

THE POLITICAL ECONOMY OF TRANSITIONS: ANALYSIS FOR CHANGE

Conference, Oslo, November 8th–9th 2012

EXECUTIVE SUMMARY



The **Oslo Governance Centre (OGC)** is a unit of the Democratic Governance Group (DGG) in the Bureau for Development Policy (BDP) of UNDP. It was established in 2002 as a centre of excellence designed to provide support to the practical and operational work of UNDP in assisting partner countries in developing more democratic and effective forms of governance for sustainable peace and development. The overarching purpose of the Oslo Governance Centre is to conduct systematic analysis and review of UNDP's governance work around the globe, aimed at learning from experiences in the field and contributing to UNDP's programming and policy advisory services at the national, regional and global levels.

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The **Norwegian Peacebuilding Resource Centre (NOREF)** is a resource centre integrating knowledge and experience to strengthen peacebuilding policy and practice. NOREF was established by the Norwegian Ministry of Foreign Affairs in June 2008 as a key resource centre to support Norwegian peacebuilding efforts. The Centre collaborates and promotes collaboration with a wide network of researchers, policy makers and practitioners in Norway and abroad. The Centre provides a range of resources and services on peacebuilding, mediation and humanitarian issues to the Ministry of Foreign Affairs. These include gathering and sharing timely information and analysis, and organizing briefings, seminars and other targeted events. It has a particular focus on ensuring that expertise from the South is included in its work.

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Background

UNDP Oslo Governance Centre (OGC) and the Norwegian Peacebuilding Resource Centre (NOREF) jointly organised a conference on the political economy of democratic transitions with a focus on understanding models, policies and processes underpinning political transition, economic transformation and the renegotiation of the social contract. Its purpose was to stimulate dialogue between practitioners, academia and policy makers on key issues related to recent and ongoing transitions, and to inform the policy advice provided by civil society and international actors on the ground. The conference discussed four critical questions related to the political economy of transitions:

1. What are the key challenges of economic transformation and what can be done to consolidate sustainable political and economic reforms?
2. What is the role of civil society in renegotiating the social contract and how can an inclusive dialogue space be created to transform street protests into viable collective action?
3. In countries with a transitional civilian government and *de jure* or *de facto* military tutelage, what strategies can be employed to depoliticise and legitimise state institutions?
4. What are the challenges facing policy-oriented centres and how can these be met in order to (re) build and support the institutionalisation of their strategic advice?

Three countries were chosen as representative of transitions since the mid-1980s – Brazil, Chile and Indonesia – with a view to identifying key challenges and opportunities for the ongoing transitions in Egypt, Tunisia and Myanmar. The choice of these six countries has been informed by the fact that they share a number of features – in particular a political economic situation with destabilising social consequences, a military with a major political role, and a society fraught with major inequalities both economically and socially.

The diversity of the participants, including practitioners, civil society actors, policy makers, military leaders, researchers and representatives from both multilateral and bilateral organisations, ensured a vibrant exchange of ideas, both South–South, and South–North. Two overarching themes were inclusiveness and accountability. Participants agreed that ignored linkages between economic choices and democratic processes need to be identified and explored, and how transition towards democracy is undermined by growth policies that are not closely tied to explicit goals of social justice and equity.

Policy space and economic choices

In his opening remarks, Olav Kjørven, United Nations Assistant Secretary-General and Director of UNDP's Bureau for Development Policy, emphasised the fact that, whereas political change can come about quickly, lasting societal change requires a long-term perspective. One of the main challenges during transitions concerns the creation of space for due reflection on inclusive policy choices, at a time when the pressure to 'restart' economic growth is understandably high. Economic choices need to focus on inclusive and sustainable growth, while recognising that the links between equity, growth and environmental sustainability are complex.

" Political change can come about quickly, but lasting societal change takes time. "

Olav Kjørven

Norm-based social dialogue between government authorities, power elites (such as the military and business) and the people can be achieved through institutionalising the role of organised intermediaries – political parties, trade unions workers, farmers' associations, women's groups and youth organisations – in economic and social policymaking. This is an essential component of a revised social contract. Evidence shows that building equal opportunities for women into a new political order can affect the trajectory of economic growth and of social policy. Another priority is corruption and illicit financial flows, which impoverish countries and weaken governance.

Agreement on targets and indicators set through inclusive dialogue can allow all actors to measure progress against the same set of 'rules' and, ultimately, leaders can be held accountable. Investing in national and local analytical capacity through think tanks and research facilities will inform policy choices for both civil society and decision makers.

Human rights and democracy

Engagement in transition processes should be predicated on respect for human rights and minorities, as trustbuilding is key to achieving sustainable change; as Torgeir Larsen, Norway's Secretary of State for Foreign Affairs, pointed out, "the ability to support human rights defenders is a real test of democracy. Specifically, women must be included, as no transition can be democratic if half the population is not represented". Although basic human rights are universal, true democracies develop within the social contexts they reflect; therefore (the terms of) democracy cannot be imposed from outside, and must be locally owned. The international community can play a positive role, but a real understanding of local realities is essential, as transition processes must be based locally.

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Torgeir Larsen

Transitions to democracy take time; managing expectations is therefore a daunting challenge, as the economic reality in the wake of political upheaval will not correspond to people's demands. Countries in transition need support to achieve short-term gains while embarking on long-term reforms and processes. National economic growth must be supported, as democracy is not sustainable without economic reforms and employment. Another vital area is education, as social capital and capacities need to be built up.

" Key issues are the importance of managing expectations, building broadly-based trust, and respect for minority rights. "

Torgeir Larsen

Transparency and rule of law are essential elements in any effort to build trust in the turbulent period that follows the fall of authoritarian regimes. At the same time, it is important to remember that change will always be fiercely opposed by those with a vested interest in maintaining the status quo.

Key messages and recommendations

Inclusive economic models

In the initial phase of a transition, the focus is on governance and political reforms, but the political relevance of economic transformations should not be neglected. Without economic reforms which promote both growth and social justice, democratic transitions may not succeed. One of the most destructive factors that can lead to a failed transition is a process of growth without development, in which investment provides few jobs but creates rich rewards for the elite.

The most pressing issues facing countries in transition to democracy are income inequality and corruption. A key question that must be asked is who benefits from the transition, in terms of amassing wealth, and which segments of the population control national assets. A trend observed, for example in Indonesia and Egypt, is that political democracy is increasingly being usurped by business interests, to the detriment of social and economic rights.

Income inequality demands profound changes in the social, economic and political structure. The first steps towards creating social policies are to identify needs, develop a social promotion strategy and strengthen community organisations. Lessons from Chile indicate that high-quality education is important, particularly

in early childhood, and labour and tax reforms – combined with social and political inclusion policies – must be implemented. Civic and political education form part of these policies, as social transformation must be carried out with the participation of citizens.

” We know little and discuss little about economic democracy. ”

Revrisond Baswir

Economic models need to be redefined in terms of economic democracy, whereby the main purpose is to provide economic empowerment to as wide a group of stakeholders as possible, preventing the concentration of economic resources and wealth in the hands of a small number of corporate and political actors. A suggestion was made that UNDP could bring together the Arab Spring countries to try and find an economic integration model uniquely adapted to local and regional conditions. It was emphasised that, whatever the economic and political model, it must be indigenous and nationally owned. Major policy issues for transition economies include: industrial policies focussing on job creation and investment in agriculture; investment in education and vocational training; financial sector reform; reliable data to support inclusive policies; reform of the social safety net, including the elimination of inequitable and inefficient subsidies which drain the economy.

Food security is another pressing issue and it was linked to developing cooperatives and support for farmers, rather than handing over food production to corporations. Finally, it was suggested that transition countries should not use foreign debt as an economic tool because conditionalities on loans can hijack the transition process. In effect, policy formulas attached to loans should be closely scrutinised, as neoliberal restructuring can affect transitions adversely, in some cases leading to capital flight.

The iron law of transitions, as articulated by one of the panellists, which states that “things are bound to get much worse before they get better”, calls for a long-term perspective. It involves striking a balance between satisfying immediate demands for social and economic justice and moving forward the long-

” The iron law of transitions: things are bound to get much worse before they get better. ”

Hassan Youssef Aly

term reform processes of the economy. Managing expectations, therefore, becomes an essential component of these processes, especially in the unstable initial stages.

Dialogue spaces

Countries undergoing transition face mistrust and lack of dialogue among the different stakeholders, which can greatly hinder agreement on the shape of the democratic transition, particularly when parliaments may not include the more marginalised segments of the population. Dialogue needs to be strengthened and expanded to offer inclusive platforms where negotiations and bargaining can lead to policy options. The experiences described by participants from Egypt, Tunisia and Myanmar have highlighted the significance of civil society in shaping popular demands into political and economic reform proposals. Strengthening civil society in democratic transitions can constitute one of the most effective means of channelling popular protests into economic dialogue and decisionmaking.

The role of civil society in renegotiating the social contract

Re-establishing the connection between grass-roots interests and governing structures in transition is important in reforging the social contract. Civil society can facilitate this dialogue. However, the extent to which issues-based or rights-based groups can influence policy depends in many instances on the legal framework in which they operate and on whether they obtain formal recognition within this framework.

Reforms need to be organised, and appropriate vehicles created to reconstitute the social contract at the national level. National but internationally supported multi-stakeholder organisations, such as Kemitraan in Indonesia, can promote partnerships with the international community and, on the basis of co-governance, can bring citizens and elected

public officials together in sharing political roles. Post-transition national commissions, which convene a broad range of stakeholders, are indispensable to overcoming mistrust and promoting dialogue. Such organisations can engage in direct policy discussions, including constitutional amendments. It was stressed that inclusive constitution building should focus on people, rather than international preferences. The international community should support the voices of local civil society rather than replacing them.

” The role of civil society is closely tied to political will. ”

Amine Ghali

Although the reorganisation of political power is expected to lead to the strengthening of democratic reformist forces, several speakers warned of the possibility that oligarchies could still trump market forces and derail democratic transitions. In reconstituting the nation, a greater share of the national budget should be allocated to education, as it is essential for building local capacity, knowledge and skills, and education plays a vital role in nurturing a democratic culture. The Indonesian government has stipulated that at least 20% of its national budget should be spent on education.

” The social contract is a liberal tradition, hard to forge amongst illiberal groups. ”

Myat Ko

The nature of civil society itself was raised, particularly the need to promote cooperation between civil society organisations, in order to enhance their bargaining power. In societies emerging from a culture of intolerance, establishing democratic values takes time and will require support and investment. As one panellist expressed it, “the social contract is a liberal tradition, hard to forge amongst illiberal groups.”

Transformation of civil–military relations in transitions

It is vital for a transitional civilian government to control

and depoliticise military institutions, and a balance of civilian–military power needs to be achieved. There must be genuine willingness on the part of the military to hand over power and remain out of all political decisions in the new democratic context. Equally importantly, the military should renounce its involvement in business activities and relinquish all economic privileges. It is also recommended that a timeframe should be defined and a body created to guide the process. Finally, education within the armed forces, regardless of rank, is essential.

Governance assessments during political transitions

Assessments can create space for dialogue with decisionmakers and lead to policy changes, thus empowering citizens to hold service providers accountable, as long as they are conducted correctly. They can bring stakeholders together for constructive engagement, although timing is critical, as environments need to be open and stable. Indigenous assessments can create greater buy-in and ownership, and the process of an assessment is often more important than its outcome, as involving local facilitators creates participation and awareness. It was recommended that donors should provide technical assistance and training to national think tanks in carrying out high-quality assessments. Lessons learned indicate that these assessments need subsequently to be transformed into strategic communication.

Transitional justice

Transitional justice is an important objective, and deserves international support and partnership, particularly technical expertise. Establishing a platform for collaboration, even among those with competing ideological views, is necessary to address the trauma and injustices of transition, and it was stressed that, if historic injustices are not addressed,

the transition may stall. Recognition of responsibility for human rights violations under military governments is of the utmost importance in consolidating the democratic process, and civil society can play a very significant role in initiating and moving forward these processes. The rule of law and its enforcement – to all actors equally, including the state – is necessary to strengthen democracy during transitions.

” If historic injustices are not addressed, the transition may stall. ”

Marzuki Darusman

Corruption and illicit financial flows

Tackling corruption is an imperative in transitions. It was noted that public perception tends to focus on government officials rather than the businesses which try to bend the formal system to their advantage and prey on the public good. It was recommended that international organisations need to send clear signals to elites and business that bribery will not be condoned. Petty bribery tends to affect the average citizen more directly, and the symbolic value of pursuing those involved could also be significant. One of the panellists noted that, “as a result of the Tunisian revolution, corruption is in the public debate; it is no longer a taboo.”

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Nelia Chaabane

Both internal features and external drivers enable illicit flows, although the boundaries between licit and illicit flows can be blurred. The global dimensions of corruption are vast and the effects include fewer public goods and services, growing inequality, and increased risks of fragility and conflict. Technical and material support for fighting corruption in transitions is essential; whistle blowers should be rewarded and policy activism encouraged to counter pushback and evasion.

Creation of national policy-oriented knowledge

In the Arab region, research institutions are needed to create indigenous economic models which can combat poverty and promote job creation. The link between think tanks and government bodies must be developed so that research can inform policy decisions. Social contracts in the region need to be renegotiated, and think tanks can contribute through debate and conferences, and by establishing dialogue. However, Arab think tanks are not as influential as their U.S., European and Latin American counterparts, largely because they have limited resources and inadequate guarantees of academic freedom; these considerations constrain researchers from publishing critical research.

Donors should provide technical and financial assistance to independent think tanks and policy-oriented centres to support their important role in democratic transitions. Researchers need training opportunities in academic methods and standards to improve the quality of their output. This includes finding the balance between academic research and policy advice grounded in national realities. Donors can also support partnerships between think tanks and the media. However, funding needs to be diversified, both nationally and internationally, in order to maintain independence, and it must also be sustainable over time.

What role can UN agencies play in helping transitions to stay the course?

International organisations such as the UN can play important roles in transitioning countries. In Myanmar, capacity building and acting as a development partner are significant areas of cooperation. In other countries, the UN can play a coordinating role with respect to financial assistance as well as providing technical and educational assistance. However, it was emphasised that UN organisations should avoid ideological positions; their support should be first and foremost people-centred. Participants expressed the view that international organisations should rely to a greater extent on local analysis and expertise.

Defining the way forward

The conference discussions confirmed that a multidisciplinary perspective integrating economic, political, social and cultural factors is necessary in supporting democratic transitions from authoritarian regimes, and that fostering sustainable dialogue is a core component of such an approach.

Following these guiding principles, the UNDP Oslo Governance Centre and NOREF have discussed the best means to take the conference outcomes forward. Three potential areas of joint activities have been identified:

- Support for the organisation of small-scale local seminars to help actors in transitions, particularly by facilitating dialogue among key stakeholders

from one country around a specific topic. These meetings could be held under the Chatham House rule and would consider the involvement of leading international experts (from the South in particular) on the topics under consideration.

- The organisation of regional events to facilitate the exchange of South–South experiences in political transitions.
- The development of a policy-oriented research agenda around key thematic issues, to deepen the understanding of the political economy of transitions. This can be achieved by drawing on existing and new networks. Three such key issues could be civil-military relations, gender equality and the position of minorities in countries in transition. An important objective is to work with policy research centres, policy makers, academics and other partners, in the countries and regions concerned.