Workshop 1

Corruption and Governance:
The Case of MENA and Mediterranean Countries

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Workshop Abstract

Corruption is prevalent in most countries, with particularly severe incidence in developing nations. While its existence is anecdotally well-established, its very nature has precluded quantification and measurement efforts. Yet, there is general agreement that corruption is a central problem facing civil society and has the potential to obstruct the rule of law and vitiate institutional structures.

The realisations that corruption is a serious impediment to social and economic development and that globalisation and trade have made corruption a truly transnational enterprise have led to renewed interest in understanding its causes and effects. Many international bodies have launched anti-corruption programmes to control bribery, fraud, embezzlement, money-laundering etc. and to support national programmes designed for the same purpose.

The nature of corruption as a complex phenomenon with social, economic, political and historical underpinnings necessitates an interdisciplinary approach. The purpose of the proposed workshop is to create a forum to discuss (i) causes and effects of, and incentives behind corrupt practices with a focus on the Mediterranean and MENA regions; (ii) similarities and differences of national experiences, and (iii) governance practices, legal measures and policy alternatives to tackle corruption and mitigate its impacts.
The workshop will address the lack of studies on issues related to corruption in the Mediterranean and MENA regions. It hopes to provide feedback and support to recently increased anti-corruption efforts by bringing together scholars from different disciplines and different parts of the world in an environment where they can exchange ideas and conclusions, and learn from each other.

Workshop Description

Why Such a Workshop?

Corruption is an endemic problem found in every modern society. While its occurrence is by no means limited to developing countries, the scope and potential effects of corruption are more extensive in these countries. The World Bank has singled out corruption as the most important impediment to economic and social development, and noted that it vitiates development by twisting the rule of law, and attacking the institutional foundations of economic growth.

Furthermore, corruption has an increasing tendency to spread across national borders following the increasing intensity of international factor flows (from foreign direct investment to migration) and growing volume of international transactions in the process of globalisation. With the rising importance of such ‘transnational’ corruption, the concomitant need for coordinated action to combat corruption on an international scale has found increased support in recent years.

Recognition of its significance as an impediment to development, and its tendency to internationalise has recently led to a notable increase in concerted efforts by the international community to tackle corruption. Many international organisations have launched anti-corruption programmes and/or provided support to national programmes introduced to prevent different forms of corruption at the local or national levels.1

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1 In addition to the World Bank, the European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations (UN), World Trade Organization (WTO) and a host of other organisations have now programmes to support the fight against bribery, fraud, embezzlement, money-laundering etc. All European steps taken to address this issue have included a number of initiatives such as the Council of Europe Criminal Law Convention on Corruption, Council of Europe Civil Law Convention on Corruption, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the EU Council Directive on Prevention of the Use of the Financial System for the Purpose of Money Laundering.
There are numerous possible effects of corruption on economic growth and development. Corruption tends to hinder domestic, as well as foreign direct investment, by distorting the incentive structure for and increasing the costs of investment, thereby slowing down growth. In addition to this distortionary role it might play in intertemporal allocation of resources, corruption also has the potential to cause a misallocation of scarce resources across sectors in a given period of time.

The negative effects of corruption on intertemporal and intersectoral allocation are not limited to man-made resources but include the deterioration of natural resources as well. There is, in fact, evidence that corruption contributes to environmental degradation and natural resource depletion, as politicians and bureaucrats give away licenses for logging, mine extraction etc. in a socially suboptimal manner.

Furthermore, corruption is not only likely to deteriorate income distribution in the society, but also to undermine the effectiveness of policies and programmes designed to restore income inequality, including poverty reduction programmes. It is also reasonable to argue that the poorer sections of the society are likely to be hit more severely by the negative effects of corruption, as they rely more heavily on the provision of public services whose costs are increased by corruption.

Additionally, by weakening the structure of governance and the ability to collect revenue, and raising the need for effective enforcement, corruption can create substantial fiscal pressure, particularly at local levels. This fiscal pressure can attenuate the ability to effectively deliver government services, putting further pressure on the poorer sections of society.

In the political sphere, corruption is often observed to go hand-in-hand with political populism, favoritism and rent seeking behaviour, eventually causing the belief that corrupt practices get protected or adopted by the political elite, and overlooked by the legal structure be upheld by the society. This, in turn, causes a gradual erosion in social values and in the society’s trust in the political regime and the legal system, further spreading corruption across different sections of the society and making it more difficult to fight corruption.

Designing effective anti-corruption programs requires that causes and effects of corruption in different societies be understood. While it is relatively easy to identify rules and practices that create economic incentives for corruption in a society, the intrinsic difficulties of documenting the extent of corruption makes it difficult to measure its effects on economic growth and development, and
analyse its interactions with social and political structures. Yet, there is evidence beyond simple speculation that corruption is a problem in the Mediterranean and MENA countries though the severity of problem varies from one country to another.²

The purpose of the proposed workshop is to attract empirical and theoretical papers as well as survey-based studies in different fields so as to create a forum to discuss

i) possible causes of and incentives behind corrupt practices in individual countries in the Mediterranean and MENA regions;

ii) similarities and differences between the experiences of different countries with corruption in terms of magnitude and spread, and economic and social effects, and

iii) to formulate better governance practices, propose legal measures and economic policy alternatives to curb the growth of corruption and reduce its undesirable effects.

This will be a very useful exercise, since the design and implementation of policies to deal with corruption require first and foremost the identification of its causes and effects. The feasibility of such an exercise is currently severely limited because of a lack of studies addressing these questions within the context of Mediterranean and particularly, MENA regions. The proposed workshop intends to contribute to the filling of this gap in the literature, and to provide feedback and support to recently increased anti-corruption efforts of international community by getting scholars from different disciplines and different parts of the world produce high quality papers, and by bringing them together in an environment where they can extensively discuss their results and conclusions, and learn from each other.

² For example, in the recently published Transparency International 2003 Corruption Perception Index (CPI), no Mediterranean or MENA country is among the 20 least corrupt countries in the world, and many of them are above the median in terms of the extent of corruption. Of the 133 countries ranked, Israel (21), Spain (23), Portugal (25), Italy (35), Tunisia (39) and Jordan (43) are among the highest-ranked (and hence, the least corrupt) of the Mediterranean/MENA group, while Libya (118), Albania (92) and Algeria (88) are among the lowest-ranked (and hence, the most corrupt). The Mediterranean/MENA countries in between rank somewhat higher (such as Greece, 50; Croatia, 59) than the median countries sharing the 66th rank (which happen to include Syria) or somewhat lower (such as Bosnia-Herzegovnia, Egypt and Morocco sharing the 70th place; Turkey, 77; Lebanon and Palestine, 78).
Potential Contributions to the Literature

There is a voluminous theoretical literature on corruption. An excellent survey of the literature on corruption is provided by Jain (2001). However, the literature made up of empirical investigations or surveys into the causes and consequences of corruption in different countries does not even come close to matching the theoretical literature in size. This is not surprising as the nature of the activity in question severely restricts the availability of systematically collected data on the extent, expression and impact of corruption in all its different forms, despite the abundance of anecdotal evidence on corrupt practices in many countries around the world. This lack of data has so far forced empirical researchers to rely on rough measurements from attitudinal surveys such as the annual CPI published by Transparency International (see, for example, Johnston 2000), or to attempt to build indices from measures of governance or openness (see, for example the measure constructed by Kaufmann, Kraay and Ziodo-Laboton, 1999).

In spite of the absence of good data, and the reliance on imperfect measures such as the ones alluded to above, empirical work has started emerging in the recent past. Currently existing studies span many different areas such as the impact on corruption of regulatory discretion (Kaufmann and Siegelbaum, 1997; Johnson, Kaufmann and Ziodo-Laboton, 1999), existence of rents and opportunities for rent-seeking (Mixon, et. al., 1994; Ades and DiTella, 1997b; Goel and Nelson, 1998; Jain and Titioglu, 2000), civil service wage policy (Van Rijckeghem and Weder, 1997) etc. A literature also exists studying the impact of corruption on various aspects of economic systems such as growth (Mauro, 1995; Ades and DiTella, 1997a; Johnson, et. al. 1997; Tanzi and Davoodi, 1997); military expenditure and procurement (Naylor, 1998; Gupta, et. al. 2000b), foreign investment (Kaufmann and Wei, 2000), delivery of public services (Gupta, et. al., 2000a), inequality (Gupta, et. al., 1998) etc.

The case-study literature on corruption is also unsurprisingly thin, given the obvious difficulties involved in uncovering details. Yet, the few studies that exist (e.g., Wade, 1985; Chand and Moene, 1997; Porta and Vanucci, 1997) show that corruption can have severe impacts on performance, and can generate sophisticated institutional responses.

While the small volume of literature formally studying various aspects of corruption in specific countries is understandable to some extent, studies covering most countries in the MENA and Mediterranean regions are practically non-existent. Such complete absence of any attempts to measure the magnitude of corruption, identify the areas where corrupt practices tend to concentrate in these countries make it difficult to have informed discussions about the causes and effects of
corruption and to formulate proposed measures and better governance practices to fight corruption. There is therefore a severe need to study corruption in the MENA and Mediterranean regions in such a way to harness the insights of different disciplines. More research is needed to not only come to a better understanding of corruption, but also about how corruption interacts with other aspects of society and the economy.

Given this intensity of the need for publications to address issues related to corruption and governance in the regions of interest, the workshop directors intend to put out an edited volume to make selected contributions to be made in the proposed workshop available to researchers around the world through a well-known publisher. Considering the time that such volumes typically take to be prepared and published, however, a proposal is planned to be circulated among potential publishers prior to the workshop, pending approval of the proposed workshop for inclusion in the program of the Mediterranean Social and Political Research Meeting. Such a volume, if published, is believed to make a significant contribution not only to extending the limited scope of the current literature studying the causes and effects of corruption in general, but also to the coordination of efforts to start systematic research into these issues within the context of MENA and Mediterranean countries.

**Topics for Potential Contributors**

Contributions addressing the following questions/issues in reference to the experience of one or more of the countries in the MENA and Mediterranean regions will be particularly welcome, even though topics are certainly not limited to these:

- Economic effects of corruption
- Does corruption have a bearing on economic growth/development? If so, in what ways?
- The effects of corruption on investment (domestic as well as foreign direct investment)
- The effects of corruption on income distribution and poverty alleviation
- The effects of corruption on the use of renewable and non-renewable resources
- How do economic, political and social processes interact to affect the production and transmission of corruption?
- How should globalization and increased openness be expected to affect the magnitude and types of corruption?
- Areas of concentration for corrupt practices and the reasons, incentives underlying such concentration and its consequences:
• ‘Low-end’ or visible corruption by low-ranking civil servants and officials or petty politicians versus ‘High-end’ or invisible corruption, perpetrated by captains of industry and senior national politicians.

• Types of activities (such as licensing, quotas etc.) and sectors (regulated vs unregulated etc.) with higher concentration of corrupt practices

• How does political uncertainty (due to regional conflicts, frequent elections, weak coalition governments etc.) affect corruption, and what are the economic and social implications?

• How do political and administrative structures or legal systems (such as rules for lobbying activities, extensive administrative control etc.) affect the nature and extent of corruption? How should they be dealt with?

• How is corruption related to political populism?

• How is corruption in some MENA countries like Turkey affected by its changing relationship with an increasingly powerful and centralising Europe?

• Does corruption affect civil society, and peoples’ belief in the fairness of society and participation in social and political processes or tax evasion behavior?

Papers presenting empirical analyses of or descriptive but systematic accounts pertaining to these or other related well-defined questions in the context of one or more of the MENA and Mediterranean countries will be considered for inclusion in the workshop. Surveys aiming to describe the extent of corruption in specific types of activities within one country and institutional reform efforts towards introduction of better governance practices to address those issues, or comparative surveys across countries may also be considered.

Studies that develop theoretical models to explain the causes, and predict the effects of corruption-related phenomena are definitely welcome and encouraged as long as i) they address specific issues relevant to one or more of the countries in the regions of interest, and ii) they are based on hypotheses that are testable at least in principle.

Abstracts to be submitted should clearly specify the question(s) that the paper intends to pose and seek an answer to, and identify the analytical framework to be used.

Potential Contributors

The workshop aims to bring together scholars from economics, political science, and sociology as well as other disciplines from the MENA region, Mediterranean countries, Europe and the US, as well as practicing economists from such international organisations as IMF, OECD and the World Bank.
Bibliography


Directors’ Individual Paper Abstracts

Priyodorshi Banerjee

Delegation and Corruption in the Provision of Public Goods and Services

An important governance policy debate in Mediterranean and other countries is the extent to which power and authority should be devolved or delegated. An advantage of delegated decision-making is that officials have the flexibility to make decisions which may be more appropriate to the context. However, if devolution is associated with more discretionary power, delegation may increase the ability of decision-makers to extract rents. Therefore, if corruption is possible, the advantage of delegation in terms of flexibility has to be weighed against the possibility of increased corruption. Corruption can harm citizens by forcing them to pay bribes, and can also result in the misallocation of public goods and services.

The current project proposes to analyse the efficiency implications of bureaucratic discretion in the presence of corruption. The main aims of the project are to investigate the trade-off between the benefit from increased flexibility resulting from delegation and the cost of corruption in terms of bribe-taking and misallocation of resources, and to study optimal delegation in the presence of corruption. The paper also aims to examine how the optimal level of delegation responds to changes in the socio-economic environment such as the degree of inequality amongst citizens, and the social preferences of political authorities.

The results from the study will contribute to the debate on decentralised governance and devolution policy by illustrating some of the costs and benefits associated with such programmes within the context of Mediterranean region. The analysis will also help fill a gap in the literature which has by and large not examined the impact of delegated decision-making in environments with corruption.
Serdar Sayan & Gorkem Celik

To Give In or Not To Give In To Bribery? Setting the Optimal Fines for Violations of Rules when the Enforcers are Likely to Accept Bribes

In 2002, a draft bill aiming to curb the growing number of accidents on highways through a substantial increase in the fines for traffic violations was submitted to the Turkish Parliament for consideration to be enacted into a law. During the debate on the draft bill prior to the vote, a member of the parliament took the floor to present his views on the draft. He essentially suggested a cut down on the magnitude of proposed hike in fines. Despite the rather diplomatic language he used, he was concerned that the increases that the original author of the draft had in mind might create incentives for highway patrol officers to accept bribes from drivers getting caught as violators. After some debate, the Parliament modified the bill and lowered the amounts originally proposed for fines, implicitly recognizing the helplessness of lawmakers in the face of enforcement difficulties due to possible corruption.

Inspired by this incident, the present paper seeks an answer to whether it is possible to set optimal fines for various types of violations in such a way to make rules effective without creating incentives for bribery and hence, surrendering to corrupt practices that reduces enforceability. For this purpose, we first investigate the empirical regularities between increases in fines for traffic violations and accidents on Turkish highways using time series data. We then use our findings to develop a theoretical model and explore any institutional or legal arrangements that might be needed to strike the right balance between effectiveness and enforceability of fines. We consider alternative policy scenarios and conclude the paper by discussing the policy implications of our analysis.