

ArabTrans

Policy Brief prepared by Andrea Teti and Pamela Abbott



The Arab Transformations

Policy Brief 6

The Integrity of States: Corruption in the EU's Southern Neighbours

Corruption in MENA Countries

Corruption is seen as rife in Middle East and North African (MENA) countries and as a central cause of volatility, discontent and instability, migration, terrorism and underdeveloped economies. In a public opinion survey carried by the Arab Transformations Consortium in 2014 in six MENA countries, corruption was frequently mentioned by survey respondents as a major reason for the 2010-11 Arab Uprisings (aka 'Arab Spring'). Corruption was nominated by between 41 and 64 per cent of respondents across the countries as one of the main drivers of the 2011 Uprisings. It is by far the single most frequent reason in four of six countries, and comes second after 'economic problems' in Egypt and Jordan (Figure 1).

Around 60 per cent in every country thought that there was a great deal of corruption in their country, with very few saying there was no corruption in government (Figure 2).

A crack-down on corruption is one thing that rulers mostly promised at the time of the Arab Uprisings – it is an easy rhetorical gesture – so we might ask whether respondents felt such a crack-down had taken place, three years after the Uprisings. The simple answer is that they did not: over half of the respondents thought that little or

SUMMARY

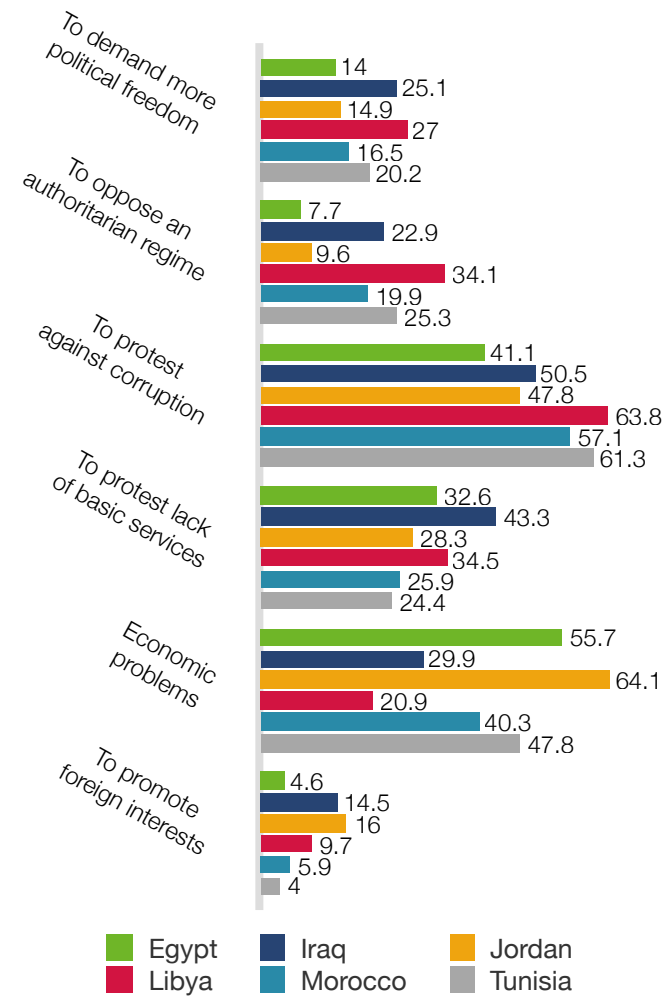
Corruption is the antithesis of the Rule of Law and erodes the discourse of fairness and mutual consideration which is necessary for peace, prosperity and socioeconomic development. It increases the risk of state capture and resistance to change by the political elite. It results in poor public management and resource allocation and an inequitable distribution of resources and national wealth. It is a problem not just for individual countries but also for harmonious diplomatic and economic relations. The European Union's Neighbourhood Policy is intended to help its near neighbours develop into a sustainable economic, social and political stability. At the same time the EU deploys normative leadership to promote a social and political security based on a respect for human rights, a dependence on the Rule of Law and a style of governance which can listen to its people and can face replacement, if need be, without the need for armed confrontation. For this, the extent of corruption in MENA is a serious problem.

KEYWORDS

Corruption, Middle East, Arab Spring

nothing was being done (Figure 3). Even in Egypt, the country most impressed with government's efforts, more than a third thought little or nothing was being done.

FIGURE 1: REASONS FOR TAKING TO THE STREETS IN 2011(%)

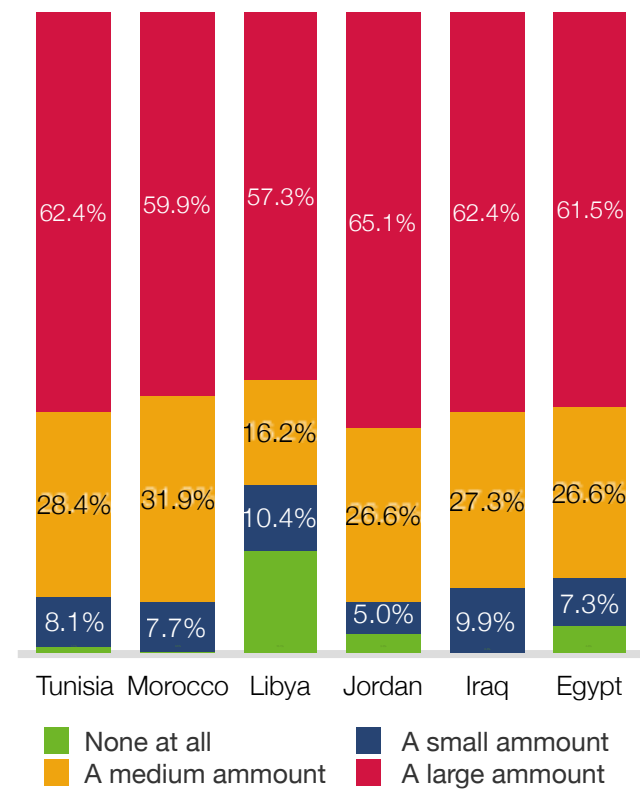


MENA citizens are clearly aware of the extent of corruption in their countries and of the negative impact it has on their daily lives; it increases the costs of getting public services, distorts development priorities and stalls service delivery as public resources are siphoned off for private gain. It denies them the right to claim and exercise their social, economic and political rights and creates fundamental injustice. It also creates obstacles to economic growth and deters both domestic and foreign investment. For companies, corruption raises transaction costs and undermines fair competition, impedes business growth, increases costs and poses serious legal and reputational risks.

Corruption exists in the form of bribes levied on businesses – particularly new or expanding businesses – as the price of a government department doing its routine job. The World Bank's Enterprise Surveys identify the giving of 'presents' to government officials to secure con-

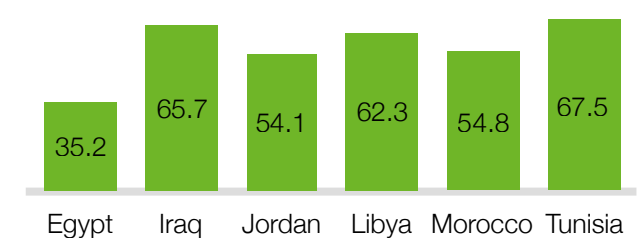
tracts or in general to 'get things done' as the form most frequently identified by businesses based inside or outside the country; the percentage mentioning them approaches 40 per cent on average in MENA countries. Bribes or presents are also used to obtain other licences and permits, to get access to electricity or water and in meetings with the tax department, by over 10 per cent of reporting businesses and often over 20 per cent.

FIGURE 2: EXTENT OF CORRUPTION IN STATE INSTITUTIONS AND AGENCIES



Fraudulent accounting at an international level is also common: money is spirited abroad in large amounts by straightforward fraudulent transfer or by varieties of misinvoicing. Illicit financial outflows for 2004-2013 calculated by Global Financial Integrity frequently amount to at least five per cent of GDP; the highest was more than fifteen per cent (Iraq in 2010).

FIGURE 3: GOVERNMENT DOING LITTLE OR NOTHING TO CRACKDOWN ON CORRUPTION (%)



Non-monetary corruption

More pervasive than bribes at the level of the ordinary citizen is 'wasta', or social influence. Wasta is the practice of preferring family, friends and people with whom one is in some kind of personal relationship or at least recognises as 'one of us', when it comes to awarding jobs, promotion, bonuses, pay increases, positions of responsibility or honour, university places, etc. Its effect is that who you know, or more broadly the recognition of your in-group status, is more important and more valuable than what you know. It is firmly and widely believed in the MENA countries that wasta is what gets you employment and, mostly, that no route which does not involve wasta will do so. Asked in the ArabTrans survey whether wasta played a role in employment, there are significant differences between the sample countries but the overall 'picture' does not vary much. Between half and three quarters said it was extremely widespread, depending on the country, and only a very few (ranging from 0.9% in Jordan to 5.8% in Egypt) said it was possible to get work without it. Being constrained by such practices has profoundly divisive effects.

Crony capitalism, or government wasta in business

Over and above these corrupt acts or requirements, we need also to consider the more systemic ways in which corruption has become structured into the MENA states. The structural reform of state economic control in the MENA countries driven by international financial institutions such as the IMF was supposed to bring about an economic structure based on a strong private sector independent of government. However, privatisation of state assets did not lead to market liberalisation, but rather gave rise to 'independent concerns' which then continued to work closely with government in networks of friends and allies, following a political rather than an economic agenda. New industrial, commercial and financial leaders were effectively co-opted into government elites, or members of the government elite became entrenched among new 'private' elites. Sometimes the 'crony' capitalists were given favoured access to bank loans, making it virtually impossible for non-favoured enterprises to obtain them. Since governments are responsible for the regulatory framework, all too often this kind of clientelism led to favourable operating rules for cronies – or, indeed, little or

no regulation at all – while new capital from outside faced both formal and informal barriers to entry and did not have equal access to markets.

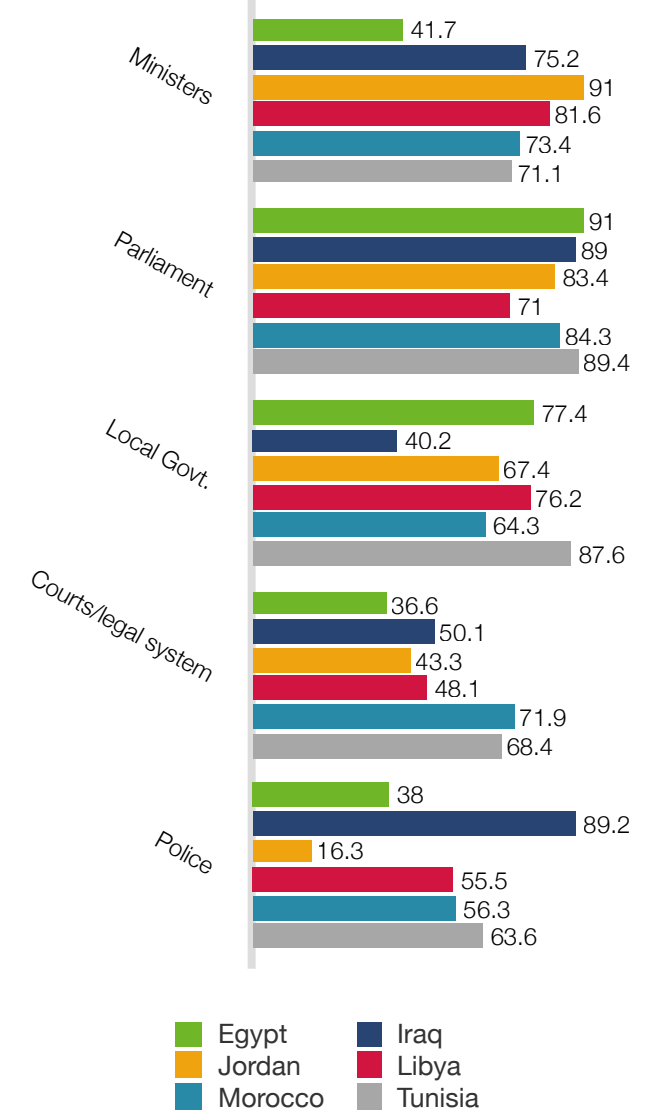
Structural adjustment has been expensive for the middle classes, costing them decent jobs and opportunities to establish industrial or commercial concerns. Such changes brought about the loss of government employment, privatisation of state assets and concerns, and the failure of 'crony' capitalists to invest in employment-generating enterprises. Before structural adjustment was imposed in the 1980s most MENA countries displayed some version of an 'authoritarian social contract' whereby autocratic government was accepted in exchange for decent jobs (public sector employment), decent social services, and subsidies in key areas such as fuel and food. It was the breakdown of this contract well before 2010 that eventually became one of the main drivers of the Uprisings. Survey data shows that most people do not believe things have changed much since then.

Corruption and the rule of Law

Corruption may be seen as a special case of breaching the Rule of Law, the principle that no-one should stand outside and above the law and that rulers are subject to the same rules as every other citizen. Corruption breaches this principle because a corrupt society has two classes of people: a superior class that demands bribes and an inferior class that pays them, and/or an elite or a set of intermediaries dispensing favours and an inferior group that is excluded from them. The superior class effectively stand above the law – at least in this respect – thereby bringing both law and government into disrepute. Corrupt governments give themselves powers and rights that are not extended to the rest of the society. Around 90 per cent of ArabTrans respondents think there is a lot of corruption in state institutions (Libya is a little lower, at 73%) in their countries, and there is even a fair amount of distrust of the police and the courts (Figure 4).

For the rule of law to take hold and deliver social inclusion there must be trust. It must be possible for citizens to trust that everyone and every group is required to work together for the benefit of all – that different fractions may have different needs and goals and see the world differently, but that the resolution of disputes requires all to make the effort to understand life from the position of the other.

FIGURE 4: LITTLE OR NO TRUST IN ASPECTS OF GOVERNMENT (%)



Source: Arab Transformations Survey 2014.

Conclusions and Recommendations

Let's get straight to the point: no country gets close to a perfect score in 2016. ...The global average score is a paltry 43, indicating endemic corruption in [the] public sector.

Source: http://www.transparency.org/news/feature/corruption_perceptions_index_2016

There is no 'silver bullet' for eradicating corruption, which persists even in the countries we think of as the least corrupt. Fighting corruption requires strong political will, which remains lacking despite governments covered here having ratified the UN Convention Against Corruption.

The EU should use the full weight of its influence to support the fight against corruption in its Member States as well as in MENA countries and support MENA governments in fighting corruption effectively in all its forms. Fighting corruption and promoting transparency is a shared problem across both shores of the Mediterranean, with less than half of EU Member States scoring 70 or more (out of 100) and five scoring less than 50 on the Transparency International Index of Corruption. The EU should support both the UN's Office on Drugs and Crime Action Against Corruption and Economic Crime and the work of the OECD's Base Erosion and Profit Shifting, encouraging MENA countries to participate in both.

The 'carrot' of closer relations with the EU has failed to bring about an effective fight against corruption and renewed effort is required. The EU should develop anti-corruption initiatives and institutions to tackle corruption and increase financial and technical support to MENA countries as well as agreeing systems for corruption monitoring and benchmarking. The latter could be based on the UN Convention Against Corruption, using the UN Office on Drugs and Crime checklist.

Good evidence on what works for effectively fighting corruption is scarce. What we do know is that it takes political will and time and effort. This means the EU supporting MENA governments in changing the rules of systems to reduce the potential for corruption combined with strong enforcement. Corruption should be seen and treated as a serious crime. Corrupt politicians and officials need to know that there is a strong chance they will be found out and that they will face serious consequences. This requires a mixture of strict laws, strictly enforced, and well-staffed, well-funded public-sector audit departments with draconian powers.

Simultaneously, the EU should build capacity among local civil society organisations which monitor and publish news of corrupt practices, as well as building their capacity to engage with public authorities.