral uncertainty. In short, for the identification of the effect of contract type we will rely on cross-municipal competition variation triggered by quasi-exogenous shocks in electoral competition. Specifically, we estimate an OLS specification at the electoral district level, for commune level-elections on the effect of the electoral reform as a quasi-exogenous shock to electoral uncertainty on firms' strategic capture of government in the current 2019 elections:

$$y_d = \alpha + \gamma_d + \beta \text{Electoral Reform}_d + \Phi \mathbf{X}_d + \Theta \mathbf{W}_i + s_d \qquad (2)$$

where y_d is either a dummy of any of the demands pushed by firms on politicians, including: demanding a refund of resources; demanding policy and programme modification during the campaign; demanding support for future candidates close to firms; demanding control over the local budget line; demanding control over public procurement; demanding patronage both for close family members and friends or members from the firm; and taking control of bureaucratic recruitment control in a district d; Electoral Reform$_d$ is a dummy that takes a value of 1 if a commune-level electoral district had more than 2.5 effective number of parties, as measured by a Molinar Index for the 2015 commune-level elections, and 0 otherwise[7]; $\mathbf{X}_d$ is a vector of commune-level control variables;[8] $\mathbf{W}_i$ is a vector of politician-level characteristics, listed in Table 8, including age, education, title, former occupation, political experience, a dummy to account for party switch and reasons for such a switch, and electoral political experience as candidates in different types of elections; we also include the district fixed effect, γ_d, to account for any district-level time-invariant heterogeneity. We are thus working with between-electoral

[7] The results do not change if we modify the threshold for the effective number of parties up to three or down to two. The results are robust to using Laasko-Taagepera effective number of parties.
[8] GDP, poverty, and 2015 electoral measures, including winning margin, and Herfindhal-Hirschman Index of party vote share concentration.

district variation in firms' government capture, controlling for a range of district- and politician-level characteristics. Hence, our estimates account for the change in firms' strategies in districts that experienced less electoral uncertainty than the electoral districts mean. We report robust standard errors throughout, clustered at the electoral district level, as done with equation (1) [9].

For both equation (1) and (2) we construct a firm capture index with all available demands made by firms in their contractual arrangements with politicians. The index ranges from 0 to 6, with 6 being the highest degree of capture. In particular, capture demands are categorised in the following way: financial refunds get a value of 0; policies and programme changes a value of 1; support for future candidates close to firms' interests a value of 2; control of a budget line a value of 3; public procurement a value of 4; patronage 5; and, lastly, bureaucratic recruitment control a value of 6. We believe this ordering fits well the notion of increasing capture in firms' actions as depicted in the Beninese study case.

Our identifying assumption with this approach is that electoral uncertainty variation occurs due to a quasi-exogenous shock conditionally independent from future firms' capture demands. Our controls tease out district-level dynamics, especially pre-treatment competition levels. One concern, however, is that this approach could simply pick enduring cross-sectional within-electoral district differences, correlated both with electoral uncertainty and firms' demands. To rule this out we include a set of regressions controlling for firms' demands in the 2015 election, and identify whether pre-treatment demand differences between control and treatment districts are non-existent.[10] Furthermore, we show that sampled politicians in treatment and control districts do not have statistically different characteristics, as noted by Table 8[11]. This gives high confidence regarding avoiding sample selection bias, as well as treatment and control similarity. Lastly, as done with the estimation of equation (1), we use MPs' elections as a placebo test.

3.1 Descriptive statistics on campaign funding

In this section, we provide a short description of the data, based on the preliminary descriptive statistics related to the central tendency of key variables of the study. This is followed by a short discussion. At a first glance at the data we notice that businessmen invested, on aggregate, a total of CFA franc 7,567,560,000 ($13,080,443.46) in the recent electoral campaigns as financial support to politicians, according to the 189 who responded to this question. On average, the former invested, all elections combined, an amount of CFA franc 40,040,000 ($69,252.750) in the campaigns of a candidate. Considering the type of elections and the location, the financial package is about CFA franc 10,900,000 ($18,838.524) and CFA franc 47,600,000 ($82,288.818) for municipal elections, respectively, in rural and urban areas. These figures are higher according to the importance of elections. For instance, CFA franc 37,300,000 ($64,470.847) and CFA franc 67,600,000 ($116,842.61) are invested in legislative campaigns of a candidate, respectively, in rural and urban locations.

While political parties' charters predict CFA franc 1,500,000 ($2,592.661) and CFA franc 30,000,000 ($51,853.789) for municipal and legislative campaigns, out of the 27% of those who really know these amounts, 34% find it insufficient for the corresponding elections, including those who ran or will run for commune and legislative elections. Note, however, in

[9] We believe this to be a conservative approach. If we simply use robust standard errors all results become somewhat stronger statistically.
[10] Results available upon request.
[11] Only three indicators are statistically different (all related to education degrees), something expected with a 10% significance level over 27 indicators.

Figure 2 that those that believe politicians have a “reasonable amount of funding” or “more than needed” highly surpass the campaign costs from those that believe funds are insufficient.

Actually, as noted in Figure 3, we see that those who believe that “campaign funds are reasonable or more than needed” believe that campaign costs should be decreased substantially, especially in commune-level elections. Subsequently, on average, they reported CFA franc 115,000,000 ($198,772.858) and CFA franc 163,000,000 ($281,691.912) as the amount necessary for legislatives in rural and urban constituencies, respectively.

Furthermore, business monetary involvement in electoral campaigns is substantial. Figure 4 shows a striking result: for commune-level elections, firms account for 54.3% of the total campaign costs on average. More impressive is the fact that 15.7% get funding from businesses that surpass the total campaign costs, sometimes holding budgets up to three to four times more than needed. These results are even greater for legislative-level elections, with firms accounting for 76.3% of total campaign costs.[12] In other words, as we move up the federalist ladder in Benin we notice more business intervention in monetary terms.

[12] In the case of legislative elections, 28.2% get funding from firms that surpasses their total campaign costs.

4 Results

The former evidence points to the high intervention of businessmen in elections at different levels. However, the actual proportion of politicians affiliated with firms suffers from social desirability bias and thus politicians might not truthfully answer sensitive questions, creating a measurement challenge. Moreover, given the complexity of businessmen's interest it is difficult to capture such dynamics either observationally or through surveys.

A way to address such challenges is the use of a list experiment. As noted by Blair and Imai (2012) and a large range of studies (Jamison *et al*., 2013; Kuklinski *et al*., 1997; Kane *et al*. 2004; Gonzalez-Ocanto *et al*., 2010; Biemer *et al*., 2005) this methodology protects respondents' confidentiality, allowing them to reveal sensitive information. The underlying mechanism in a list experiment is to compare two groups: a treatment and a control group. The control group is asked to report the number of non-sensitive items called a short list, while the treatment group is asked to report the number on that same short list plus an additional sensitive item. The average response for each group is estimated and differenced out. The difference in means represents the proportion of the population for whom the sensitive item applies. Design effects are tested, as well as ceiling and floor effects, to validate the list experiment estimate[13].

Specifically, the list experiment question tested to measure politicians' affiliation to business interests was the following:

How many of the following five individuals or groups do you consider yourself politically affiliated with? Please indicate HOW MANY in total: I don't want to know which ones, only how many of them. [ENUMERATOR: READ CHOICES AND SHOW THEM ON A PIECE OF PAPER]

The list of answers that the control groups received included:

- the mayor of this commune;
- a member of the communal council;
- the prefect of this department;
- the MP; and
- the President/President's political party.

The list that the treatment group received included the following sensitive item (in the sixth position on the list):

- national or local businessman/firm/business group.

In order to separate respondents into the treatment and control group we used their birthday months. Those born in January, March, May, July, September, and November were assigned to the control group, while those born in February, April, June, August, October, and December made up the treatment group.

Table 2 shows the balance between the treatment and control group of the list experiment across a wide range of covariates on politician characteristics. Out of 38 covariates we notice significant difference in 4, giving us confidence regarding the balance to the 10% level.

[13] Results in appendix.

Table 3 shows the results of the list experiment by running a t-test comparing the treatment and control means on politicians' affiliation with firms' interests. The difference shows a prevalence of firms' interests of 48.1%, a difference significant to the 1% level. In other words, almost half of politicians and political brokers in Benin are affiliated with either local or national business interests.

If we distinguish by election type, we notice that business affiliation is higher in commune-municipal elections, with a proportion of 83%, significant to the 1% level. Legislative elections show a lower proportion, of 45.6%, with a significance barely reaching the 10%. In other words, as we move up the administrative ladder, we notice a decrease in business intervention. A plausible explanation to explore in the future is that business interference might be higher at lower administrative levels due to national government lack of monitoring and state capacity.

It is important to compare these results with those shown in Table 4. This table presents a list of different sources of funding provided to politicians for commune and legislative elections. Numbers represent the percentage of funds coming from a particular source. Related to business interests we note that firms, local and national, account for 16% of total funding at the commune level and 17% for legislative elections. Both estimates contrast significantly with the results of the list experiment, showing the effect of social desirability bias.[14]

4.1 Contracts between firms and politicians

A wide variety of types of funding types characterise the contract between firms and politicians in Benin. As noted in Table 4, firms hold a wide range of resources available for politicians. Besides the primacy of financial instruments and non-pecuniary goods and services provided by firms, politicians utilise advisers and labour to support their political campaigns. A large proportion of politicians (45% for commune elections and 46% for legislative ones) also utilise space provided by firms for their political campaigns.

Most interestingly, the results show that public procurement arrangements have a prevalence in firms-politicians contracts of 71%, followed by policies commitment narrowed down to businessmen's interests with a proportion of 46%. In third place comes the appointment to public positions of businessmen's relatives or people they suggest. Depending on the type of elections, this appointment could be in the local administration as an office head or as a member of the central government (ministry, cabinet chiefs, etc.), with a proportion of 39%. These are the most preferred means for businessmen to recover what they have invested in candidates' electoral campaigns and to ensure their control over the implementation of policies. In other words, these numbers should be considered the country's baseline actions by firms.

According to the respondents, businessmen prefer public procurement overall, because of the direct cash flows it generates. Interestingly, they place it in first place because it is also a means for incumbents to make money as they find a way to keep a minimum of 10% of the total amount for themselves, in agreement with the businessmen. It is worth emphasising that the amounts of these public procurements are sometime tenfold greater or even more than the money invested by the businessmen, and it may happen that they execute more than three to five projects during their tenure.

[14] While we only run a list experiment in regard to politicians' affiliation with firms and find biased results, we do not do so with other survey questions. While social desirability bias might be a concern in such settings there are two important takeaways: first, all estimates on survey questions may downwardly bias the actual existence of firms' direct capture preferences, a problem that does not affect identification as much as the total effect; second, even in the case of a setting with strong political transparency from politicians to surveyors, social desirability bias is an important feature for which estimates must be adjusted.

A good illustration of procurement and how effective it is for both actors is the recent scandal involving the building of a new national assembly in Benin: between two offers, one from a Chinese company that is accredited and well recognised for its insight and expertise in the domain, with a value of CFA franc 14,000,000,000 ($24,194,397.328), and another one from a national company affiliated with government officials, with a value of CFA franc 18,000,000,000 ($31,107,082.278), the government attributed the procurement to the latter, representing an over-spend of CFA franc 4,000,000,000 ($6,914,643.019), which is twice the amount invested by the businessman to support the presidency of the Beninese former President Yayi Boni. Interestingly, this represents tenfold the money (CFA franc 400,000,000, so $691,464.302) the same businessman invested to support the legislative campaigns of a candidate. From these examples it appears clear why businessmen prefer public procurement over the narrow implementation of policies and the appointment of relatives, which might take a bit longer to yield the expected results.

4.2 Contracts between politicians and voters

On the contracts between politicians and voters, politicians apply a wide range of strategies to increase public support. As Table 4 shows, a large proportion of politicians and political brokers use non-programmatic strategies: half of politicians in commune-level elections utilise vote-buying attempts, while 38% rely on promising political appointments, and 24% use non-conditional transfers to citizens. For legislative elections these numbers increase to 53% for vote-buying attempts, 42% for political appointment promises, and 38% for non-conditional transfers. In the context of Benin, the use of ethnic strategies surges as an important strategy for promoting voter support. Ethnic strategies mostly target promoting policies that benefit the in-group instead of the out-group.

4.3 Political uncertainty and firms’ strategic decision-making

If it happens that incumbents do not comply with the deal they have made with businessmen, the latter may finance riots against the former. Sometimes aided by state institutions, firms’ actions affect politicians’ political careers by either causing them to lose future elections or reducing their winning margin. The most noted strategy utilised by businessmen if politicians do not comply with what was specified in the contract is to support challengers who allow for more concessions than the previous politicians, increasing firms’ state capture. In this regard, when the number of candidates increases, businessmen support all potential candidates to avoid wasting money, and to ensure the sustainability of their particular interest.

With more challengers, businessmen’s preferred state capture strategy order changes: modification of incumbents’ platform commitments to align with businessmen’s interests during the electoral campaign, with a proportion of 68%, ranks first, instead of public procurement, which comes in the second place, with a proportion of 67%, followed by the promotion of political careers of the relatives of businessmen, with a proportion of 64%. It is also important to emphasise that from a proportion of 17%, influence and control over recruitment in all public sectors related to the economy increases to 51%, one of the strongest strategies, if not the strongest, of state capture at the local and national level.

Table 6 tests the change in the use of capture strategies of firms for commune/municipal elections. The table reports a t-test on the difference in means between the strategies used under a high electoral competition setting, as proxied by a hypothetical increase in the number of candidates contending (the treatment group), to the strategies used under a low electoral competition scenario with few candidates contending for office (the control group). While results should be interpreted only as simple correlations, they show interesting dynamics. As noted before, procurement increases dramatically, with an increase of 10.9% significant to the 1% level, while other forms of lower capture value decrease, particularly the demand for political programme changes, which falls 7.7%, significant to the 1% level. While non-significant, we see a positive increase in all those strategies involving high degrees of state capture, including patronage (increase of 16%), bureaucratic recruitment (10%), and the demand to control the budget line (0.6%). We also note an overall decrease in all the strategies associated with low degrees of state capture or with a null effect on state capture, with a decrease in policy demands (-2.3%), demanding support for a candidate supported by the firm in the future (-1.6%), or asking for a refund on what was invested in the politician (-2.9%).

We construct an index of firms' state capture ranking strategies in the following order, from the weakest to the strongest form of state capture: refund=0; policy and programme change demands=1; support to firms' candidates in the future=2; control over the budget line=3; public procurement demands=4; patronage=5; and, lastly, control of the bureaucratic recruitment process=6. While non-significant, the results show that under a hypothetical high competition setting the firms' capture index is higher than in low competition ones.

Thus, in short, the higher the electoral uncertainty, the stronger and more enforceable are the forms of commitment businessmen prefer. Interestingly, in the absence of a good candidate to fund, respondents say that businessmen are more likely to run for elections themselves. In this respect, about 60% of respondents say that businessmen involvement has become a phenomenon in recent years; most of them run directly for elections.

A good example of the change in frequencies in firms capture preferences is the relationship between the former Beninese President Yayi Boni and the current President Patrice Talon, the richest businessman in the country. According to a respondent very close to the former, the latter used to finance politicians' electoral campaigns, from presidents to local mayors. After supporting both the 2006 and 2011 Yayi presidential campaigns, Talon negotiated the biggest public procurement in Benin's history. Thereafter, Yayi decided to end the collaboration, presumably due to the power imbalance that the procurement granted Talon. What followed was a clash between both actors, leading to a highly uncertain political environment. As a result, Talon firstly financed the campaign of the national assembly president, the second personality after the president. However, it seems that, given his experience with President Yayi and given the highly uncertain competitive electoral environment, Talon decided to run for president himself. He won the election on 6 April 2016.

Table 7 introduced the estimates of equation 1, i.e. the effect of electoral competition measured by winning margins on firms' preference for direct capture for both municipal- and legislative-level elections. The first column shows that when the winning margin increases – that is, when electoral competition decreases by one standard deviation – firms decrease their preference for more direct forms of state capture by -0.1684 standard deviations, a result that is significant to the 1% level. Contrast this to the placebo test shown in the second column: winning margins hold a positive and non-significant effect for MPs. As noted before, MPs do not have a say on national or local-level bureaucracy and thus would have no effect on firms' strategies to mitigate electoral uncertainty. In this regard, Figure 6 provides an example of the asymmetric relationship between winning margins and firms' capture index by election type, with a negative relationship for municipal-/commune-level elections and a positive one for legislative-level ones.

Moving forward, Table 8 presents the estimates of equation (2), i.e. the effect of the electoral reform that collapsed the party system into a two-party block competition, decreasing electoral risk of firms' strategic decision-making to capture government. Results are expressed in standardised beta coefficients. As seen in the last column, the effect of a decrease in electoral uncertainty decreases the firm capture index by -0.259 standard deviations, significant to the 1% level. This result is robust to the inclusion of district and politician characteristics, and district fixed effects. If we dissect the index, we notice that demands characterised by high degrees of capture are decreasing, especially patronage for family members, friends (-0.4374), and members from the firm (-0.4365), and bureaucratic recruitment control. Meanwhile, less direct forms of capture increase or have negligible and non-significant effects, including refunds, support for candidates in the future that are supported by the firm, or demands for public goods procurement. Note, for instance, that there is actually a positive effect on budget line demand. Policies and programme modifications are negative and significant, showing that in settings of low electoral risk firms also decrease the use of such demands towards politicians.

Table 10 moves forward to test the effect of the decrease of electoral uncertainty due to the introduction of the electoral reform on the use of non-programmatic politics and other actions by politicians at the district and commune level. We notice two important results. On the one hand, in a more certain setting, politicians increase the use of non-conditional transfers to voters by 0.7186 standard deviations, with the result significant to the 1% level, and they decrease the use of other types of expenses, including pork-barrel and non-visible expenses, such as expenditure on water and sewage infrastructure. In other words, as backed substantively by the clientelism literature, under conditions of certainty politicians rely heavily on non-programmatic politics and use non-conditional transfers to attempt to increase citizen electoral support.

On the other hand, and most important for this chapter, politicians under situations of low electoral risk increase dramatically their transfers to firms, an increase of 0.4834 standard deviations, significant to the 1% level. This result goes hand in hand with the previous results: as electoral certainty rises, firms under-use high demands of government capture, in part due to an increase in politicians' transfers.

5 Discussion and conclusion

A wide literature has shown the pernicious effects of business interests in institutional and democratic development. However, there has been little study of the underlying mechanisms by which firms deter democracy, especially in the context of weak states. This chapter provides evidence on the relationship between business interests and clientelistic contracts, and by doing so brings together two seemingly unrelated literatures: interest groups and state capture and clientelism. By doing so it provides, for the case of Benin, concrete evidence on the demand set applied by firms to politicians in exchange for firms' support for electoral campaigns. More importantly, we show that more than half of Benin's politicians are politically affiliated with firms, and that such affiliation affects the underlying base structure within which clientelist contracts with citizens take place.

We provide evidence that firms' strategic interactions with politicians change as electoral uncertainty changes. In particular, in the most striking result of this chapter, we show that as electoral uncertainty decreases firms rely less heavily on more direct forms of government capture, including patronage or the control of local bureaucratic recruitment processes. In positive terms, paradoxically, this implies that democratic consolidation, which thrives with electoral uncertainty, is undermined by business interests.

Tables

Table 1: Descriptive statistics, politicians' characteristics

	Mean	SD	Min	Max	N
Politician's socio-demographics					
Title: politician (=1) or broker (=0)	0.82	0.38	0	1	311
Deputy	0.05	0.23	0	1	311
Minister	0.00	0.06	0	1	311
Mayor	0.05	0.22	0	1	311
Municipal council member	0.32	0.47	0	1	311
Cabinet director	0.01	0.11	0	1	311
Other	0.55	0.50	0	1	311
Age	47.66	11.02	24	73	311
Years living in region	37.61	17.23	0	73	311
No education	0.02	0.13	0	1	311
Elementary	0.03	0.18	0	1	311
College 1st cycle	0.12	0.32	0	1	311
College 2nd cycle	0.14	0.35	0	1	311
University 1st cycle	0.16	0.37	0	1	311
University 2nd cycle	0.29	0.45	0	1	311
Graduate	0.24	0.43	0	1	311
Politician's political participation					
Member political party	0.97	0.17	0	1	311
Participated in elections as candidate	0.72	0.45	0	1	311
Participated in commune-level elections	0.87	0.33	0	1	223
Participated in legislative-level elections	0.37	0.48	0	1	223
Participated in presidential-level elections	0.01	0.12	0	1	223
Num. participations in commune elections	1.48	0.85	0	3	223
Num. participations in legislative elections	0.59	0.94	0	5	223
Num. participations in presidential elections	0.02	0.28	0	4	223
Party switch	0.52	0.88	0	2	302
Party switch 2	0.72	0.96	0	2	223
Ideology reason	0.49	0.50	0	1	222
Poor project definition	0.32	0.47	0	1	222
Personal interest	0.50	0.50	0	1	222
Opposition to movement	0.55	0.50	0	1	222
Movement towards opposition	0.15	0.36	0	1	222
Running for next elections (2019)	0.69	0.46	0	1	311
Running for commune elections (2019)	0.71	0.46	0	1	215
Running for legislative elections (2019)	0.45	0.50	0	1	215
Running for presidential elections (2019)	0.01	0.10	0	1	215
First-time runner	0.27	0.44	0	1	215
Hold political position	0.76	0.43	0	1	311
Hold private position	0.36	0.48	0	1	311

Table 2: Balance table, list experiment on politicians' affiliation with firms

	Mean control	Mean treatment	Diff	Diff. S.E.	p
Title: politician (=1) or broker (=0)	0.836	0.796	0.040	0.047	0.395
Deputy	0.047	0.071	-0.024	0.028	0.379
Minister	0.005	0.000	0.005	0.007	0.498
Mayor	0.066	0.020	0.045	0.027	0.093
Municipal council member	0.333	0.306	0.027	0.057	0.635
Cabinet director	0.005	0.031	-0.026	0.014	0.060
Other	0.545	0.571	-0.027	0.061	0.660
Age	49.286	44.122	5.164	1.314	0.000
Years living in region	38.756	35.122	3.633	2.096	0.084
No education	0.019	0.010	0.009	0.015	0.578
Elementary	0.038	0.020	0.017	0.022	0.427
College 1st cycle	0.150	0.041	0.109	0.039	0.005
College 2nd cycle	0.155	0.122	0.032	0.043	0.451
University 1st cycle	0.169	0.153	0.016	0.045	0.725
University 2nd cycle	0.254	0.367	-0.114	0.055	0.040
Graduate	0.216	0.286	-0.070	0.052	0.181
Member of political party	0.967	0.980	-0.012	0.021	0.544
Participated in elections as candidate	0.751	0.643	0.108	0.055	0.049
Participated in commune-level elections	0.881	0.857	0.024	0.049	0.627
Participated in legislative-level elections	0.362	0.397	-0.034	0.072	0.635
Participated in presidential-level elections	0.013	0.016	-0.003	0.017	0.845
Num. of participations in commune elections	1.500	1.429	0.071	0.127	0.575
Num. of participations in legislative elections	0.562	0.651	-0.088	0.141	0.531
Num. of participations in presidential elections	0.006	0.063	-0.057	0.041	0.163
Party switch	0.476	0.625	-0.149	0.109	0.170
Party switch 2	0.739	0.667	0.072	0.141	0.610
Ideology reason	0.439	0.595	-0.155	0.071	0.029
Poor project definition	0.291	0.365	-0.074	0.066	0.263
Personal interest	0.534	0.432	0.101	0.071	0.156
Opposition to movement	0.568	0.514	0.054	0.071	0.448
Movement towards opposition	0.149	0.149	0.000	0.051	1.000
Running for next elections (2019)	1.319	1.286	0.034	0.057	0.554
Running for commune elections (2019)	0.724	0.671	0.053	0.066	0.429
Running for legislative elections (2019)	0.414	0.514	-0.100	0.072	0.166

Running for presidential elections (2019)	0.000	0.029	-0.029	0.014	0.041
First-time runner	0.255	0.300	-0.045	0.065	0.490
Hold political position	0.779	0.724	0.055	0.052	0.293
Hold private position	0.352	0.388	-0.036	0.059	0.545

Table 3: List experiment: Politicians' affiliation with local and national business interests

	Mean control	Mean treatment	Diff	Diff. S.E.	p
Affiliation with firm/business interest	3.540	4.020	-0.481	0.167	0.004
Commune/municipal elections: Affiliation with firm/business interest	3.576	4.406	-0.830	0.275	0.003
Legislative elections: Affiliation with firm/business interest	3.683	4.139	-0.456	0.281	0.109

Table 4: Clientelist contracts – descriptive statistics

	Mean	SD	Min	Max	N
Firm–politician contract					
Sources of funding: Commune level					
National funding	0.01	0.04	0	0	117
Department funding	0.00	0.02	0	0	117
Party/party coalition funding	0.31	0.26	0	1	117
President/president's party funding	0.21	0.27	0	1	117
Local firms funding	0.10	0.11	0	0	117
National firms funding	0.06	0.10	0	0	117
Local politicians funding	0.05	0.12	0	1	117
Local/national unions funding	0.01	0.02	0	0	117
Percentage coming from others	0.39	0.26	0	1	75
Sources of funding: Legislative level					
National funding	0.04	0.12	0	1	96
Department funding	0.00	0.01	0	0	96
Party/party coalition funding	0.31	0.24	0	1	96
President/president's party funding	0.20	0.20	0	1	96
Local firms funding	0.09	0.11	0	1	96
National firms funding	0.08	0.10	0	0	96
Local politicians funding	0.03	0.06	0	0	96
Local/national unions funding	0.00	0.02	0	0	96
Percentage coming from others	0.38	0.27	0	1	63
Types of funding: Commune level					
Financial instruments	0.78	0.42	0	1	117
Goods/non-financial services	0.56	0.50	0	1	117
Economic/political advisers	0.23	0.42	0	1	117
Labour for campaign	0.35	0.48	0	1	117
Provision of space	0.45	0.50	0	1	117

Support for advertisement	0.49	0.50	0	1	117
Other forms of financing	0.02	0.13	0	1	117
Types of funding: Legislative level					
Financial instruments	0.82	0.38	0	1	96
Goods/non-financial services	0.65	0.48	0	1	96
Economic/political advisers	0.25	0.44	0	1	96
Labour for campaign	0.48	0.50	0	1	96
Provision of space	0.46	0.50	0	1	96
Support for advertisement	0.44	0.50	0	1	96
Other forms of financing	0.02	0.14	0	1	96
Firm–politician contract					
Payback time: Commune level (=1 after election, 0=before)					
Policies	0.71	0.46	0	1	49
Public procurement	0.63	0.49	0	1	91
Patronage	0.55	0.50	0	1	47
Patronage from firm	0.33	0.48	0	1	45
Support future candidate	0.47	0.51	0	1	17
Programme modification	0.50	0.52	0	1	12
Refund	1.00	0.00	1	1	3
Recruitment control	0.26	0.45	0	1	19
Budget line	0.40	0.55	0	1	5
Payback time: Legislative level (=1 after election, 0=before)					
Policies	0.79	0.42	0	1	42
Public procurement	0.68	0.47	0	1	73
Patronage	0.62	0.49	0	1	37
Patronage from firm	0.47	0.51	0	1	40
Support future candidate	0.58	0.51	0	1	19
Programme modification	1.00	0.00	1	1	8
Refund	0.33	0.52	0	1	6
Recruitment control	0.33	0.49	0	1	12
Budget line	0.50	0.55	0	1	6
Politician–voter contract					
Commune level					
Mass com. policy and agenda	0.95	0.22	0	1	117
Political appointments	0.38	0.49	0	1	117
Vote-buying attempt	0.50	0.50	0	1	117
Non-conditional transfer (NCT)	0.24	0.43	0	1	117
Ethnic strategy	0.44	0.50	0	1	117
Legislative level					
Mass com. policy and agenda	0.90	0.31	0	1	96
Political appointments	0.42	0.50	0	1	96
Vote-buying attempt	0.53	0.50	0	1	96
Non-conditional transfer (NCT)	0.38	0.49	0	1	96
Ethnic strategy	0.40	0.49	0	1	96

Table 5: Electoral competition (uncertainty) and firms' strategies (capture) in local elections in Benin

	Mean treatment	Mean control	Diff	Diff. S.E.	p
Demand policies	0.466	0.489	-0.023	0.040	0.575
Procurement	0.714	0.605	0.109	0.038	0.004
Patronage (from and not from firm)	0.386	0.370	0.016	0.039	0.680
Patronage (from firm)	0.392	0.379	0.013	0.039	0.742
Support candidate (future)	0.161	0.177	-0.016	0.030	0.593
Change in pol. programme	0.087	0.164	-0.077	0.026	0.004
Refund	0.042	0.071	-0.029	0.018	0.118
Bureaucracy recruitment control	0.177	0.167	0.010	0.030	0.750
Demand budget line	0.064	0.058	0.006	0.019	0.738
Firm capture index	4.450	4.318	0.132	0.117	0.258
Firm capture index (standardised)	0.045	-0.046	0.091	0.081	0.258

Table 6: Effect of electoral competition (winning margin) on firms' preference for direct capture, beta coefficients

Dependent variable: firm capture index		
	Municipal level	Legislative level
Winning margin	-0.1684***	0.0535
	(0.0801)	(0.0736)
Observations	117	96
R-squared	0.480	0.370
Controls[b]	✓	✓
Commune FE	✓	✓

Notes: Standard errors in parentheses are clustered at the commune level; significance-level: *** 0.1%; ** 1%; * 5%; and + 10%, refers to two-sided t-tests. Outcome measured in standardised terms. a Outcomes with 0.000 imply a very small number; we preferred not to introduce scientific numbers and left this as is. b Electoral district-level covariates include: GDP, inequality, and 2015 electoral measures, including winning margin, and Herfindhal-Hirschman Index of party vote share concentration; politician characteristics controls include: indicator levels of education levels by politician.

Table 7: Effect of electoral reform (uncertainty decrease) on firms' strategic decision-making, beta coefficients

Dependent variable:					
	Refund	Policies	Programme change	Support candidate	Budget line
Electoral reform (decrease uncertainty)	-0.0000	-0.6481***	-1.0992***	0.0000	0.4829***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Observations	117	117	117	117	117
R-squared	0.327	0.544	0.466	0.415	0.739
Controls[b]	✓	✓	✓	✓	✓
Commune FE	✓	✓	✓	✓	✓
	Procurement	Patronage	Firm patronage	Recruitment control	Firm capture index
Electoral reform (decrease uncertainty)	-0.0000	-0.4374***	-0.4365***	-0.6061***	-0.2595***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Observations	117	117	117	117	117
R-squared	0.508	0.402	0.494	0.506	0.391
Controls[b]	✓	✓	✓	✓	✓
Commune FE	✓	✓	✓	✓	✓

Notes: Standard errors in parentheses are clustered at the commune level; significance-level: *** 0.1%; ** 1%; * 5%; and + 10%, refers to two-sided t-tests. Outcome measured in standardised terms. a Outcomes with 0.000 imply a very small number; we preferred not to introduce scientific numbers and left this as is. b Electoral district-level covariates include: GDP, inequality, and 2015 electoral measures, including winning margin and Herfindhal-Hirschman Index of party vote share concentration; politician characteristics controls include: indicator levels of education levels by politician.

Table 8: Balance table, politicians' characteristics in communes affected and not affected by electoral reform

	Mean control	Mean treatment	Diff	Diff. S.E.	p
Title: politician (=1) or broker (=0)	0.893	0.787	0.106	0.085	0.212
Mayor	0.036	0.045	-0.009	0.044	0.835
Age	46.500	45.854	0.646	2.313	0.780
Years living in region	39.429	39.933	-0.504	3.125	0.872
No education	0.107	0.011	0.096	0.039	0.015
Elementary	0.071	0.000	0.071	0.028	0.011
College 1st cycle	0.286	0.146	0.140	0.083	0.095
College 2nd cycle	0.143	0.202	-0.059	0.085	0.487
University 1st cycle	0.107	0.258	-0.151	0.090	0.095
University 2nd cycle	0.250	0.258	-0.008	0.095	0.930
Graduate	0.036	0.124	-0.088	0.066	0.184
Member of political party	1.000	0.966	0.034	0.034	0.329
Participated in elections as candidate	0.786	0.764	0.022	0.092	0.814

Participated in commune-level elections	0.955	0.956	-0.001	0.051	0.979
Participated in legislative-level elections	0.136	0.147	-0.011	0.087	0.903
Num. of participations in commune elections	1.455	1.662	-0.207	0.193	0.287
Num. of participations in legislative elections	0.182	0.147	0.035	0.097	0.721
Party switch	0.429	0.651	-0.223	0.200	0.268
Party switch 2	0.545	0.552	-0.006	0.226	0.978
Ideology reason	0.364	0.557	-0.194	0.122	0.116
Poor project definition	0.227	0.343	-0.116	0.114	0.314
Personal interest	0.318	0.457	-0.139	0.121	0.255
Opposition to movement	0.773	0.614	0.158	0.117	0.177
Movement towards opposition	0.000	0.086	-0.086	0.060	0.159
First-time runner	0.214	0.247	-0.033	0.093	0.725
Hold political position	0.679	0.730	-0.052	0.098	0.599
Hold private position	0.321	0.337	-0.016	0.103	0.880

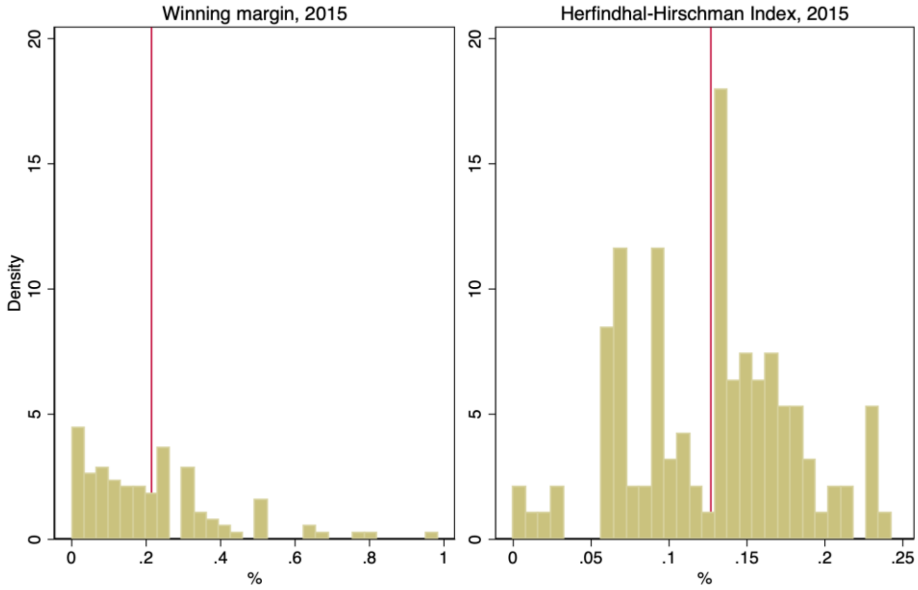
Table 9: Effect of electoral reform (uncertainty decrease) on use of non-programmatic politics and transfers to business interests, beta coefficients

Dependent variable:				
	Non-conditional transfers	**Pork-barrel expenses**	**Pro-business transfers**	**Non-visible expenses**
Electoral reform (decrease uncertainty)	0.7186***	-0.7240***	0.4834***	-0.1202***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Observations	117	117	117	117
R-squared	0.399	0.446	0.422	0.509
Controls[b]	✓	✓	✓	✓
Commune FE	✓	✓	✓	✓

Notes: Standard errors in parentheses are clustered at the commune level; significance-level: *** 0.1%; ** 1%; * 5%; and + 10%, refers to two-sided t-tests. Outcome measured in standardised terms. [a] Outcomes with 0.000 imply a very small number; we preferred not to introduce scientific numbers and left this as is. [b] Electoral district-level covariates include: GDP, inequality, and 2015 electoral measures including winning margin and Herfindhal-Hirschman Index of party vote share concentration; politician characteristics controls include: indicator levels of education levels by politician.

Figures

Figure 1: Electoral competition in Benin, commune elections 2015



Note: Red line = mean.

Figure 2: Campaign cost by type of election and evaluation of funds

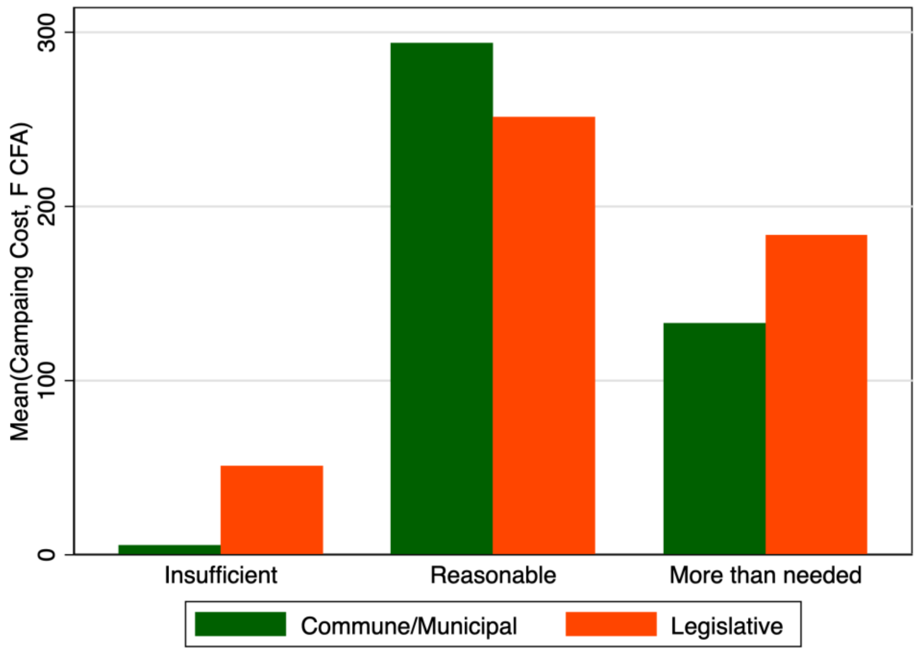


Figure 3: Ideal vs real campaign costs, by election type and evaluation of funds

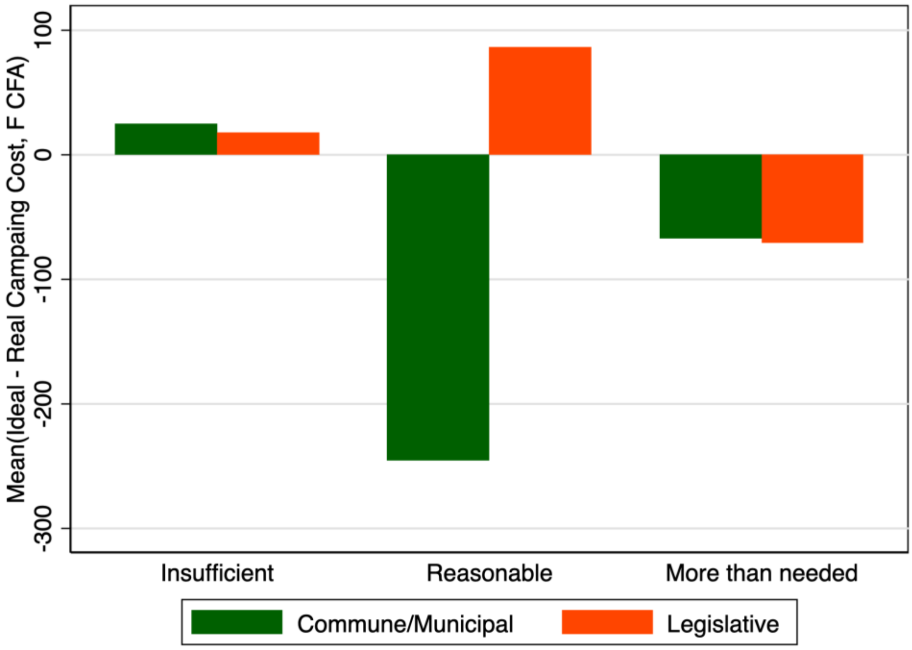
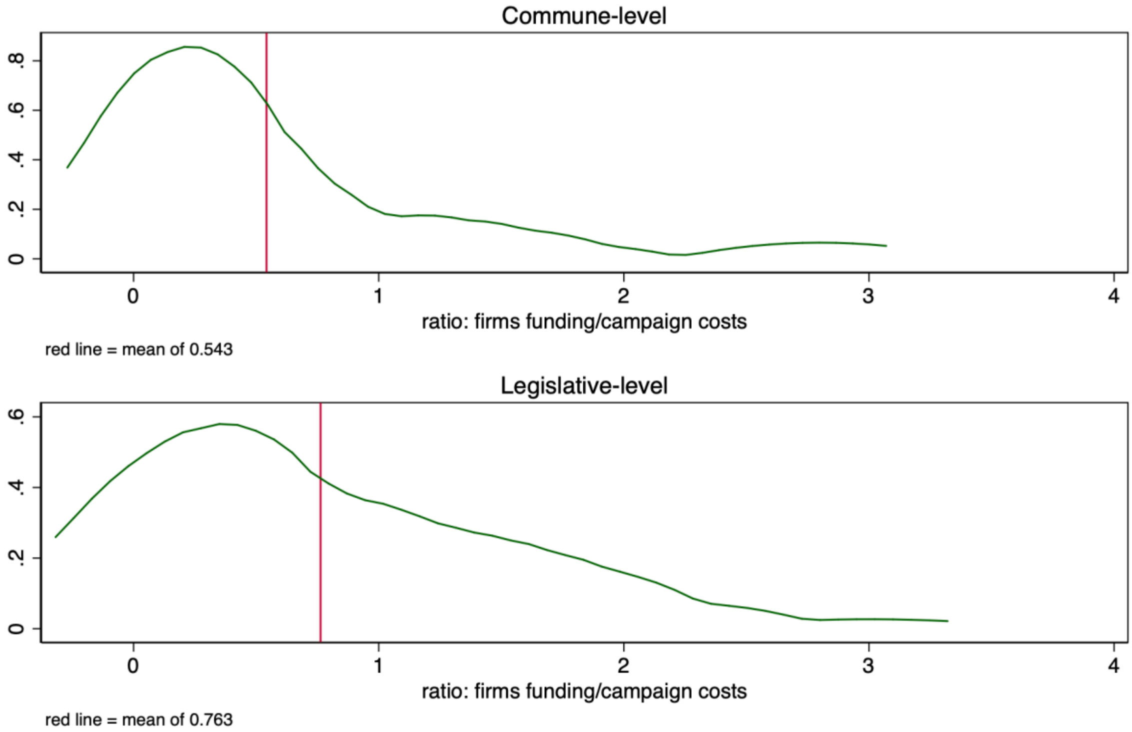


Figure 4: Ratio of firms' funding to campaign costs by type of election



Note: Firms' funding includes national and local funding.

Figure 5: Effective number of parties and electoral competition in 2015

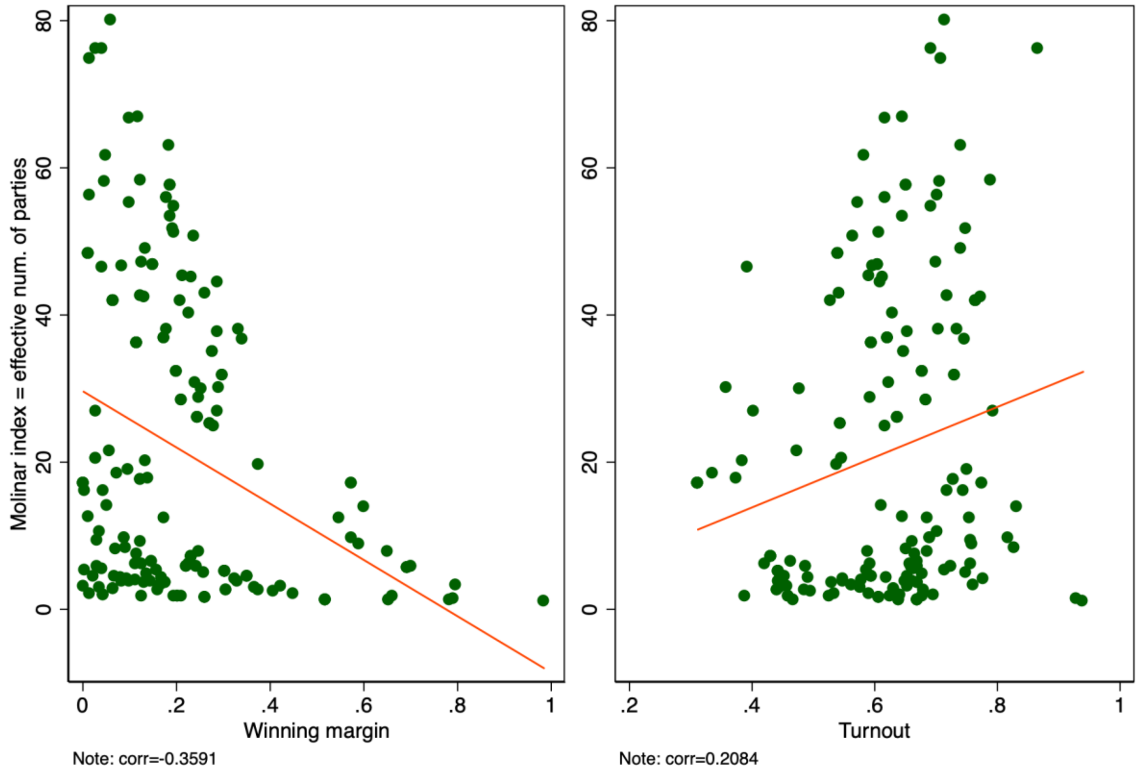
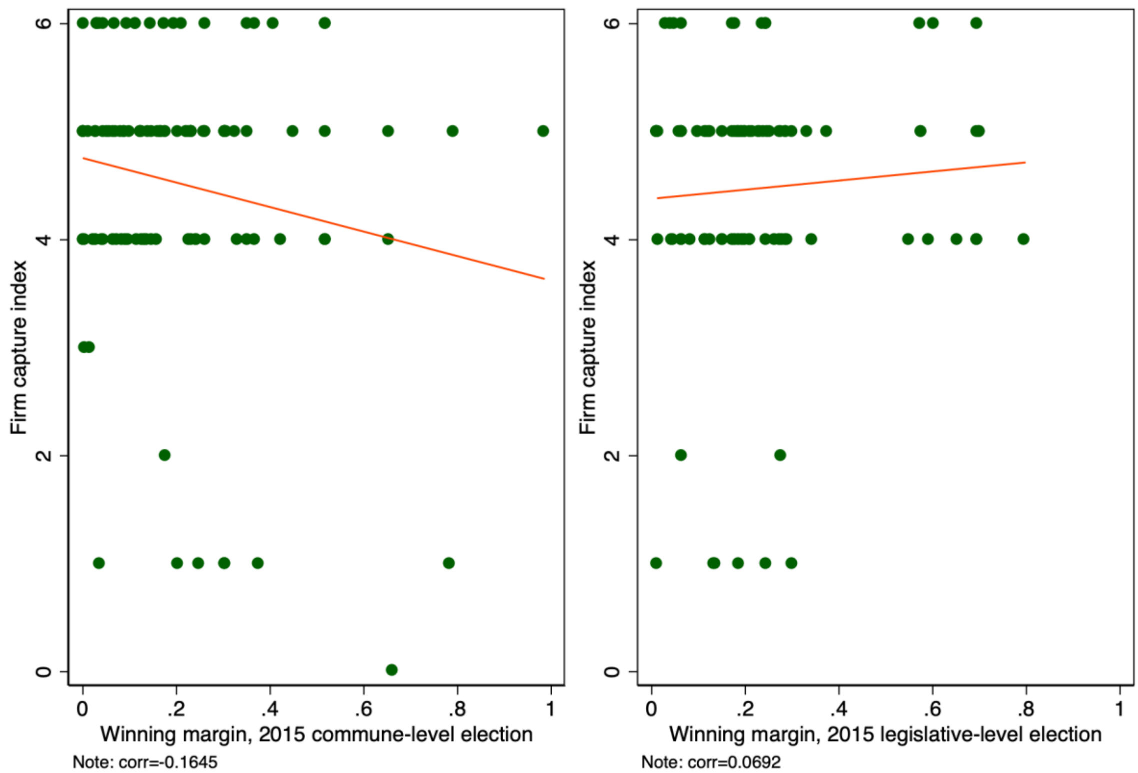


Figure 6: Electoral competition and firms' preference for direct capture, by election type



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Discussion of 'Campaign finance and state capture'

'Campaign finance and state capture' provides a new perspective on topics that are at the heart of the literature on the political economy of development. In particular, the study of democracies in the developing world tends to focus on issues of clientelism or political exchange – directly or indirectly providing private benefits for constituencies in exchange for electoral support. However, as this chapter points out convincingly, not only are different forms of political exchange targeted at voters, different forms of political exchange are also practised by firms, each with potentially different implications for economic development and democratic consolidation. One problem with the literature on clientelism is that it tends to focus on political exchange between voters and politicians, without regard for the strategies of firms. Arguably, not only does this miss an important part of the dynamic for understanding political exchange more broadly, it also understates the development impact of clientelism. In focusing on small-scale 'retail' strategies, such as vote-buying or patronage, we may be missing the more important forms of 'wholesale' strategies, such as capture or cooptation – strategies that arguably have more distortionary effects on both economic development and democratic consolidation.

As a result, in addition to highlighting important dynamics in Benin with implications for political institutions and economic development, this chapter addresses a first order question in the literature on clientelism. This work is exemplary in leveraging results from a specific country context in order to make broader theoretical arguments. It does so by contributing both a novel framework – bringing together the two literatures on clientelism at the voter and firm levels – and bringing new data from Benin to test it.

Networks

One potentially helpful area for exploring extensions to this work is to think more about firm and politician networks. Theories of networks underlie both the literature on clientelism and the literature on firm capture and cronyism, making it a natural fit given that this project is bringing new data to create a unifying framework for the two literatures. Furthermore, networks are implicit in the chapter's analysis (even if not sufficiently explicit), and in fact, networks were a key part of the data collection because of the snowball sampling techniques.

Networks matter not only because of the direct connections, but also for understanding the broader structure of how business interests interact with clientelism. This short note addresses two types of networks, firm networks and politician networks, in order to suggest potential extensions to the analysis. Firm networks matter because they determine access to political 'goods', but also because the types of networks that firms invest in may provide evidence of their priorities and strategies for lobbying. As a result, firm networks would be expected to matter for the range of demands that firms might pursue, and their techniques for doing so. It is also possible that networks operate as a constraint on firm strategies – to the extent that firms invest in developing ties and cultivating relationships with a broad range of industry and government actors, it may be difficult for them to switch strategies even when political circumstances change (Fisman 2001).

Similarly, politician networks matter not only for electoral competition, but also for the types of strategies they may pursue once they are in office. For example, a large literature links politician networks to different types of electoral strategies. In particular, clientelistic political exchange requires dense, hierarchical networks for the identification of clients and the delivery of benefits and monitoring of voter behaviour. Compared to the internal organisational problems inherent in programmatic parties, for clientelist politics the problem is monitoring and controlling the political brokers at each level in the process (Kitschelt and Wilkinson 2007). Such mechanisms require elaborate networks to monitor actors and manage exchange relations (Stokes 2005). Kitschelt and Wilkinson (2007) describe these networks as necessary because of the need to monitor political actors at each level in the process. Research by Calvo and Murillo (2009) has argued that clientelist politics requires different types of political network structures to programmatic politics: clientelist countries have large, heterogeneous, vertically integrated parties, while programmatic countries have smaller, homogenous, horizontally integrated parties. The ability to monitor is a fundamental aspect of successful politician networks (Kitschelt and Wilkinson 2007; Larreguy 2012).

Firm networks

It is widely accepted that better-connected firms exercise more political influence. However, it remains little understood how different types of ties affect different types of political action. The notion that the types of ties matters underlies much of the work on politician networks and political parties. With this type of analysis, it becomes possible to explore whether firm connections affect the strategies firms pursue, or the ways in which they engage with politicians.

For example, Cruz and Graham (2019) contrast the effect of ties to other firms in the same industry (peer ties) with direct ties to elected officials and bureaucrats (government ties). Their framework proposes that peer ties facilitate collective action, most often with respect to broad policy issues that affect many firms, while government ties are primarily used to address narrow, particularistic issues. Cruz and Graham use a new survey of foreign-owned firms operating in the Philippines to demonstrate that different ties are associated with different approaches to lobbying. Consistent with theories of collective action among firms, ties to other firms are associated with efforts to influence policy at the national level, where issues are broader-based and affect larger numbers of firms. By contrast, ties to government actors (bureaucrats or politicians) are associated with seeking policy influence at the local level, where actors have narrower scope but can direct specific benefits and concessions to firms.

For example, Figure 1 is a visual illustration of firm ties with politicians, bureaucrats, and other firms.[15] Each of the orange circles (nodes) represents an actual firm in the sample and the grey circles represent political actors: congress, local government, and the bureaucracy (labelled). For each firm, the figure presents: (i) ties to congress, bureaucracies, or local government, depicted by connecting lines between the firm node and the government actor node; and (ii) ties to peer firms, represented by the size of the circle, where large circles are those firms that report a larger number of peer firms. A substantial number of firms, including many with a large number of peer ties, have no direct government ties.

[15] Ties are measured in two different ways. First, because the sample is too small to be able to capture the entire firm network, the number of peer firms that respondents report having a relationship with is used as a proxy for peer ties. To differentiate peer firms from clients, suppliers, or other partners, respondents are asked about the number for firms in each category separately. The variable uses the logged number of peer firms. Second, the measure of government ties reports the number of ties to either elected officials or bureaucrats.

Figure 1: Peer and government ties

Politician networks

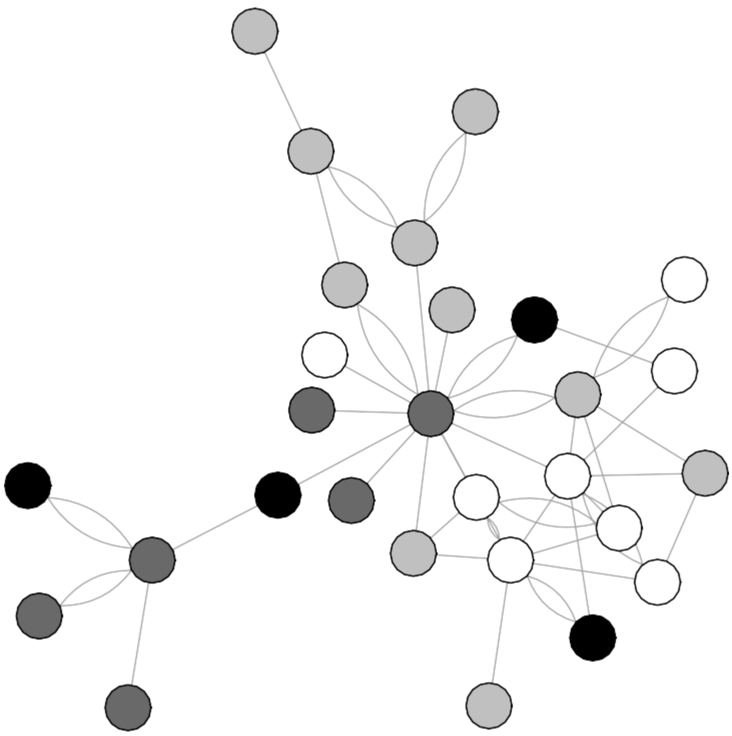
Another important aspect of networks that could extend the important findings in this chapter are differences in the networks and strategies of politicians. Figure 2 is a visual illustration of ties among mayors in Isabela province, in the Philippines. Some mayors are well-connected horizontally, while others have vertical connections: instead of ties to other mayors, they have ties down to the village level officials and up to the congressman and governor of the province. The structure of these ties affects the incentives of politicians to pursue different types of political exchange.

Vertical ties are associated with individually-targeted political exchange, because in a political context where there are overlapping constituencies, politicians can reduce the costs associated with individual-targeted political exchange by pooling their efforts. Politicians at higher levels collude with lower-level politicians and political brokers. The high-level politicians provide funding and the lower-level politicians provide the personnel and oversight for the implementation. A big part of the costs of vote-buying involves logistics: identifying targets, sending personnel to conduct the transaction, as well as monitoring and enforcing the transaction. Once a system for monitoring or verification has been set up and the political broker has already been hired to hand out the envelope of money, the marginal cost of asking the voter to also vote for another politician on the same ballot is relatively small. The overlapping constituencies create incentives for such collusion among politicians organised through vertical networks.

Horizontal ties, by contrast, facilitate group-targeted strategies like pork-barrel politics. When pork-barrel funds take the form of spending allocated to more than one municipality, mayors who are able to cooperate with each other can act collectively to demand pork-barrel projects that benefit their municipalities. In these cases, the funding is typically controlled by politicians at the national level (such as governors or congressmen) or national government agencies. Very few local-level politicians are influential enough to lobby successfully for these types of funds on their own. However, groups of mayors acting collectively can successfully bid for large-scale projects affecting their areas. Examples of such projects include fisheries and shoreline support for coastal municipalities, irrigation systems for municipalities along a river, or construction and road projects that go through more than one locality. Horizontal ties are important not only for the process of bidding for national or provincial-level projects, but also for ensuring that mayors cooperate throughout the project implementation process.

Extended to firms, we might also expect that the form of political alliances and political networks might also condition how politicians engage with firms. For example, politicians with ties to the bureaucracy might offer to negotiate with firms by offering regulatory deals. Politicians with more discretionary funding may prefer to offer concessions and kick-backs. As a result, in addition to considering the preferences of firms for direct or indirect forms of capture, it is equally important to consider that politicians may be differentially positioned to offer these different types of 'policy goods'.

Figure 2: Mayor network in Isabela (1st district–white; 2nd–light grey; 3rd–dark grey; 4th–black)



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