Informal Political and Social Structures

Turkey as a case study

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Concepts

Business climate/environment: Set of factors that shape the decisions of both local and foreign firms to do business in a country.

Favoritism: A form of corruption, as when friends or relatives are favored at the expense of a third party for example in public or private offices.

Wasta: The Arabic word used in the middle east to refer favoritism. Its literal meaning is connection or relation

Crony capitalism: Occurs when a private firm or corporation uses political power to gain some favor or to obtain an advantage that is not otherwise available through market competition or is available only at a higher cost.

State capture: Efforts of firms to shape the formation of basic rules of the game (i.e. laws, rules, decrees, and regulations) through illicit and non-transparent private payments to public officials.

Capture firm: Firms involved in state capture process.

Petty Corruption: Daily abuse authorized power by public officials in their interactions with ordinary citizens

Grand Corruption: Misuse of high-level authority that benefits few at the expense of many

How Favoritism Affects the Business Climate: Empirical Evidence from Jordan

Assumption: favoritism leads to unfairness and inefficiency in state-business relations and thereby affects the business climate.

A good business climate

- Low costs and low risks of doing business.
- Low barriers to competition. Equal access to government services and political decision-making.

Favoritism

- Preferential treatment
- Direct exchange of material favors
- Creates a more implicit, indirect, and unspecified return obligation

Favoritism entails…

1. Unequal access to public sector services, licenses, and political decision-making.

Example: When licenses are granted on the basis personal relations, the costs and risks of applying for it may become very high for a firm that does not know anyone in offices. On the other hand, entrepreneurs with good connections benefit from this barrier to competition.

1. Increase in rent-seeking activities because of widespread favoritism and disruption of private sector development.
    - Businesspeople have to build up social networks,
    - This creates the need for a dedicated investment in connections,
    - They use their time and money for improving their social networks rather than their products.

Case country: Turkey

- State of corruption in Turkey
- JDP’s anti-corruption policies
- Outcomes of the reforms
- Party finance and cronyism

*“Political economy of corruption in Turkey: declining petty corruption, rise of cronyism?” by Fırat Kimya

State of corruption in Turkey

- Turkey under JDP rule experienced substantial economic growth and diminishing petty corruption.

- Grand corruption still stays in place and it is organized by the state via systemic favoritism and institutional ambiguity.

- Turkey suffer from wasta/favoritism in higher political and social structure rather than small group of individuals with criminal minds and short-term interests.

- Elimination of petty corruption cleared the ground for capture firms to keep doing crony business more smoothly.

Table 1. Ratifications of national and international anti-corruption agreements.

Convention	Year	Content
Emergency Action Plan: Law on the Right to Information (2003) and By-Law (concerning the Principles of Ethical Behavior of the Public Servants in 2005)	2003	A national regulation which aims to strengthen specialized anti-corruption units (e.g. enhancing dialogue among government, public bureaucracy, judiciary, mass media and civil society on combating corruption)
OECD Financial Action Task Force (FATF) on Money Laundering	2003	FATF is the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT). The FATF identified jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system.
1997 Council of Europe Civil Law Convention on Corruption	2003	A regulation for introducing effective remedies for persons who have suffered damage from corruption, help them to defend their rights and interests, including the possibility of obtaining compensations
1998 Council of Europe Criminal Law Convention on Corruption	2004	The aim is the coordinated criminalization of several corrupt practices. It also provides for complementary criminal law measures and for improved international co-operation in the prosecution of corruption offenses.
The Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime	2004	The aim of this Convention is to facilitate international co-operation and mutual assistance in investigating crime and tracking down, seizing and confiscating the proceeds thereof.
Group of States against Corruption (GRECO)	2004	GRECO's objective is to improve the capacity of its members to fight corruption by monitoring their compliance with Council of Europe anti-corruption standards. It helps to identify deficiencies in national anti-corruption policies, prompting the necessary legislative, institutional and practical reforms.
Council of Ethics for the Public Service	2004	A national institution seeks to promote transparency in public administration, with the main function of managing and investigating complaints by individuals and companies of mismanagement and misconduct at public offices
Modifications on the Criminal Code	2005	A modification which clarifies definition of corrupt activities
UN Convention against Corruption	2006	The Convention covers five main areas: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange.
Strategy for Increasing Transparency and Strengthening Measures to Combat Corruption	2010	A national ratification aims to establish an ethical administration to coordinate investigations regarding corruption

JDP's anti-corruption policies

- First JDP government (2002-2007) initiated a series of reforms and displayed strong commitment to fight corruption by implementing a series of national and international agreements.
- Introduction of electronical advancements to bureaucracy procedures reduced human involvement in public offices, services.
- E-devlet (electronic-state) made it possible to pay taxes online, improved the general quality of business environment.
- Investment Support and Promotion Agency of Turkey simplified company establishment procedures and reduced permit requirements.
- Foreign Investment Law removed bureaucratic restrictions on foreign investment introduced protective measures for foreign investors.

There are two outstanding areas that can be viewed as successful.

1. the improvements of state institutions'tranparency and regulatory capacity

1. reduction in the number of corruption related crimes

Table 2. KOM and MASAK reports for corruption-related crimes.

Year	Number of denunciations over Suspicious Operations in Public & Private Offices	Number of planned operations against corrupt Activities	Number of suspects in crimes related to corruption
2003	380	16	1755*
2004	290	9	2717*
2005	352	8	2344*
2006	1140	38	2597*
2007	2946	117	1103
2008	4924	168	1999
2009	9823	154	4580
2010	10,251	155	4694
2011	8739	207	8570
2012	15,318	224	8859
2013	25,592	258	7902
2014	36,483	195	7552
2015	74,221	133	5788

Party finance and cronyism

- The party did not establish a particular agency or mechanism to monitor party finance and electoral campaign finance.
- This was a product of selective anti-corruption policies.
- This gap in the regulatory framework formed the basis for state capture processes and crony business environment.

In Turkey unregulated nature of party finance allows crony relations in the form of state capture and systemic favoritism. Capture firms that are seeking for unfair advantages, the party that benefits from unregulated financial support created a mutually beneficial and self-consolidating mechanism.

There are two components…

Public Procurement Law

It determines the principles and methods public procurement processes.

It is changed 21 times with over 100 amendments since its enactment.

Privatization of capital intensive sectors

The construction sector has become a lifeblood for the Turkish economy. TOKİ (Collective Housing Administration), became the center for rent distribution and birthplace of state-centered business groups.

Crony relations are also present in the Turkish media, independence of media is quite low. State oriented firms control the media, their shady operations and the ruling of the government remain unaccountable and unquestioned by the media, which supposed to have an interrogatory function in democracies.

Questions for brainstorming

Can a country achieve economic growth while being affected by grand corruption?

Should reforms prioritize petty corruption or grand corruption first?

Do you think the creation of state-oriented business class help achieve economic stability?

How do the roots of favoritism differ in Jordan’s socio-tribal structures and Turkey’s state-centered political economy?