



## **4<sup>th</sup> ANNUAL MEETING OF MIDDLE EAST AND NORTH AFRICA SENIOR BUDGET OFFICIALS (MENA-SBO)**

*Beirut, 21-22 September 2011*

### **BACKGROUND NOTE** *(Draft for Discussion)*

## **WHAT CAN ARAB COUNTRIES LEARN FROM PRIOR POLITICAL TRANSITIONS?**

### **I. A diverse region facing different situations**

The popular movement initiated in Tunisia in December 2010 has shaken up the Arab region and produced political consequences of unprecedented magnitude. Several countries have been the scenario of citizen's protests calling for democracy and political freedom, denouncing the corruption of governments and political leaders at highest level, and pointing out the incapacity of the economic system to deliver jobs and social cohesion. However, general trends have to be treated with caution, as the political evolution differs significantly from one country to another.

The two countries that witnessed revolutionary processes, Tunisia and Egypt, are following different paths. Whereas Tunisia seems to be embarked in a solid process of democratic transition led by civilians; Egypt is still in a phase of military rule, although gradual movement into civil rule has already been defined. Things are even more uncertain in Libya, where repression from the Gaddafi regime led to an armed uprising that has overshadowed political considerations. Western oriented monarchies in Morocco and Jordan have announced significant political reforms, without calling into question though the central role of the Monarchy, both in the political life and the control of national resources. Timid reform announcements are being expressed by other governments like Algeria or Saudi Arabia. The situation remains uncertain in view of the violence in Bahrain, Yemen, to a lesser extent Oman, and most recently Syria. Iraq and Palestine pursue their process of building democratic institutions amid a situation of major insecurity and political weakness of governments. The Gulf monarchies or UAE, Qatar and Kuwait seem unaffected by the regional events, as does Lebanon.

### **II. Searching for relevant experiences**

Based on the assumption that a significant number of Arab countries will undergo a transition from authoritarian regimes to democracies, what could be the change trajectories that provide hints on future

needs? Even though it is still too early to tell how deep political change will be in these countries, it might be valuable to look at other countries' experiences. The G-8 Summit at Deauville in May 2011 hinted that the magnitude of change could be similar to the transformations in Central and Eastern Europe with the fall in the Berlin wall, but the parallel is not easy to sustain, as the popular unrest in Arab countries does not seem to be aimed at changing a political and economic paradigm but rather at rejecting corrupt and ineffective regimes.

In this sense, political transitions in Latin America in the 1980s may provide a more relevant parallel. At that time, several countries in Latin America made a transition from authoritarian regimes to democratic rule. In less than five years, no less than ten countries in the region adopted major political reforms under pressure from their people and the international community. Given the speed of the changes, the number of countries involved and – above all – the developing status of their economies, political transitions in Latin America are possibly the closest to the process that is currently under way in Arab countries. It may come as no surprise that leaders and scholars in Arab countries are expressing growing interest in the experience of countries like Brazil, Argentina and Chile, as well as their immediate European predecessors, Spain and Portugal.

Political transitions in Latin America were neither easy nor smooth. In some countries emerging democratic institutions remained constrained and vulnerable for many years; others were soon faced with deep economic crises. Many expectations remained unfulfilled and high inequality remained relentless for two decades. Surveys and studies revealed that support for democracy in Latin America deteriorated in the 1990s and has recovered only slightly since then.

### **III. Some relevant lessons**

Even though it is still too early to tell how deep will be political change in Arab countries while political trajectories in Latin America were also diverse, there are a few lessons from the latter that can be relevant for Arab countries that engage in substantial political transition. We summarize these lessons in the following seven points:

1. *Authoritarian regimes usually hide major institutional weaknesses that are revealed once hierarchy and patronage subside as a mechanism for government coordination.* Many authoritarian regimes seem well organized and efficient, but this may reflect more the concentration of power and fear than the efficiency or like-mindedness of a professional technocracy. Once the basis of this structure is removed, public servants gain voice and autonomy, and abuse and discretionality is exposed, and perceptions of government effectiveness may drop dramatically. This may have an impact not only in public service quality but also in the provision of the most basic public goods, like law enforcement or justice administration. Rebuilding public administration and ensuring policy effectiveness should be seen as a challenge as big as the fight against corruption and not a simple consequence of the latter.

2. *The anxiety to respond to pressing social needs and to gain political legitimacy may easily lead to economic imbalances that destabilize any nascent political regime.* Many Latin American governments that emerged in the late 1980s did so in the context of social turmoil in the aftermath of the debt crisis and tried to gain legitimacy by distributing quick benefits to the population. In some cases –like Peru, Argentina and Brazil– this generated major fiscal imbalances and hyperinflation that increased peoples' dissatisfaction and political instability. As a result, growth remained low and inflation shot up in several countries in 1985-1995. The main

lesson to be learned is that it is preferable to lower expectations at the beginning and to increase social benefits later, once economies grow stronger. In the meantime, initiatives strategically aimed at providing relief to the poorer, to build medium-term agreements with key stakeholders and to address iconic legacies of autocratic regimes may provide the breathing space for longer-term reforms to develop.

3. *Inequality has a pervasive effect on economic development.* Even though Latin American countries are characterized by high levels of inequality, many leaders and experts believed at the end of the 1980s that faster growth would be enough for all sectors to participate in the benefits of development. The experience over the ensuing decade proved that trickle down was not only ineffective, but also that inequality eroded the political and economic sustainability of growth. This led several Latin American countries to make a substantial change towards more active social policies and the strengthening of institutions that gave voice and rights to the poorest segments of the population at the end of the 1990s. Since then, inequality has been subsiding in several countries in the region, like Brazil, Chile and Uruguay. Besides earlier moves in this direction, increasing transparency, both in the public and the private sector, may help preventing interest groups from exercising their power and influence upon policymakers at the earliest stages of political transition.

4. *Institutions are the basis not only of government effectiveness, but of the ability to reconcile economic growth and equity.* At the start of the transition process several countries in the Latin American region built special units or relied on NGOs to deliver social and infrastructure programs in a swifter way. This had the unwanted effect of further delaying the ability of government institutions to perform effectively. The same could be said of centralization, that many countries pursued to guarantee effectiveness in service delivery at the cost of further weakening subnational governments. Strengthening the capacity of public institutions at the national, regional and local level should be conceived as a key component of political reform because only institutions have the ability to level the playing field for citizens to benefit from economic development.

5. *People's expectations and standards on public services evolve very rapidly in the context of political change.* Political leaders and senior government officials must be fully aware that conducts that were tolerated in the past may cease to be acceptable and that the ability to reveal improper conducts may increase exponentially with an independent media. Governments should try to be ahead of the curve in adopting and complying with higher standards of conduct rather than reacting to subsequent scandals and popular outcry. The same could be said in connection to middle-class expectations: once countries stabilize and start making progress, the expectations of middle-income groups may change faster than the ability of markets and government to respond to them. Policymakers should never underestimate the weight of the middle class in public opinion and should be ready to integrate them into policies and strategies.

6. *Dialogue among political and social actors is extremely important to secure peaceful transitions, but commitments need to be followed up in order to maintain political momentum and cohesion.* National agreements or social pacts may provide a solid basis for reconciling political, social and economic goals in a democratization process, but delivery on these agreements is equally important. Several Latin American countries did not pay enough attention to the implementation phase of such agreements, which not only eroded the political climate but also trust on political leadership and institutions. National agreements and pacts should be

complemented by monitoring, evaluation and review mechanisms to contribute to political and social cohesion.

*7. Peer pressure, exchange of experience and good practices from abroad are important drivers for change in countries that are opening up politically.* Even countries that already enjoyed substantial economic openness may benefit from a more fluid exchange of knowledge and experiences as democratization facilitates internal dissemination and discussion of good and bad practice abroad. Comparison with countries that are undergoing similar experiences is a particularly useful as a way of testing ideas, speeding up learning and maintaining momentum for change. Political transition provides a good opportunity to develop policy networks, South-South cooperation and international agreements that help disseminate good practice and support domestic policy choices.

#### **IV. Relevance for the OECD**

Political change is a long and complex process that involves many dimensions of institutions. The forces that oust a powerful regime may not be capable of building a consistent set of democratic institutions at a similar speed. This exposes nascent democracies to many risks, which were pretty evident in Latin American transitions, leaving a deep legacy to date.

Countries that are undergoing political transitions should be aware of these risks and seek ways of mitigating them. Internal and external dialogue is key to this end. Internal dialogue may generate the basis for reconciling political, economic and social goals in a feasible medium-term agenda and to build trust as a basis for a new coexistence. External dialogue may generate peer pressure and speed up learning to find the most appropriate solutions for each country.

The OECD is well positioned to support internal and external dialogue in Arab countries in the current environment of change, given its recognized competencies in this field. OECD can support internal dialogue by providing methodological support and feeding information into the process. OECD can also support national dialogue as a trusted, non-partisan actor and by helping countries to articulate agreements, providing technical assistance in their implementation, and assessing progress.

One important difference between the environment of democratic transitions in Latin America in the late 1980s and today is that knowledge is much more globalized, that there is a constant flow of experience in public policies among countries and that international organizations are realizing that this may be a better way of promoting development than conditioning aid. Non-partisan international organizations like the OECD are particularly well suited to operate in this environment to the extent that they are able to adapt their strategies accordingly.