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The Business Principles for Countering Bribery: Building Integrity in the Middle East and North Africa

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Article at a glance

- Combating bribery and other forms of corruption is a part of broader governance reforms in both the public and private sectors throughout the Middle East and North Africa.
- The private sector needs to be recognized by governments and civil society organizations as an indispensable and equal partner in fighting corruption.
- Transparency International's Business Principles for Countering Bribery, along with good corporate governance practices and internationally accepted norms, can be useful tools for engaging the private sector in anti-corruption efforts and governance reforms.

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Introduction

Corruption is often cited as one of the key hurdles to improving democratic governance in the Middle East and North Africa (MENA) region. A public opinion poll conducted in Algeria, Jordan, Lebanon, Morocco, and the Palestinian Territories for the 2004 Arab Human Development Report revealed that more than 90 percent of those surveyed ranked combating corruption as crucial to their concept of freedom. At the same time, however, the overwhelming majority felt that corruption was worsening in their countries, and nearly 40 percent believed that the best way to get government action was through favoritism.¹

Corruption undermines good governance and is also a result of weak governance. Due to that bi-directional causality, corruption perpetuates a vicious circle of the lack of transparency, accountability, fairness, and responsibility in decision-making. Because corruption in MENA and around the world is so strongly linked with deficiencies in governance, it is frequently conceptualized as a purely political issue. Yet corruption also has serious economic implications. Since the very same values that permeate democratic governance are at the core of free markets, corruption obstructs the development of well-functioning economies.

Whether through misallocating resources, favoring special interests, or increasing the costs of business, corruption reduces efficiency, discourages innovation, and lowers growth and employment levels. This makes it a particularly urgent problem in MENA, given that the region needs to create millions of new jobs over the next decade to provide employment for its burgeoning youth population. Fighting corruption – and especially bribery – should therefore be an integral part of addressing the region’s larger governance and economic sustainability problems.

MENA countries must recognize that the demand and supply sides of corruption matter equally. Governments, which are largely responsible for generating the demand side of corruption, cannot tackle this complex challenge without the active involvement of the region’s business community. The private sector is often a victim of corruption, either

directly through extortion and a higher cost of doing business, or indirectly due to lowered competitiveness and weak market institutions. Businesses can also be a source of corruption when they unlawfully seek to gain a government contract or an unfair competitive advantage. This behavior creates the supply side of corruption, making the business community an indispensable partner in local efforts to fight bribery.

The experience of the Center for International Private Enterprise (CIPE) shows that business can be a part of the solution to bribery, rather than just a part of the problem or a helpless victim. The business community can mobilize around anti-corruption reforms, say “no” to corrupt officials, implement internal reforms at the company level, and advocate for institutional reforms at the country level. By applying tools such as Transparency International’s Business Principles for Countering Bribery, the private sector in MENA countries can become a key participant in anti-corruption efforts as well as larger governance and market-oriented reforms.

The Problem of Bribery and Extortion

Corruption is a broad term encompassing various aspects of abusing entrusted power for personal gain. It can take many forms, ranging from hiring relatives (nepotism), giving contracts to supporters (cronyism), or abusing privileged information to buy or sell stock (insider trading). Perhaps the most familiar and pervasive form of corruption, however, is bribery. On a grand scale, bribery typically involves government officials, top executives, and huge sums of money. Not surprisingly, such scandals attract public and media attention. While it may not be as notorious as public scandals, common bribery is just as damaging.

Once petty corruption becomes heavily embedded in a country’s political and economic system, it may cease to be recognized as inappropriate behavior. This common acquiescence to bribery as something “normal” is more dangerous than one large corruption scandal, since it reinforces a culture of bribery and strengthens corruption as an institution.² If bribe-givers and bribe-takers no longer see bribery as a transgression and rather as an accepted norm,

the rule of law is fundamentally undermined. This is precisely the case in many MENA countries.

Admittedly, many bribes are solicited through extortion and are not a matter of a company's free choice. If extortion is widespread, businesses may understandably feel resigned to the status quo. After all, combating extortion is the responsibility of the state and law enforcement, even if they do not always live up to the task. Should those in charge of fighting extortion fall short of their duties, businesses can still take steps to limit corruption – and the Business Principles for Countering Bribery can help. Although the Business Principles primarily address the willful kind of bribery that businesses engage to gain an unfair advantage, they are also relevant to reducing extortion. Through the implementation of internal control systems over accounting and record keeping, companies make all bribes harder to hide, including those that may result from extortion. This makes extortion easier to detect, document, and deter.

Defining Bribery

Bribery is an offer or receipt of any gift, loan, fee, reward, or other advantage to or from any person as an inducement to do something which is dishonest, illegal, or a breach of trust, in the conduct of the enterprise's business.

Source: Business Principles for Countering Bribery

Because corruption is such a broad and sensitive issue, it is often contentious and may be viewed differently in different countries. Many see bribery as something that cannot be avoided, whether because of widespread extortion or common custom. In popular understanding, then, corruption is not a black-and-white issue. It spans a spectrum of the shades of gray, which is often reflected in the way corruption is described by language. Arabic, for instance, has a number of terms referring to practices that may or may not be viewed as corrupt. While *fassad* (corruption, or “rot”) typically carries a negative connotation, other commonly used terms are not necessarily pejorative and remain subject to interpretation. Is *baksheesh* (“small payment”) a facilitation payment or a tip? Is *wasta* (“favoritism”) an inappropriate

use of connections or legitimate networking?³ Such ambiguities make corruption an emotional topic and often hinder constructive debate on how to combat its unequivocally harmful outcomes.

The Economic Case against Bribery

The first step toward addressing the problem of bribery is to recognize that it is not just a political issue. Corruption does not begin with a few dishonest government officials or civil servants, nor does it end with simply replacing them. A better understanding of what causes corrupt behavior such as bribery requires casting it as an institutional and economic issue. Bribery thrives not because – or at least not exclusively because – of character flaws of individuals. Much more crucial is the environment that creates incentives for corrupt behavior. Therefore, bribery and other forms of corruption are primarily economic phenomena enabled by poor governance and weak institutions.

An economic perspective on fighting bribery requires it to be examined through the lens of supply and demand. All too often, corruption is blamed only on public officials who accept bribes. Public officials represent the demand side of corruption and obviously bear the burden or responsibility, but they do not bear it alone. It takes two sides to exchange a bribe: for every instance in which a bribe is accepted, it must first be offered. This is the supply side of corruption.

The culture of bribery frequently exists throughout entire societies simply because average citizens cannot otherwise obtain basic public services. Even if bribery is pervasive in all segments of society, the private sector, in particular, becomes a source of bribes. Even small businesses tend to have more resources than non-entrepreneurs and those resources are tempting to corrupt officials. Businesses are also subject to many more laws and regulations than individual citizens, and complex legal requirements unavoidably create potential for abuse. Consequently, bribery involving businesses remains common in many developing countries, including those in the MENA region.

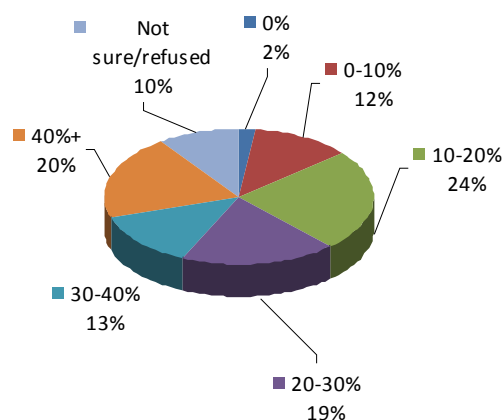
Bribery becomes a usual business practice because it can expedite the services to which companies are

The Costs of Corruption

A recent survey of Iraqi the business community, conducted by CIPE and Zogby International, revealed that corruption adds more than 20 percent to the costs of business for 52 percent of surveyed companies. 13 percent of the surveyed companies estimated that corruption adds between 30 and 40 percent, and one fifth said it adds over 40 percent to their costs.

For more information see: [Business Attitudes towards Political and Economic Reconstruction in Iraq](http://www.cipe.org/regional/mena/iraq/pdf/IraqPoll_08.pdf)
www.cipe.org/regional/mena/iraq/pdf/IraqPoll_08.pdf

How Much Does Corruption Add to the Cost of Business?



entitled, help avoid punishment (whether deserved or not) by authorities, remove bureaucratic hurdles, or secure lucrative government contracts. But what may be seen as a short-term benefit of bribery from the perspective of a single firm hurts business as a whole by creating unfair competition and extra costs. These costs are measurable: the World Bank estimates that “bribery has become a \$1 trillion industry” and it adds upward of 10 percent to the costs of doing business in many parts of the world.⁴ Bribery also carries less obvious but no less costly negative externalities. By weakening the rule of law, bribery worsens governance and decreases efficiency and productivity in the economy. As David Pitt-Watson, the Chairman of Hermes Equity Ownership Services, says, “The abuse of entrusted power for private gain is always fine for the one person doing it, but it becomes catastrophic if everybody starts doing it.”⁵

What has been missing in many anti-bribery efforts around the world is the convergence between addressing the demand and supply sides of corruption simultaneously. In debates accompanying many such efforts, it is common to hear businesses blaming governments and vice versa without arriving at a shared understanding of the problem. For anti-bribery initiatives to succeed, however, abstaining from bribery must make good economic sense for all stakeholders, including businesses. This can be achieved through developing better institutions and

standards of conduct that raise the costs of corruption to a point where it is no longer worth the risk. The Business Principles for Countering Bribery offer one such practical tool for engaging businesses in building better governance.

The Business Principles for Countering Bribery

The Business Principles were developed in 2002 as a joint effort of diverse stakeholders ranging from companies and academia to trade unions and non-governmental bodies. Transparency International spearheaded this effort in cooperation with Social Accountability International and with support from CIPE and other civil society organizations. The Business Principles provide a blueprint for corporate anti-bribery policies, encouraging companies to develop their own anti-bribery programs or to benchmark existing ones.

The imperatives postulated by the Business Principles are straightforward and widely applicable. They not only state the need for a commitment on the part of businesses to the values of integrity, transparency, and accountability, but also address the steps involved in designing, implementing, and evaluating a program for countering bribery in all its manifestations. The most prevalent forms of bribery these principles seek to address are outright bribes,

inappropriate political and charitable contributions, gifts, hospitality, expenses, facilitation payments, and other types of unethical payments.

Implementing the Business Principles requires that a board of directors take formal responsibility for countering bribery, establish effective whistle-blowing channels with no penalties to those who report corrupt behavior, create embedded internal control systems, and provide better communication and training. Simply refusing to engage in bribery is not enough. Even if managers and employees of a given company uphold their internal anti-corruption standards, nothing prevents less ethical competitors from taking advantage of the situation as long as a broad culture of integrity is lacking.⁶ That is why making ethical business conduct an integral part of good corporate citizenship is imperative.

The Business Principles recognize this fact, and while they focus on individual companies, the change the principles support is systemic. The goal is not only to improve anti-bribery mechanisms and norms in a particular enterprise, but rather to drive a value shift that recognizes corruption as harmful to all businesses and therefore unacceptable. Ultimately, the aim is to translate the values of transparency and accountability into institutions that create a level playing field where businesses can operate in a trust-based environment. Only such a systemic change would result in broad adherence to anti-bribery standards and address the collective action problem.

A corruption-free political and economic environment is a valuable public good. Yet it can only be created through the collective action of individuals. The problem with achieving such cooperation in the private sector is that behavior necessary to further the overall bribery-free business environment does not necessarily benefit an individual firm's short-term considerations. Many companies agree in the abstract that bribery is bad and they may even sign explicit commitments to fight it internally, but without proper incentives and enforcement, such declarations often remain unfulfilled. As long as bribery is widely accepted as a necessary or even advantageous element of conducting business, it is difficult to expect

The Application of the Business Principles for Countering Bribery

Five years after their publication, the Business Principles for Countering Bribery (BPCB) have attained recognition as a leading corporate anti-bribery standard and have influenced various other anti-corruption and corporate social responsibility initiatives:

- The BPCB have provided a new basis for corporate transparency and reporting in the area of anti-bribery.
- A considerable number of companies around the world adopted the BPCB.
- The BPCB were recognized by the World Bank and the U.S. Government's Overseas Private Investment Corporation as a model for anti-bribery programs.
- The FTSE4Good index for socially responsible investment introduced anti-bribery criteria based on the BPCB.
- The World Economic Forum Partnering Against Corruption Initiative (PACI) has largely based its principles on the BPCB.
- The Dow Jones Sustainability Index refers to the BPCB, as does the UK's Business in the Community Index.
- The BPCB are incorporated into the United Nations Global Compact, a collective initiative of business leaders to advance responsible corporate citizenship.
- With the recent publication of the Small and Medium Enterprise Edition of the Business Principles, the initiative is bringing anti-bribery tools to an even broader range of companies.

To learn more about the Business Principles, please visit www.transparency.org.

unilateral compliance with anti-bribery initiatives. The Business Principles give the private sector a strong foundation to change that.

Combating Bribery as a Part of Broader Governance Reforms

The problem of bribery in MENA in many ways reflects trends elsewhere in the world. For one, there is a degree of differentiation within the region. Based on the 2007 Transparency International Corruption Perception Index (CPI), MENA countries can be

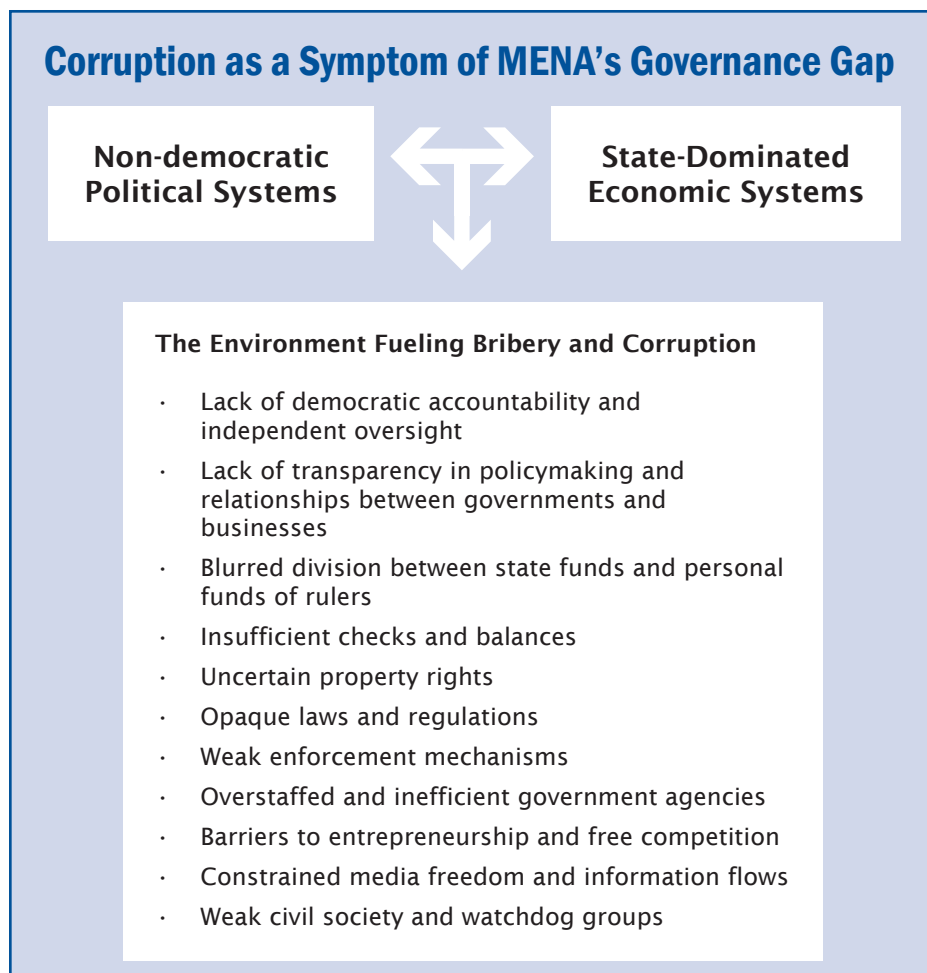
divided into three categories. Jordan and most of the Gulf States have relatively good scores and rank (among the 180 countries surveyed) in the top 30 to 50 countries. Countries in this range include Costa Rica, Hungary, Italy, South Africa, and Taiwan. The second group includes Algeria, Kuwait, Lebanon, Morocco, Saudi Arabia, and Tunisia, ranking within the top 60 to 90 countries. This group is comparable to Brazil, China, India, Romania, and Thailand. Finally, the worst performers in the region include Egypt, Iran, Iraq, Libya, Syria, and Yemen. These all rank among the lowest 100 to 180 countries, with Iraq at the 178th position – less corrupt than only Myanmar and Somalia.

These perceptions of corruption may not adequately reflect the region's more fundamental governance problems. In the World Bank's Worldwide Governance Indicators, MENA countries score consistently lower than expected relative to their income levels, and they all share the same governance weaknesses, especially in the Voice and Accountability category. Those weaknesses are rooted in the very nature of the region's political and economic systems: almost all MENA states are to at least some extent autocratic, and almost all MENA economies are directly or indirectly dependent on external rents, largely derived from oil. This link between the lack of democracy in the region and the abundance of outside rents is not coincidental. The fact that most MENA countries can be described as rentier or semi-rentier states dependent on external rents goes back to the core of their political and economic model.⁷

Massive flows of revenues going directly into state coffers have contributed greatly to the lack of transparency and accountability not only in how MENA economies are run, but also in how the political systems function. The decades-old rentier system

effectively undermined the taxation-representation nexus and turned local populations into clients rather than citizens of the state. This system facilitates corrupt behavior and makes it difficult to differentiate between corruption in a conventional sense and an inherent failing in the system itself because its rules are "rigged." In some MENA countries, for instance, both law and custom decree that the land and its natural resources belong to the ruler, thereby merging private and public resources and making private property of ordinary citizens nothing more than a grant from the ruler subject to his whims.⁸

The governance gap evident in MENA today is a consequence of entrenched political and economic institutions that enshrine the preeminence of the state and ruling elites, stifling the development of democracy and market economy alike. One of the most obvious manifestations of this governance gap is the structural corruption that inevitably arises at the intersection of flawed political and economic frameworks.



Addressing the rentier state legacy and reforming its institutions is no easy task. But combating bribery can and should be a priority precisely because reforms needed to limit corruption are also at the center of broader governance reforms. Therefore, the importance of implementing anti-bribery measures for better governance in MENA's public and private sectors cannot be overstated. Global research shows that countries that tackle corruption and improve governance can increase their national incomes by as much as four times in the long term.⁹ This "governance dividend" can be realized in MENA as well if the private sector improves its own record on bribery and engages governments and civil society organizations in a constructive dialogue.

The Challenges and Opportunities Ahead

MENA undeniably faces a host of challenges in confronting bribery, since it has become so ingrained in the region's political and economic systems. At the same time, MENA has an unprecedented opportunity to confront the problems of corruption and weak governance together. To date, most anti-corruption efforts have originated from the government, on the demand side of the problem. Not enough attention has been devoted to the private sector, to the supply side of corruption. That is why a matching bottom-up effort among the business community, such as implementing the Business Principles for Countering Bribery, is extremely important.

The Business Principles strive to instill the values of transparency and accountability in the broader business culture. CIPE has been working with local private sector organizations in MENA to popularize these principles and make them the gateway to advancing broader governance reforms. In 2007, for instance, three regional workshops were held in Bahrain, Jordan, and Morocco, where the Business Principles were the centerpiece of discussion. Lessons learned from those workshops shed light on the challenges and opportunities regarding governance reform efforts in the region.

Placing the Business Principles for Countering Bribery in the MENA Context

The Lebanese Transparency Association (LTA) is a local chapter of Transparency International. LTA, with support from CIPE and in cooperation with the Lebanon Corporate Governance Task Force, undertook an effort to translate and adapt the Business Principles for Countering Bribery to the Lebanese context. The Arabic version of the Business Principles was published in 2004. The task of translation went far beyond simply rendering the original text in the local language. Instead, LTA focused on conveying and contextualizing the concepts of the Business Principles rather than just their literal translation.

To learn more, please visit www.transparency-lebanon.org

Different priorities in different countries

The overall recipe for combating corruption is universal. It necessitates reforming the institutional environment so that incentives for engaging in corrupt behavior are taken away both on the demand and supply sides. On the demand side, the goal is to limit the ability of public officials to extort bribes and abuse discretionary powers. On the supply side, the objective is to limit the ability of businesses to engage in corruption. Particular needs and priorities may differ within this general framework.

Within the MENA region, the Maghreb, the Levant, or the Gulf countries may have varied priorities in fighting corruption. Therefore, a "one-size-fits-all" approach does not work in terms of advocating for or prioritizing specific reforms. Each country needs to identify exactly which of its institutions are key sources of corruption and how to prioritize reforms. It is crucial that whatever course of action is chosen, it remains firmly anchored in the grassroots input from local stakeholders, including business community and civil society organizations. Top-down government initiatives or solutions imported wholesale from the West are unlikely to engender public trust and support, since they are often perceived as impositions that have no roots in local realities.

De-politicizing corruption

All too often, debates about corruption disintegrate into fruitless squabbles driven by national pride and a country's unwillingness to admit that its corruption problems may be worse than its neighbor's. Countries where corruption is most pervasive feel singled out and even if they understand how harmful corruption is, they still feel hurt by the perceived finger-pointing. In theory, highlighting a given country's shortcomings can awaken the spirit of competition and motivate it to strive to be less corrupt, in practice, the sentiments of resentment often prevail and obstruct constructive progress. This is particularly the case in MENA, where openly discussing corruption still largely remains a cultural taboo.

That is why successful initiatives in the region must recognize that corruption is a sensitive issue and try to de-politicize it. Being critical of a particular system or institution within some country is more likely to result in defensive outbursts rather than objective introspection. It is more useful, then, to frame discussion about issues such as bribery in terms of "building integrity" and "improving governance." This approach allows for treating bribery as a structural, rather than political, problem and avoids assigning a corruption stigma.

Corruption as an institutional problem

In engaging the private sector on the issues of corruption, reformers must not be moralistic. Many businesses in MENA feel that it is the public sector that drives corruption in their countries. The stakes are indeed much higher for a private company than for a public sector official: if a firm is penalized for corruption, it may be forced out of business, whereas corruption in the public sector often takes place with impunity. Not surprisingly, businesses are eager to claim the moral high ground and lay the blame for corruption on the government alone.

But casting blame and trading corruption accusations between governments and businesses is not a productive approach. What is needed is the

shared acknowledgement that widespread corruption is above all a symptom of institutional failure, not a matter of personal ethics. Rather than considering corruption as a moral issue, it should be thought of as an institutional problem that imposes extra costs on business, lowers efficiency, hampers development, and hurts society as a whole. Consequently, instilling a culture of integrity must start with institutional reforms aimed at removing the incentives for corrupt behavior on both the demand and supply sides.

Reforming the institutional environment

Recognizing that corruption is primarily an institutional problem entails reshaping the institutions that facilitate corrupt behavior. Governments should focus on reforming the legal infrastructure that creates opportunities for corruption, including vague laws and regulations, overly complicated tax codes, and excessive authority granted to public officials without proper oversight. Governments should also make public procurement, one of the leading sources of corruption around the world, more transparent and subject to clearly articulated procedures.

Finally, governments should strive to strike a healthy balance between anti-corruption laws and voluntary codes of conducts. Stifling businesses with too many strenuous anti-corruption regulations may turn out to be counterproductive and in the end undermine the rule of law, as businesses find themselves overburdened and unable to comply. Beyond the legislative aspect of making the business environment less prone to corruption, implementation and enforcement mechanisms also have great importance. Compliance has to be ensured through independent audits and a reliable judiciary system capable of ensuring that nobody is above the law.

Special attention to SMEs

Fighting bribery is often most difficult for small and medium-sized enterprises (SMEs). They are the easiest prey for corrupt officials and many may be so accustomed to corruption as a "necessary" part of conducting business that they have developed mechanisms to deal with it in day-to-day operations.

Suggested Anti-Bribery Principles for SMEs

1. We will carry out our business fairly, honestly and openly.
(Example: transparent payment terms, clear records)
2. We will not make bribes, nor will we condone the offering of bribes on our behalf, so as to gain a business advantage.
(Example: no bribes to be paid by agents)
3. We will not accept bribes, nor will we agree to them being accepted on our behalf in order to influence business.
(Example: careful management of commission payments)
4. We will avoid doing business with others who do not accept our values and who may harm our reputation.
(Example: careful selection of business partners)
5. We will set out our processes for avoiding direct or indirect bribery, and keeping to and supporting our values.
(Example: a process for dealing with gifts and entertainment)
6. We will keep clear and updated records.
(Example: records of decisions on giving donations or how a demand for a bribe or conflict of interest was handled)
7. We will make sure that everyone in our business and our business partners know our Principles.
(Example: good communication and training; no excuse for not knowing)
8. We will regularly review and update our Programme and processes as needed.
(Example: learn from experience and networking with others)
9. We will keep to these Principles even when it becomes difficult.
(Example: not paying facilitation payments)

Source: Business Principles for Countering Bribery – SME Edition

The challenge of bringing about change in the SME sector is to reverse this mindset and demonstrate to small business owners just how much bribery hurts their enterprises. Beyond the immediate monetary costs, bribery causes the loss of reputation, makes it difficult to obtain financing and new investment, takes the control over business decisions away from the owners, and increases the risk of fines and prosecution.

The SME Edition of the Business Principles for Countering Bribery uses practical examples to show small businesses that corruption is not inevitable – that it is an aberration and not the norm in how business should be conducted. Given that SMEs account for the majority of private sector employment in MENA, the need to focus anti-corruption efforts in their direction is paramount. This special focus on SMEs also signals the ongoing need to distinguish between various types of enterprises (such as family-owned and state-owned enterprises) in anti-corruption efforts and tailor the Business Principles to each group's needs.

Dialogue between business and civil society

One significant obstacle to a constructive debate about corruption in MENA is a visible disconnect between the business community and the rest of civil society. The attitudes of many civil society and watchdog groups as well as academia tend to be influenced by the socialist legacy of the region, which portrays businesses as perpetrators of corruption rather than partners in tackling it. NGOs and civil society activists need to recognize that anti-corruption efforts are not just their prerogative. In fact, participation of the business community is essential to addressing corruption and should be an integral part of any effort to mobilize anti-corruption constituencies and advocate for change.

Private Sector and Civil Society Join Forces in Anti-Corruption Efforts

The Confédération Générale des Entreprises du Maroc (CGEM) is Morocco's largest private sector business association with close to 2,000 members, about 70 percent of whom are small and medium-sized enterprises. To enhance transparency and accountability in business practices, CGEM worked with other public and private sector stakeholders to develop a corporate governance code for Moroccan companies. The code was released in March 2008. CGEM also worked with CIPE and Transparency International to strengthen cooperation between business associations and other civil society actors on the issue of anti-corruption. Such cooperation between the business community, public agencies, and civil society increases trust and helps mobilize grassroots support for fighting corruption.

An important caveat here is that not all businesses may be interested in joining anti-corruption coalitions. Given that business elites are often entangled with political elites, their narrow interest may dictate preserving the status quo. Similarly, many public sector officials may be less than enthused about fighting corruption because they are the beneficiaries thereof. But this is not reason enough to discount the possibility of cooperation between the rest of the business community and the civil society. There is strength in numbers. Since the majority of businesses in MENA are small, joining forces with civil society organizations can bring attention to the cause of anti-corruption. Such joint efforts can highlight the fact that the resistance to reforms from the political and economic elites undermines the prosperity of entire societies.

Private sector anti-corruption tools

The first step in anti-corruption efforts in MENA has to do with convincing companies that there is a business case for improving their own governance, even though their operating environment is not always conducive to good governance. Showing that business ethics and economic efficiency are two sides of the same coin can be a powerful reason for businesses to take anti-corruption seriously. Building resolve to fight corruption is not enough: enterprises also need concrete tools to do so. The Business Principles for Countering Bribery provide many answers. Additional tools can be found through building better corporate governance and more responsible corporate citizenship, since well-governed enterprises reduce internal opportunities for corrupt behavior.

Private sector organizations such as voluntary business associations and chambers of commerce have an important role to play in applying those anti-corruption tools. They are uniquely positioned to build wide consensus for reform because they are the voice of the business community best able to articulate why combating corruption is important. They can also help overcome resistance to reform. While it would be difficult for individual companies to stand up to corrupt government officials, business associations and chambers of commerce can be effective in mobilizing

the resources and knowledge necessary to bring about change.¹⁰

What Do Anti-corruption Reforms Entail?

MENA has been positively influenced by the global surge of attention to anti-corruption issues in the recent decade. One example is the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions that entered into force in 1999. The convention recognized bribery as “a widespread phenomenon in international business transactions, including trade and investment, which raises serious moral and political concerns, undermines good governance and economic development, and distorts international competitive conditions.”¹¹ Even though no MENA countries are signatories to the convention, it still puts pressure on international companies conducting business in the region as well as on their local counterparts to counteract bribery.

Another important international agreement is the United Nations Convention against Corruption (UNCAC). It was adopted by the General Assembly of the United Nations in 2003 and emphasizes “the seriousness of problems and threats posed by corruption to the stability and security of societies, undermining the institutions and values of democracy, ethical values, and justice and jeopardizing sustainable development and the rule of law.”¹² Several MENA countries ratified the convention: Algeria, Djibouti, Egypt, Jordan, Kuwait, Libya, Morocco, Qatar, the United Arab Emirates, and Yemen. Others signed the convention but have not yet ratified it: Bahrain, Iran, Saudi Arabia, Syria, and Tunisia. The Iraqi government has taken the first steps toward becoming a signatory.

International agreements such as the OECD convention or UNCAC highlight the fact that corruption is not just a local problem, but rather a transnational phenomenon affecting societies and economies around the world. Yet the key to success in fighting corruption remains local because no international initiative can truly advance domestic anti-corruption efforts if it does not translate into practice. In other words, for all the international good will generated around the issue, anti-corruption

remains inextricably tied to the quality of local governance. It is then at the level of local governance that corruption needs to be addressed.

Several MENA governments have taken concrete steps to reduce corruption. Egypt, for instance, cut the number of procedures a potential investor has to go through from 19 to three, curbing the opportunities for bribery. Morocco and Yemen passed legislation addressing income and asset disclosure and they established new institutions dedicated to fighting corruption. Similar institutions have been established in Jordan and Iraq, and Kuwait is currently considering one. Algeria passed comprehensive anti-corruption legislation and Jordan adopted Freedom of Information laws.¹³ Still, the implementation of these reforms and their true influence on local governance remains questionable. Actual practice frequently fails to follow the letter of new laws, while the proliferation of anti-corruption commissions is perceived by many as not much more than window-dressing.

In the end, both international and domestic initiatives can only be effective if they result in an on-the-ground behavior change among public sector officials and businesses. Just creating new anti-corruption laws or commissions cannot fix the problem. The necessary change must go deeper and improve governance in general. CIPE Executive Director John D. Sullivan says, “Although it is important to develop legal codes to combat bribery, it must be recognized that it is just as important to address the enabling environment issues. In that sense, efforts to establish the rule of law, strengthen the protection of private property rights, and improve the quality of regulations become crucial in anti-corruption reform.”¹⁴

The Urgent Need for Reforms

The need for anti-corruption and broader governance reforms in MENA countries is particularly pressing in the light of a looming unemployment crisis. According to the International Labour Organization, average unemployment rates in the region are already the highest in the world,¹⁵ and the situation may become even more explosive given the ongoing demographic

transition. The region’s labor force, which was around 100 million workers in 2000, is predicted to soar to 185 million by 2020.¹⁶ These staggering numbers give an unprecedented urgency to reforms, since MENA countries may soon face serious social unrest if their governments appear unresponsive and their economies cannot create enough new jobs.

In the past, MENA states relied on expanding their public sectors and giving young labor force entrants well-paid government jobs. That was the fulfillment of an unwritten social contract, which in essence traded political and economic liberties for employment security. Yet, with the demographic surge on the horizon, MENA public sectors no longer have the capacity to absorb everybody who needs work. The realization that hydrocarbon revenues are exhaustible and the supply of other external rents such as foreign aid can be volatile has led some countries in the region to seek economic diversification. But the private sector in MENA has long been constrained by the dominant leftist ideology and the practice of patronage. The latter provided government protection to just a few large crony firms leaving the vast majority of businesses disadvantaged and left out of the political process. It will take in-depth governance reforms to change that paradigm and make MENA economies structurally less corrupt and more productive.

The Arab Human Development Report concludes that “if ending corruption entails, among other measures, deep economic reform, active laws and mechanisms of accountability, and transparent governance, structural corruption can be overcome only by radical reform of the political architecture.”¹⁷ Therefore, making MENA political systems more accountable must go hand in hand with reforms that curb the impunity of elites, increase popular participation in policymaking, and empower the private sector beyond just crony firms to become the engine of growth and job creation.

Despite some hesitant and incomplete past reforms, the costs of starting and running a business in many MENA countries are still prohibitive, pushing entrepreneurs into the informal sector and denying them political representation. The informal sector in

turn creates a fertile ground for extortion by the police, government inspectors, and other public officials. Successful future reforms must change these conditions and capitalize on MENA's demographic transition by putting in place transparent legal and institutional frameworks that would make the region's economies more inclusive and unlock its great potential for local entrepreneurship. Reforms must also move away from the pattern of top-down policies pursued by the rulers and foreign technocrats, contributing to the feeling of disconnect between the reformers and society at large. Instead, reforms should be participatory and ensure greater grassroots ownership.¹⁸

Combating corruption can create more accountable political systems and better functioning state bureaucracies, energize the private sector, shrink the informal economy, attract investment, and avoid destabilizing capital flight. That is why initiatives such as the Business Principles for Countering Bribery are crucial to making MENA businesses and economies more transparent, more efficient, and well governed. If the region is to meet its youth employment challenge, it has to make anti-corruption and broader governance reforms its number one priority.

Conclusion

Corruption remains a serious problem in the MENA region. It impedes economic growth, distorts competition, inhibits development, and undermines the rule of law and good governance. Bribery is one of the most common forms of corruption and can be particularly damaging if it becomes embedded in a country's political and economic system. When corruption pervasively inserts itself in interactions between the state and the business community, ranging from public procurement to routine permits, the problem becomes structural. That is the case in MENA.

While past anti-corruption efforts in the region frequently focused on weeding out crooked officials, they were often little more than just publicity stunts. More meaningful, but also much more difficult, institutional reforms have to establish the incentive structures that reward transparency and foster

accountability. Governments need to recognize that they cannot solve the structural corruption problem alone. As the Chair of Transparency International Huguette Labelle noted, "Governments are key to making good on commitments to fighting corruption. But governments are not alone in their responsibility. We need to see concerted action from civil society and the private sector too."¹⁹

The business community is especially important in fighting bribery. Tools such as the Business Principles for Countering Bribery recognize this role and strive to bring about change at a systemic level by helping to bridge the divide between the supply and demand sides of bribery. If businesses commit to improving their operations so that the risks of bribery rise and incentives to engage in it diminish, a culture of integrity can gradually take root. Framing bribery as an institutional problem that can be addressed through better governance also helps to decouple it from the realm of morality, where it remains a taboo in many cultures.

It is important to keep in mind that corruption in MENA is not a stand-alone problem. Instead, corruption stems from institutional flaws of the region's non-democratic political systems and state-dominated economies. MENA economies are based on non-transparent flows of rents rather than domestic productivity, and MENA governance is based on personal loyalties to the ruling elite rather than to the rule of law. Therefore, it is necessary to pursue deeper reforms in both the political and economic spheres in order to effectively address corruption. MENA countries need to empower their private sectors to be active participants – not just in anti-corruption efforts, but in building better democratic governance and market economies throughout the region.

Notes

¹ "The Arab Human Development Report 2004: Taking the Public Pulse," press release, 5 April 2005, www.undp.org/arabstates/PDF2004/7PR_AHDR04_E.pdf.

² John D. Sullivan and Aleksandr Shkolnikov, "Combating Corruption: Private Sector Perspectives and Solutions," CIPE Economic Reform Issue Paper No. 0409, 22 September 2004.

³ Robert Beschel, "Corruption in the MENA Region: A

Declining Trend or More of the Same?" *MENA Governance News & Notes*, World Bank, Vol. 1, Issue 2, January 2008.

⁴ UN Global Compact, Principle 10 (Transparency and Anticorruption).

⁵ International Consultation proceedings, CIPE and Global Corporate Governance Forum, "Role of the Private Sector in Ethics and Corporate Governance in the Fight Against Corruption," Paris, 3 March 2008.

⁶ John D. Sullivan and A. Shkolnikov, "The Business Case for Corporate Citizenship," CIPE Economic Reform Issue Paper No. 0410, 27 December 2004.

⁷ See Sufyan Alissa, "The Challenge of Economic Reform in the Arab World," Carnegie Papers (2007); and Hazem Bablawi and Giacomo Luciani, eds., *The Rentier State* (London: Croom Helm, 1987).

⁸ UNDP, *The Arab Human Development Report 2004: Towards Freedom in the Arab World*, p. 136.

⁹ World Bank News & Broadcasts, "Costs of Corruption," 8 April 2004.

¹⁰ Aleksandr Shkolnikov (ed.), "Chambers of Commerce: Combating Corruption and Improving Corporate Governance," CIPE Economic Reform Issue Paper No. 0503, 16 June 2005. p. 4.

¹¹ OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, www.oecd.org/document/21/0,2340,fr_2649_34859_2017813_1_1_1_1,00.html.

¹² UN Convention against Corruption, www.unodc.org/unodc/en/treaties/CAC/index.html.

¹³ Rober Beschel. "Corruption in the MENA Region: A Declining Trend or More of the Same?"

¹⁴ John D. Sullivan, "Corruption, Economic Development and Governance: Private Sector Perspectives from Developing Countries," www.unglobalcompact.org/docs/issues_doc/7.7/case_stories/BAC_1C.pdf.

¹⁵ International Labour Organization, *Global Employment Trends and Brief*, January 2007.

¹⁶ *Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract*, Washington, D.C.: World Bank, 2003. p.1.

¹⁷ *The Arab Human Development Report 2004*, p. 137.

¹⁸ See John D. Sullivan and Anna Nadgrodkiewicz, "Middle East and North Africa Reform: Rooted in Economic and Political Ground," CIPE Economic Reform Issue Paper No. 0804, February 2008.

¹⁹ Transparency International, "Global Corruption Barometer 2007: Political parties and parliaments seen as institutions most compromised by corruption worldwide," press release, 6 December 2007.

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