

GOVERNANCE AND THE ARAB WORLD TRANSITION: REFLECTIONS, EMPIRICS AND IMPLICATIONS FOR THE INTERNA- TIONAL COMMUNITY

DANIEL KAUFMANN
SENIOR FELLOW
GLOBAL ECONOMY AND DEVELOPMENT
BROOKINGS

Executive Summary

The evidence suggests that in the past, misgovernance in the Middle East was largely ignored by the international community, which provided increasing volumes of foreign aid to governments while their standards of voice and accountability were among the worst worldwide—and declining.¹

Both politics and the economy were subject to elite capture—that is, the shaping of the rules of the game and institutions of the state for the benefit of the few—across the region. In Egypt and Tunisia, the old leadership has been toppled, yet even there the legacy of misgovernance and capture matters for prioritizing reforms and assistance during the transition, and calls for a revamping of the aid strategies of the

international community, including the international financial institutions.

Aid strategies need to become more selective across countries and institutions, with due attention given to democratic reforms, devolution, civil society, and to concrete governance and transparency reforms. Reforms also need to mitigate capture and corruption. This policy brief offers specific recommendations for the international community as input for this process of improving strategies of assistance.

What Is the Issue?

A key lesson from the current unrest is that insufficient attention was paid to poor governance in the region. The unrest occurred following a period in

which large-scale, external aid flows to the region had been on the rise. These funds were often disbursed by international financial institutions (IFIs) and other donor aid agencies, following flawed foreign assistance strategies that tended to be accommodating to authoritarian regimes and ignored civil society and these countries' deep-seated shortcomings in governance.

The strategies of many donors and IFIs were generally supported by their own partial and uncritical assessments of country performance. In fact, misgovernance and capture had been endemic throughout the Middle East and North Africa region for a long time, with practically no exceptions. Data pointing to these major governance shortcomings were available yet were often ignored.

Differences in initial conditions across the Middle East in the various governance dimensions will affect the economic and political transitions of countries undergoing an Arab Spring as well as the rest of the region. Consequently, elevating the priority of governance, both in terms of empirical assessments and strategic priorities, ought to be a critical component of a revamped strategy by the international community in the region.

What Do We Mean by Governance?

Simply put, governance can be viewed as the manner in which authority is exercised in a country. Good governance, then, has three basic aspects: the political dimension (which we measure through indicators for voice and democratic accountability and political stability and an absence of major violence), the economic dimension (government effectiveness and regulatory quality), and the institutional dimension (the rule of law, and the control of corruption and capture). Research with worldwide data suggests that the growth and development dividend of good gov-

ernance is considerable, particularly in the medium to long run. Countries afflicted by a particularly insidious form of misgovernance, namely, capture—the shaping of the rules of the game and institutions of the state for the benefit of the few—tend to exhibit much lower investment and growth rates by the private sector than countries with a more level playing field.

Misgovernance and Capture: Polity, Economy and Corruption

During the past decade, many official aid institutions and commercial rating agencies were reticent in detailing the stark reality of governance in much of the Arab world. Not only were the available data on subpar and deteriorating governance in the region often ignored, but prominence was also given to aggregate official economic statistics at the expense of data on income distribution, poverty and employment.

With regard to polity, most countries in the region were characterized by a top-down, personalized, highly concentrated and noncontestable mode of governing. Economically, the region exhibited highly skewed income and asset accumulation as well as resource allocation, and a distribution of political power associated with a highly centralized power of the ruling elite. In particular, under this politically and economically captured system, neither the young nor the poor peasants were beneficiaries.

Grand corruption is exemplified by the multibillionaire clans of Qaddafi in Libya, Ben Ali in Tunisia and Mubarak in Egypt, where the ruling elites, including extended family and select cronies, captured both the polity and key segments of the economy. They abused formal and informal institutions to control the accumulation and distribution of resources and jobs to perpetuate their power and amass illicit wealth. Monopolized top-down corruption was an instrument for the capture of the polity and economy; of-

ten implemented by a ruler's spouse, son or in-laws. This is in contrast to the more decentralized nature of systemic corruption that prevails in a number of democracies.

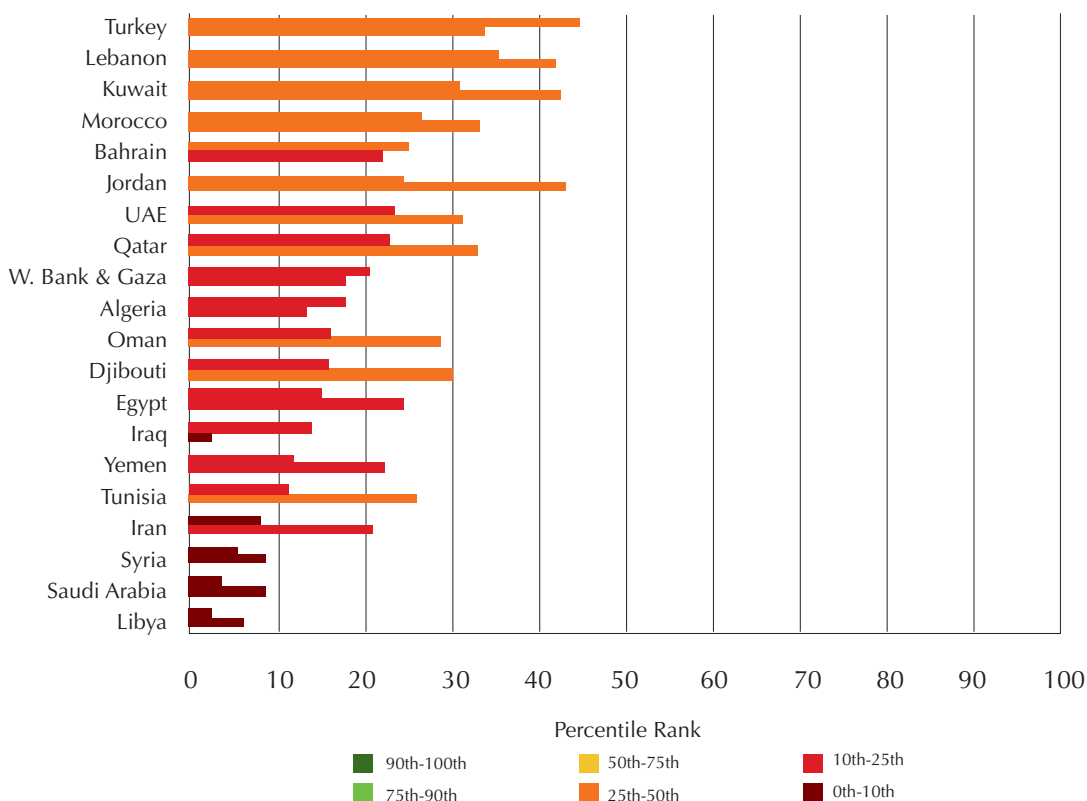
The capture of the polity implied a clientelistic and patronage-driven system. In return for loyalty to the small ruling elite (which excluded the youth), political associates and legislators were provided with jobs (even at lower levels of the public sector) and access to resources. Paradoxically, given the well-known benefits of increasing economic openness in more competitive settings, in countries like Egypt, the elite's power and

hold over political and economic resources expanded during periods of "economic liberalization."

Companies were also privatized and regulatory restrictions were relaxed in Egypt, with support from the IFIs. Yet at the same time, carefully managed privatization and public procurement processes ensured that close associates of the rulers would control these assets. This led to an entrenched rent-seeking system of crony capitalism.

In fact, during the past decade, the monopolistic capture of the polity was associated with declines in voice

Figure I. Voice and Accountability in the Middle Eastern and North African Countries, 2000 (bottom bar) and 2009 (top bar)



Source: D. Kaufmann, A. Kray and M. Mastruzzi, "WGI: A Summary of Data, Methodology and Analytical Issues," September 2010, available at www.govindicators.org. Note that for each country the bottom bar exhibits the initial period, 2000; and the top bar exhibits 2009.

and democratic accountability in countries like Egypt and Tunisia, and the Arab world generally. Elections, when they took place, were very far from contested, clean, free or fair. The development of civil society was hindered or quashed, and freedoms of expression and press were very limited, often increasingly so.

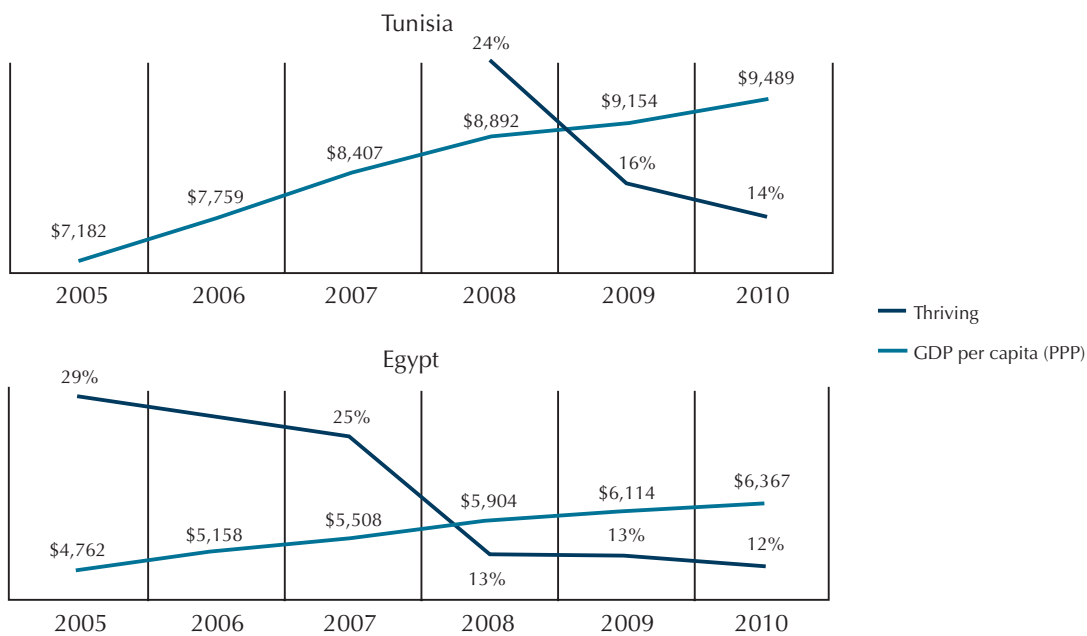
Subpar Governance Performance: Extent, Trends, Commonalities and Differences

Although the absence of democratic governance in the Middle East was no secret, relatively little attention was paid to the deterioration of democratic governance in almost all the region’s countries during the past decade. Figure 1 depicts both the subpar levels and mostly negative trends in this governance dimension for these countries—and showcases Turkey as an

exception to the rule. Such subpar performance in democratic governance, coupled with a very uneven distribution of the fruits of economic growth, high levels of youth unemployment (often exceeding one in three), and the increasing net-connectivity of the young population were key factors driving the wave of unrest that ignited the region.

In this context, comparing the trends in official income per capita averages in Tunisia and Egypt and responses of citizens regarding their well-being is rather telling. Both Egyptian and Tunisian citizens reported plummeting well-being levels at the same time that official gross domestic product per capita was steadily increasing (figure 2). Official GDP per capita statistics masked the actual welfare trends of the population in

Figure 2. Trends in Official Gross Domestic Product per Capita versus Well-Being (percentage of citizens who report “thriving” in Gallup Polls)



Sources: John Clifton and Lymari Morales, “Egyptians’, Tunisians’ Well-Being Plummet Despite GDP Gains,” February 2011, available at www.gallup.com, 2005–11 data on GDP per capita from International Monetary Fund, Economic Outlook Database, available at www.imf.org; data from Gallup, Inc.

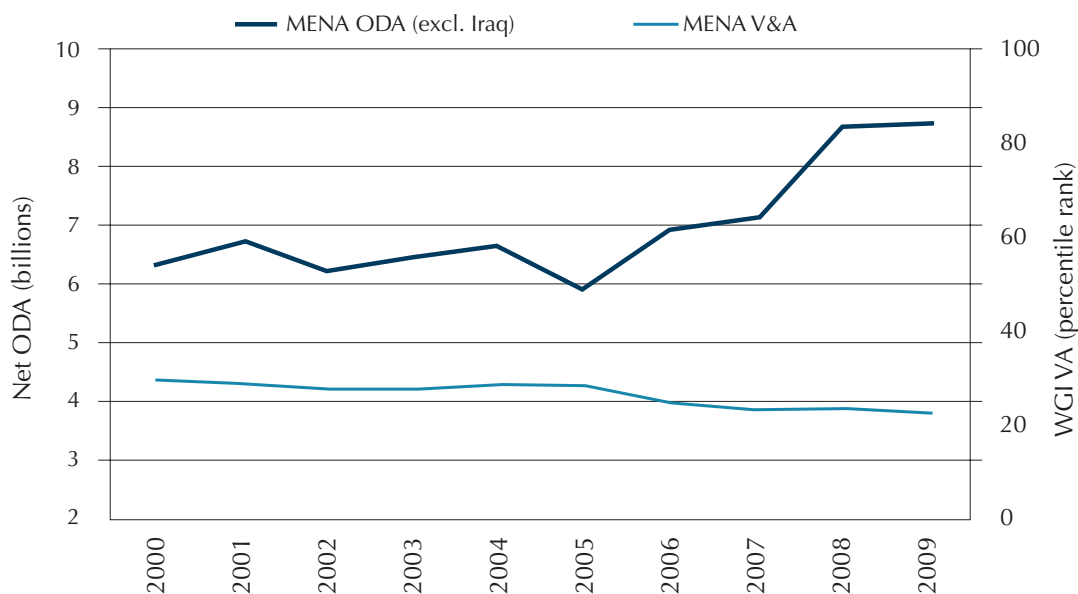
these countries. The evidence portrayed in both figure 1 and figure 2 suggests the political and economic disenfranchisement affecting these countries' populations, which was associated with the extent of political and economic capture by the ruling elites.

Official reports by IFIs, along with other traditional donors and export agencies, tended to provide a relatively positive assessment of developments in the region. Many international actors focused on aggregate economic figures, minimized the importance of social, equity and governance factors, and paid little if any attention to civil society, media freedoms and

anticorruption efforts. Figure 3 encapsulates part of the problem in the relationship between the international community's policies and the governance reality in the Middle East.

In sum, initial conditions shared by many countries in the region included the low and deteriorating voice and democratic accountability, and also high youth unemployment and unequal wealth distribution, accompanied by a perceived decline in well-being. And citizens of many Arab countries, beyond Tunisia and Egypt, also reported declining well-being.

Figure 3. Evolution of Development Assistance versus Voice and Democratic Accountability in the Middle Eastern and North African Countries, 2000–2009



Note: MENA = Middle East and North Africa; WGI = Worldwide Governance Indicators; ODA = official development assistance (left hand side axis); V&A: Voice & Democratic Accountability as measured with the WGI (right hand side axis). Iraq was excluded because it represents a special case in development assistance given its current situation; it received these amounts of official development assistance from all donors between 2006 and 2008: in 2006, \$9.7 billion, of which 52 percent came from the U.S.; in 2007, \$9.7 billion, of which 40 percent came from the U.S.; and in 2008, \$9.8 billion, of which 28 percent came from the U.S.

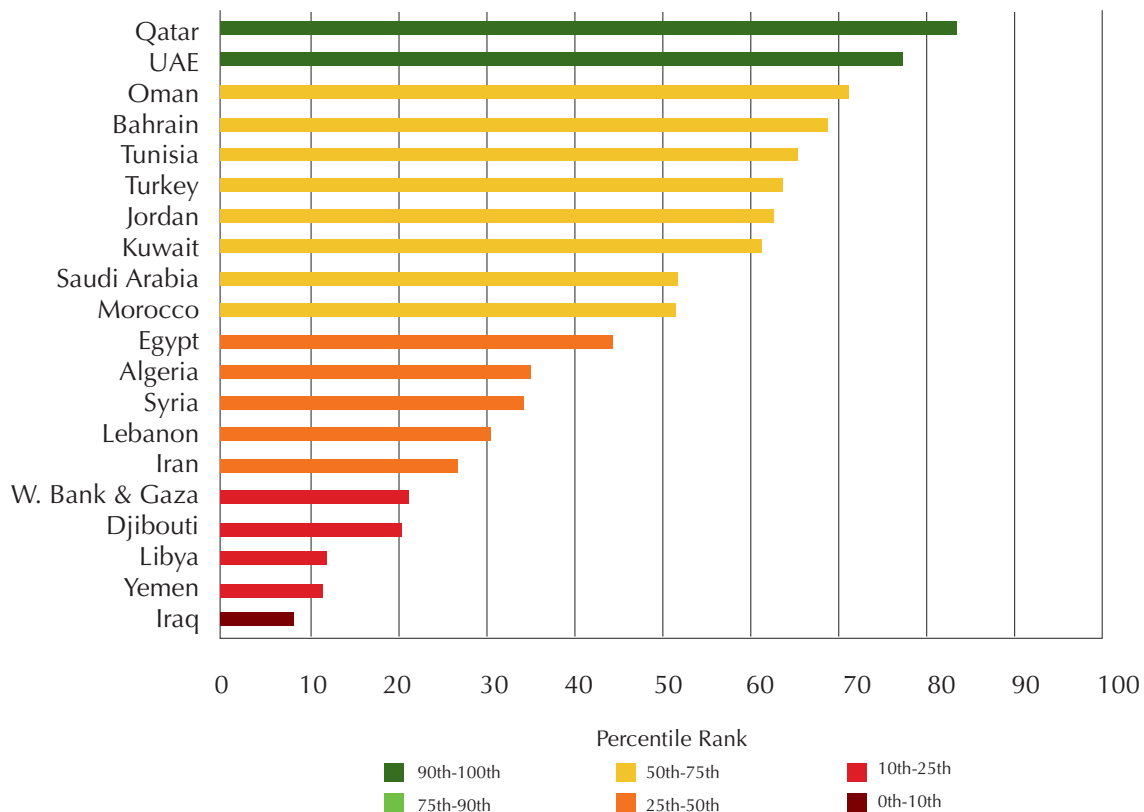
Sources: D. Kaufmann, A. Kraay and M. Mastruzzi, "The Worldwide Governance Indicators: Methodology and Analytical Issues," September 2010, available at www.govindicators.org; Organisation for Economic Co-operation and Development, Development Assistance Committee Database.

Yet at the same time, there is considerable variance across the region. A large institutional gap exists between advanced industrial countries like Turkey (which is also in Europe, and neither Arab nor strictly in the Middle East region, but is included as a relevant benchmark), rich countries in the Gulf like the United Arab Emirates and Oman, and extremely underdeveloped countries like Yemen or oil-rich dysfunctional ones like Libya. Such differences across the Middle East and North Africa are exemplified by the variance in economic governance, which is proxied here by the Worldwide Governance Indicators' measure of government effectiveness (the quality of the public sector bureaucracy in formulating and implementing policies and delivering services).

Although the region, on average, saw a modest improvement in government effectiveness, this reflects both improvements in several countries and deteriorations in others (figure 4).² Developments on the (citizen-led, bottom-up) "demand side" of governance, which were often neglected by IFIs, were not in tandem with those on the (public sector led, top-down) "supply side" of governance, which have typically been the focus of IFIs.

There are large differences across countries in the quality of regulatory regimes. The institutional dimensions of governance (the rule of law and control of corruption) exhibit somewhat lower regional variation. Overall, most countries rate in the mediocre-

Figure 4. Government Effectiveness in the Middle Eastern and North African Countries, 2009



Source: D. Kaufmann, A. Kray and M. Mastruzzi, "WGI: A Summary of Data, Methodology and Analytical Issues," September 2010, available at www.govindicators.org.

to-poor range in their quality of the rule of law and control of corruption, even if the differences between countries at the bottom and mediocre range are not small.

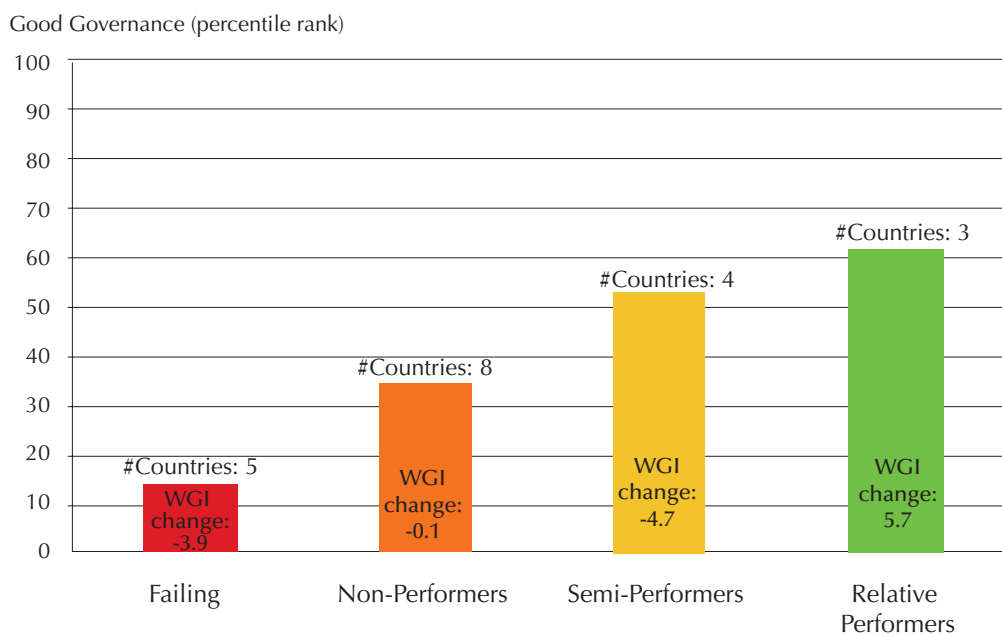
A Sobering Picture: The Middle East and North Africa's Governance by Performance Groups

The differences across countries on various governance dimensions suggest that it would be misleading to generalize the situation and outlook across the region, even though on average overall governance in the Middle East and North Africa (MENA) is low and, practically, there have been virtually no good governance performers in the region. Figure 5 suggests a way of grouping the MENA countries according to their governance performance, by averaging

one indicator each for the political, economic and institutional dimensions of governance. Four different governance performance groups emerge.

On the basis of data from the end of the decade, the “top” group (“relative performers”) averaged in the 60th percentile worldwide, implying that that they are above the median country worldwide (though about 80 countries rate higher). Only three countries fall into this category: Qatar, the United Arab Emirates (both small oil-rich and undemocratic), and (our benchmark country) Turkey. This is the only group where governance on average has improved during the past decade (by an average of almost 6 percentile points across the three selected dimensions of governance).

Figure 5. Governance Performance Groupings in the Middle Eastern and North African Countries, 2009 (average of voice and democratic accountability, government effectiveness, and control of corruption)



Source: D. Kaufmann, A. Kray and M. Mastruzzi, “WGI: A Summary of Data, Methodology and Analytical Issues,” September 2010, available at www.govindicators.org.

The second group of semi-performers comprises four countries, rating at around the 50th percentile worldwide. All these countries underwent severe deterioration during the past decade. The third and lower-performing group (“non-performers”) is the largest and comprises eight countries, rating below two-thirds of the world on average. The last group, “failing,” comprises five countries, with countries rating around the bottom decile worldwide and experiencing deteriorating governance during the past decade (figure 5).

What Needs to Happen—and Why

In-Depth Country Diagnostics Matter

Aggregate governance indicators such as those illustrated in this policy brief are helpful for general assessments and comparisons across countries and time. But for the purposes of specific reform program formulation for any particular country, it is also important to carry out in-depth in-country governance diagnostics.

Such in-depth country diagnostics, which also quantitatively assess challenges related to corruption and capture, have been carried out in dozens of countries in other regions. Often, these diagnostics have been collaboratively carried out by in-country and international experts as well as by multiple domestic stakeholders, and have covered all the key institutions and regions of a country. Thus, they have been sufficiently thorough to have permitted a differentiation between those institutions that require a major revamp (those that are “part of the problem”) and those that have high potential to play a leadership role in governance reforms and institutional strengthening (“part of the solution”).

An incipient illustration of the importance of drilling down to more fine detail in diagnosing governance challenges in a country is provided in figure 6, where the extent of different manifestations of capture and corruption for four countries in the region have been initially diagnosed and quantified through a survey of firms. The extent of corruption not only varies across countries but also across types of corruption and institutions within a country. Although further in-depth analysis is needed, these data are meant to illustrate the situation and suggest that in Egypt, for instance, judicial institutions may prove to be a potential point of entry for anticorruption reforms, while other institutions are more challenged.

Different Transition Paths Require Different Strategies

It is clear that different countries will follow very different paths, partly because their initial governance and institutional conditions are rather different, and also for other reasons, such as the extent to which each country is fractured along ethnoreligious lines and has (or does not yet have) a professional army and basic governance institutions. In rich and non-reforming monarchies, it remains to be seen how long they can appease their citizens with increasing pay-offs while suppressing dissent. Different institutions within a country also have different challenges, as shown in figure 6.

More generally, countries in the “failing” governance group (figure 5)—such as Libya, Syria, Iraq and Yemen—are already mired in internal conflict, and thus the hoped-for scenario is that they will soon enter the group of post-conflict countries and embark on the difficult path toward democratic transition. This group is distinct from the already-transitioning

countries, such as Egypt and Tunisia, both of which experienced sudden regime change, largely avoiding protracted internal conflict. For Egypt and Tunisia, appropriate strategies would not come from lessons learned from post-conflict experiences but from transitions away from autocratic regimes, such as those of Central and Eastern Europe, the former Soviet Union, Indonesia, Brazil, South Africa, Chile, Turkey, and Spain (see companion box 1, on some transition lessons).

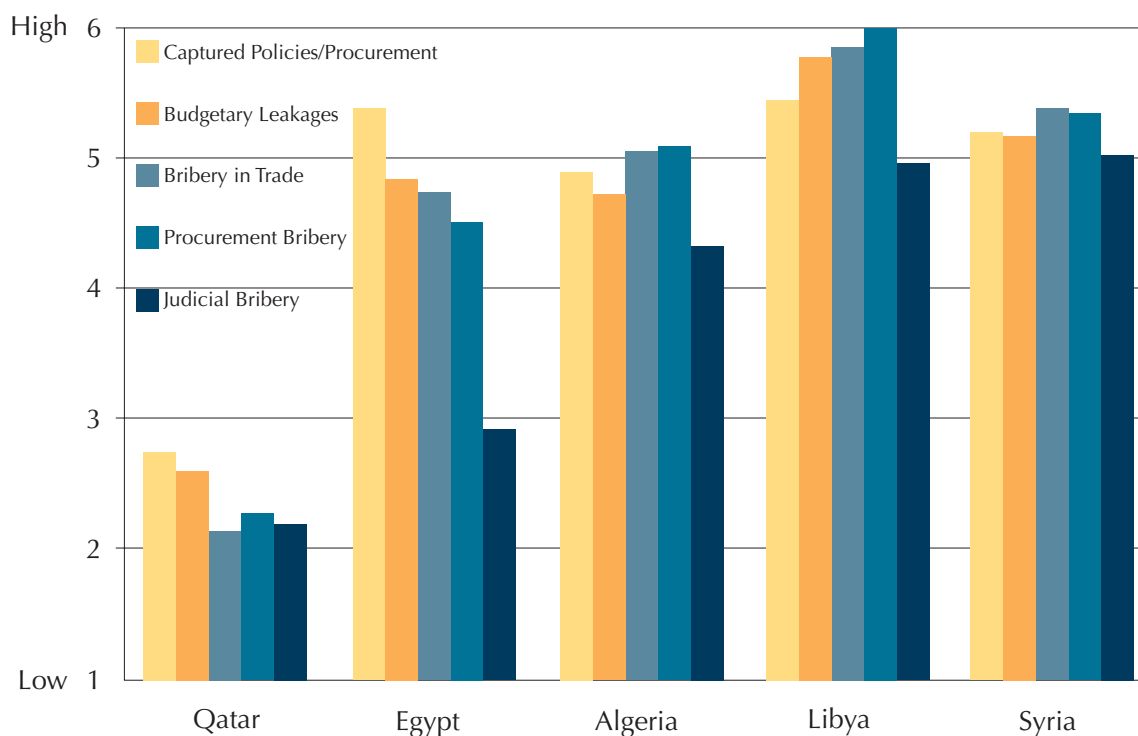
Other regimes in the region, which currently are neither mired in conflict nor in major transition, may continue to thwart a meaningful transition to democratic governance—some by offering incremental

reforms (Jordan, Morocco and Gulf countries) some by combining payouts from their oil wealth to their relatively small population of nationals (Saudi Arabia and some Gulf countries), and some with further repression (Iran, Saudi Arabia).

Capture during the Transition Matters for the Economy

Although the modalities and speed of political transitions will vary, the expectation is that most countries will continue to make the transition to being led by the private sector and open markets. Serious advice and support from the international community will be important in order to avoid past mistakes. As highlighted above, a particular challenge during

Figure 6. Extent of Corruption and Capture in Four Selected Countries (from the results of a survey of firms on the frequency of various types of corruption)



Source: World Economic Forum, Executive Opinion Surveys, 2010.

these transitions concerns the evolving nature of elite capture, which can undermine the transition to a productive economic base and the broad-based sharing of the fruits of recovery. The current risk of possible reversals in progress toward economic openness and privatization is in part due to a backlash against a distorted and “captured” liberalization and privatization process.

Regime change and the rejection of the old autocratic political order do not automatically guarantee major governance improvements in the near future; hard work and major reforms will be needed, including new constitutions, competitive elections and the like. The fact that the ruling families, which were at the

center of the economic capture network, are out of power does not guarantee a transition away from a captured economy.

Some of the vestiges of the old cronyism may have more staying power and ability to morph than commonly assumed. Their ability to capture economic rents may not quickly wane, and they tend to engage in capital flight. In addition, new oligarchs and cronies (such as, in the case of Egypt, associates of the military, an institution with vast economic interests) are likely to emerge during the transition. The military itself may turn out to resist abdicating economic and political power, contrasting what experts predicted when the Mubarak regime collapsed.

Box I: Some Lessons from Previous Transitions

Previous transition experiences offer many valuable insights, which require more in-depth treatment than provided here. Yet it is worth briefly noting five points of relevance:

1. Belonging to the transition “Arab Spring” select group of countries does not automatically guarantee success. Countries in transitions can traverse into the wrong path (such as Iran, Pakistan), muddle through without meaningful reform for decades (some countries in Central Asia), evolve into “managed quasi-democracies” (Russia) or transit into the right direction in democratic governance (Chile, Turkey, Indonesia, Central Europe).
2. Even relatively successful transitions, such as in Indonesia can take at least a decade until the country is in the right path with setbacks in the early years; thus a patient longer view is needed.*
3. Role and posture of the military is essential, as is the quality of political leadership during the transition (Turkey, Spain, Chile, and South Africa).
4. Effective constitutional and electoral reforms matter, as well as institutional innovations, such as Truth and Reconciliation Commissions (South Africa, Chile).
5. The extent to which the political and economic transitions evolve into an increasingly captured economy (Ukraine) or a competitive enabling environment instead (Central Europe) matters enormously.

** Last month, Ahmed Heikal, Egypt’s largest private investor, said to the Economist: “If we get things right, we could be Turkey in 10 years. If we get them wrong, we could be Pakistan in 18 months.”*

More generally, these transitions often take place with little transparency and very unequal access to information and influence, in settings where checks and balances are still lacking. The Soviet transition offers a more extreme lesson in the oligarchic capture of a vast share of the nation's wealth along with the capture of the legal, regulatory and policy framework. Yet even for other parts of the world, the challenge of capture is not merely of an academic or moral-ethical nature, and it differs from the traditional call by advocacy nongovernmental organizations (NGOs) to fight against bureaucratic corruption. Capture matters enormously for the overall economy and its prospects. Given the enormity of rent seeking accrued through successful capture, a society where engaging in capture by those with access is feasible provides enormous incentives for talent and resources to be diverted away from competitive productive entrepreneurship and investment.

Rent-seeker captors tend to concentrate on large corporate and financial holdings, which are less labor intensive than small and medium-sized industries. They also tend to have significant holdings outside the country, and capital flight out of the region has been accelerating in recent months. Further, less foreign direct investment goes to countries where capture by the domestic elite prevails because prime assets are either closed to foreign investment or there is a hefty additional "tax" to partner or pay off those captors to have access. There is also the additional risk of insecure property rights in a captured economy. Therefore, domestic labor utilization, job creation and productive enterprise growth are jeopardized in a captured economy, particularly as compared with a competitive market economy.

Furthermore, captured economies, through the undue influence of well-connected large corporations,

can have a more fragile macroeconomic stance because those wielding disproportionate power may pay less in taxes, place illicit assets in overseas safe havens, generate fewer taxpaying jobs, and benefit from skewed public expenditures and inefficient public investments at the expense of the country's economy.

Finally, there is also a more subtle risk of elite capture during the transition—and this refers to the broader elite, namely, the educated middle to upper class, at the expense of the poor. In Egypt, the majority of the population is still poor and not very highly educated or Internet-connected, yet such a silent majority has largely been absent in the transition so far. It is also unclear who will represent their interests. Thus, even with less visible forms of crony capture than in the past, the risk that skewed policymaking will favor the educated elite at the expense of the poor should not be ignored.

Recommendations and Next Steps

Transitions are difficult and unpredictable and, depending on a number of factors, they can lead a country onto the right path toward recovery with improved governance and sustained, shared growth—or not. In this policy brief, I have emphasized the importance of accounting for the initial quality of a country's governance and monitoring its subsequent governance path, including the challenge of addressing the "informal" institution of capture. Important challenges regarding formal institutions during the early stages of the transition, such as multiparty development and constitutional and electoral reform, as well as global security considerations, also should not be underemphasized. But the latter are already being addressed in a number of writings and are ever present in the media.

Thus, this analysis, as well as the following recommendations, focuses on the challenges regarding informal institutions such as capture and corruption, and these points apply to the members of the international community in their efforts to assist during the region's transition.

The key need is to redefine the role of the international community in the Arab world. Governance considerations should be made much more prominent, focusing on supporting the countries in transition to implement measures that improve governance, enhance transparency and move away from the risks of capture. The members of the international community, and particularly IFIs and donors, need to rapidly adapt to the new reality and be prepared to take a humbler role, working to restore their credibility in the aftermath of long years of support for autocratic regimes. IFIs and bilateral donors need to be respectful of the pace and manner in which progress takes place during the transition and remain mindful that progress is not always rapid, continuous, or linear.

Generally, they ought to revisit their policies of providing large-scale financial assistance to authoritarian regimes. Specifically, in transition countries, they must work closely with civil society groups and other institutions outside the executive branch as well. The principal old modality of focusing on large loans to central governments needs to be revisited, and new instruments for collaboration need to be developed.

In essence, a new “business model” for engagement by the international community is needed, with concrete and detailed pillars. Some organizations—like the World Bank, International Monetary Fund, and European Union—are already beginning to signal a break from the past and grapple with the need to revamp their strategies. Yet detailed feasible strategies

and programs still need to be formulated, and assiduous implementation needs to begin.

The following are concrete suggestions in eight priority areas in the context of such a strategic revamping, which focus on governance and which would also help mitigate the risk of protracted capture:

- *In-depth and neutral assessment of the governance challenges and domestic politics in each country.* The international community can find new ways to address the task of country analysis. It will be important that official country reports and analyses by international agencies are carried out with some modicum of independence and written without self-censorship and cover all important areas for the country's transition, including sensitive political issues such as capture and corruption.

Reports should not shy away from using available data on governance, and if requested in some cases, consider carrying out in-depth country diagnostics. They should be submitted for external review and scrutiny. Complementing the important role of IFIs, the research and think tank community (possibly in partnership with local and international think tanks or research institutions) can also play a more active role. In this context, an important component is to develop and disseminate more complete and transparent databases and country diagnostics on governance and capture for countries in the region. National-level governance indicators as well as firm-level surveys and in-country diagnostics will increasingly need to be factored into responses to the challenges of capture and related nontraditional forms of corruption and misgovernance.

- *Selectivity in aid flows.* The members of the international community need to become more selective in their allocation of aid to the region, paying more attention to governance in the recipient country. Nonreforming governments that do not meet minimum standards in governance, including in voice and accountability, would not receive aid. This may not preclude supporting reforming institutions and stakeholders outside the executive in countries with entrenched governments.

Yet there should also be improved selectivity in the destination of aid within a country, including carefully selecting partner institutions (again, also including outside the executive branch), and paying more attention to the subnational level and to competitive private sector development (rather than further strengthening elites). Reforming countries committed to improved governance ought to be supported through an integrated package channeling help to governmental institutions and NGOs alike.

- *Support an integrated package of transparency-led reforms.* To mitigate capture and improve governance, major reforms to reduce information asymmetries and enhance transparency and disclosure must be a priority. Some improvements have started to take place in Egypt and Tunisia, particularly regarding the Internet and the mass media. Drawing from the concrete experiences of other countries, a 10-point program of transparency reforms in the political, economic/financial and institutional arenas could payoff in the countries in transition in the Arab world.³
- *Privatization and revamped procurement systems.* In most economies, including those in transition,

a full-fledged level playing field of small and medium-sized enterprises is unrealistic, at least in the short to medium terms. Hence, the strategy needs to factor in the initial conditions where there are preexisting powerful vested interests along with some new ones. Within such parameters, a realistic objective would be to mitigate rather than eliminate capture. For this purpose, transparency is crucial, as are a free press and more generally the introduction of competition in the polity through democratic elections, and supporting civil society organizations (CSOs).

Further, how the privatization of the considerable assets still in the hands of governments is undertaken will matter so to move away from capture.⁴ Last but not least, a revamped procurement system, with full transparency and competitiveness, is also paramount early in the transition. New technologies, including e-procurement, are important for this dimension of reform, as for supporting many other measures.

- *Supporting the competitive small and medium scale private sector.* Agencies dealing with the private sector, such as the International Finance Corporation (the World Bank's private sector affiliate), would also need to become more strategic in ensuring that their equity and lending approaches promote a level playing field in the enterprise sector, rather than supporting and investing in monopolistic forces or elite captors. This would require not only improved due diligence by entities such as the IFC but also a redirection of their strategies, which would become much more supportive of improved governance in the corporate sector and in the private sector–public sector nexus.

- *Support a more decentralized approach, including civil society groups and a multi-stakeholder national consensus-building and action program on good governance.* Beyond the adoption of a basic tenet of not perpetuating autocratic regimes in power by providing large-scale assistance to such central governments, the international community needs to find effective ways for working at a more decentralized level and supporting CSOs and NGOs. Working with CSOs is less controversial today (except in some countries), and many organizations have pronouncements to that effect, but the modalities and priorities remain vague, and the record of agencies having worked at a more decentralized level is spotty.

More specifically, with the rigorous input of in-depth country diagnostics, a multi-stakeholder group in the country could call for a national forum to discuss an action program of priority governance reforms. Both in action program formulation and in dissemination and implementation, it is important to support the collaborative work of a multi-stakeholder group of leaders and representatives, namely, in the executive, judiciary, legislative, realms; the private sector; NGOs; and the media—moving away from the previous top-down approach.

- *An illicit and stolen assets initiative.* Substantial capital flight from the Middle East is taking place. Some flows are ill-gotten assets by elites. They are still placed with relative ease in selected safe havens in financial centers, and not merely in the Gulf, but also in London, for instance.⁵ The international community has a particular responsibility in supporting transition countries to improve governance by significantly tightening their regu-

lations regarding their own financial centers and in identifying and restituting stolen assets (as has been done in the past for Nigeria, Peru and Haiti, for example).⁶

- *Supporting the collaborative twinning of countries.* In the context of a humbler role for the members of the traditional international community during the transition, particular attention could be placed on how they could become facilitators in some key aspects of the transition. There are useful lessons from past transitions for countries like Egypt and Tunisia, and these countries may benefit from a “twinning” close collaboration with countries that have successfully faced similar challenges in other parts of the world.

Thus, for Egypt, along with Turkey, one possible twin is Indonesia, yet in some respects there may also be interest in a country like Brazil. For Tunisia, Chile may be of particular relevance.⁷ The international community could provide seed funds to encourage twinning arrangements and sharing of know-how and expertise.

The focus of this policy brief has been on the relevance of governance factors—including voice and democratic accountability, and also corruption and capture—in the Arab transition and their implications for strategies and initiatives for the international community. I have not provided a detailed discussion of some of the important economic issues—such as macroeconomic stability, budgetary and subsidy policies—that have been treated elsewhere.

However, it is worth emphasizing that it is a fallacy to have economic and governance challenges compete with each other for attention and priority at this

juncture of the Arab transition. Both are a priority, partly because they are closely intertwined. Sound economic policies, robust job creation and shared economic growth will not automatically unfold as a result of technocratic decrees or an infusion of external aid to a government ministry, but rather in large measure through improved domestic governance in a number of key dimensions.

I am grateful for the valuable comments from Ragui Assad, Tarik Yousef, Sheila Herrling and the participants of the 2011 Brookings Blum Roundtable, as well as the inputs from Luca Etter, Selsah Pasali, Veronika Penciakova and Katrina Koser. Given the concise nature of this brief, I have omitted some of the background evidence supporting assertions made here as well as other details. They will be available in a longer forthcoming article, which will also include full citations and a bibliography.

Endnotes

1. This contrasts the large deterioration in voice and democratic accountability during the same period (figure 1).
2. Such a 10-point transparency reform program could include the following: (1) media freedoms, media and internet development; (2) public disclosure of parliamentary debates and votes; (3) effective implementation of conflict of interest laws, and adoption of lobby laws, separating business, politics, legislation, and the executive; (4) publicly blacklisting firms bribing in public procurement; (5) adoption and effective implementation of freedom of information law, with easy access to all to government information; (6) adopting transparency standards for socioeconomic and financial data, including poverty data, fiscal/budget transparency standards; (7)e-procurement reforms: transparency (Web) and competition; (8) country diagnostic (and scorecard) on transparency and governance; (9) public disclosure of assets and incomes of candidates, public officials, politicians, legislators (and their dependents); and (10) public disclosure of political campaign contributions by individuals and firms, and of campaign expenditures.
3. Transparent and competitive auctions, open to all, are vastly preferable to individually targeted and obscure management buyouts, for instance. Thus, the modalities of the next stage of privatization will matter, and, furthermore, a review of recent privatizations (particularly for those large-scale cases that where rent seeking and capture may have featured prominently) may also be considered.
4. Given the recent tightening of financial regulations in financial centers such as Switzerland, the sense is that London, for instance, is a destination of choice for many such assets.
5. The uneven progress in financial centers' regulatory stance ought to be further examined and taken up more decisively in the context of the Group of Twenty (G-20) and other such forums.
6. Further, Tunisia, with its more European outlook, could engage in "twinning" arrangements with countries like Slovakia, Slovenia and the Baltic states.