



PERSPECTIVES

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Tackling Corruption? Why Saudi Prince Muhammad's Approach Raises Questions

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EXECUTIVE SUMMARY: Crown Prince Muhammad bin Salman's recent moves against the Saudi elite look more like a power and asset grab than a credible effort to eradicate corruption. He would be well advised to focus more on structural and institutional change.

Dependency on government contracts was at the core of the bankruptcy of [Saudi Oger](#), owned by the family of embattled Lebanese Prime Minister Saad Hariri, and the near-demise of the Saudi Bin Laden Group.

Granted, the [\\$22 billion downfall](#) of 70-year old Ahmad Hamad Algozaibi & Brothers Company (AHAB), which took down two Bahraini banks as well as the Saad Group in one the largest financial collapses of the 2009 global credit crunch, occurred because of mismanagement, a lack of corporate and financial governance, and allegations of fraud, theft, and forgery.

Yet, like the Bin Ladens and the Hariris, a major chunk of the group's business was with the government, [selling steel piping to Saudi Aramco](#), the kingdom's national oil and natural gas behemoth. The settlement of the collapse with more than 100 banks was long viewed as a litmus test for foreign investors.

For Saudi Oger and Bin Laden, the government's predicament meant the cancelation of projects and failure to pay. The government's default had a ripple effect, affecting the companies' ability to pay their workers. Those workers took their plight to the streets – a dramatic statement in a country in which protests are banned.

What emerges from the failures is the vulnerability of major private corporations at a time when the government, the dominant economic player, was forced to diversify, rationalize, and cut costs. The failures also highlighted the lack of oversight of corporate governance.

Ironically, a raid on the Saudi mansion of the head of the Saad Group, Kuwaiti billionaire Maan al-Sanea, two weeks before Prince Muhammad's arrest of some 200 princes, officials, and businessmen on charges of corruption, set the stage for the purge.

The history of the troubled companies, as well as al-Sanea's detention, illustrates a system in which beyond private enterprise dependency, members of the ruling family have been rentiers of the state since its founding. They were allowed to drink at the trough, and the concept of conflict of interest was essentially unknown.

Transparency and accountability were not relevant in a country that did not tax companies or individuals except for *zakat*, a religious obligation for all Muslims who meet the necessary criterion of wealth. Instead, the social contract that is now being unilaterally rewritten by Prince Muhammad involved popular surrender of political rights, adherence to a strict social code, and acceptance of an absence of transparency and accountability in exchange for cradle-to-grave welfare.

While citizens are increasingly being asked to contribute through moves towards market rates for services and the planned introduction of indirect taxes like a [highway toll](#), billions of dollars are being simply demanded from the inhabitants of Riyadh's Ritz Carlton Hotel-turned-gilded prison. What happens to that money, which those Saudis are being asked to surrender to a finance ministry account in exchange for their freedom, remains unclear.

In other words, transparency and accountability do not figure in Prince Muhammad's top-down moves. Aides to the prince have asserted that the arrests were the product of almost three years of investigations. No details about those investigations have been made public, and their results have not been evaluated by a credible and independent judiciary.

The investigations assertion would explain why the government announced the establishment of a new anti-corruption commission headed by Prince Muhammad only hours before the purge, and why its function appears to be primarily defined as [an arm of law enforcement](#) rather than as a vehicle to create an anti-corruption legal structure that would also govern the commercial relationship between the government and members of the ruling family. The

commission's powers include the ability to detain suspects, seize their assets, and forbid them from traveling.

Prince Muhammad's purge appears designed to intimidate the kingdom's elite and put it on notice, enhancing the impression that his prime motivation was to bolster his power and assets rather than tackle corruption. There has been neither a decree nor a process in the country's Shura or Advisory Council to draft legislation or regulation to create a legal anti-corruption infrastructure, govern the way government agencies do business, or set a template for defining and preventing conflicts of interest.

While one could argue that Prince Muhammad needed to set an example, his effort is undermined by the fact that the alleged investigations and arrests have a selective or arbitrary taste to them. In view of the permissive environment that was written into the kingdom's DNA at its founding, few if any members of the ruling family are likely to emerge with flying colors.

This explains why the kingdom's elite was caught off guard. Al-Sanea's arrest should have set off alarm bells, but the ruling family and business community saw it as a one-off event in a longstanding financial saga. It also clarifies why the elite grossly underestimated Prince Muhammad's brashness and ruthlessness and ignored his [warning in June](#) that "no one who got involved in a corruption case will escape, regardless if he was a minister or a prince."

For anti-corruption to be perceived as the main driver of the purge, Prince Muhammad will have to introduce due process, transparency, and accountability. In theory, that would mean targeting everyone who could be under suspicion – a tough, if not impossible, approach in an environment in which the suspicion of guilt is cast far and wide. Prince Muhammad would be better advised to turn his attention to structural and institutional change.

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