

# **Corruption must not destroy the future for the Arab world: Article in The National, Nov 2017**

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## **Corruption must not destroy the future for the Arab world**

*Shock move by crown prince Mohammed is aimed at clearing graft blight and providing investors with confidence*

Earlier this month, Saudi Arabia grabbed international headlines and sent seismic shock waves across the region when its newly established Anti-Corruption Committee headed by Crown Prince Mohammed bin Salman promptly arrested some 200 individuals, including 11 princes, 38 ministers (current and former) as well as officials, military officers and top business leaders.

Saudi Arabia's attorney general stated that at least US\$100 billion had been misappropriated "through systemic corruption and embezzlement", though details are still unavailable. Though investors are eyeing the unfolding events with caution, these developments, heralded by Vision 2030, are promoting transparency as a key objective.

"We shall have zero tolerance for all levels of corruption, whether administrative or financial", the policy document says. Prince Mohammed had forewarned: "we grew apprehensive of

corruption cases; anyone who is guilty will be punished”, adding that “no one is above the law whether it is a prince or a minister”.

As elsewhere around the world, corruption is pervasive in parts of the Arab world. The Arab Firestorm and its uprisings were seen as a hopeful move towards fighting corruption and establishing a reform path towards better governance, greater transparency, accountability and equality, and eventually improved growth prospects. Those hopes have been shattered. Some seven years after the uprisings, five out of the 10 most corrupt countries in the world are from the region, as per Transparency International’s Corruption Perception Index 2016: Iraq; Libya; Sudan; Yemen; and Syria. Of course, these are also nations that are dealing with war, conflicts, terrorism and political instability, which facilitate corruption.

But the data also show that 90 per cent of the Arab nations scored below 50 in the 2016 index. Over two-thirds of the 176 countries and territories in the index fall below the midpoint of the scale of 0 (highly corrupt) to 100 (very clean). The global average score is 43. The World Bank’s Worldwide Governance Indicators – of which corruption is a sub-component – confirm that corruption levels to be very high in many countries across the region compared to global averages.

The extent of corruption is also associated with natural resources. Plentiful natural resources in the region has led to under-industrialisation, undermined non-resource exports, created a high dependency on oil and gas revenues, increased inequality from rent grabbing, and lowered growth prospects. The Natural Resource Governance Institute publishes a Resource Governance Index (RGI) – based on value realisation of natural resources, revenue management, reporting practices, safeguards and the enabling environment (including rule of law, control of corruption, voice and accountability).

The RGI reveals that only four out of 89 ranked countries,

achieve a good performance, 15 have a satisfactory ranking, while 78 per cent of countries fail to achieve good governance in their extractive sectors: the public lacks fundamental information about the oil, gas and mining sector. Arab countries are the lowest ranked region in the index, even falling below sub-Saharan Africa, with weak or failing scores.

### **So how does corruption limit economic development?**

Corruption takes many forms, ranging from petty corruption, small bribes and “baksheesh” to “grease the wheels” of bureaucracy to “wasta” and nepotism. Large-scale corruption includes abuse of public office, large-scale rent seeking and bribery in public procurement (think defence, public works and infrastructure).

The World Bank estimates that businesses and individuals across the globe pay an estimated \$1.5 trillion in bribes each year (about 2 per cent of global GDP), or more than \$4.1bn per day.

Corruption tends to undermine the investment climate, reduces domestic and foreign direct investment, leads to underground economies and discourages private-sector development and innovation. It lowers tax and non-tax revenues, meanwhile, overblowing government expenditure and diverts money from education, health and the maintenance of infrastructure, towards less efficient public projects. These projects have more scope for manipulation, bribes and generate waste and inefficiency.

A high incidence of corruption means an additional financial burden on businesses, undermining their international competitiveness, this is especially true for SMEs. The bottom line is that systemic corruption in parts of the Arab world has lowered economic growth rates by some 2 to 3 per cent; an enormous cost.

**Anti-corruption strategies are needed across the Arab world**

Evidence and cross-country experience confirms that combating corruption requires an anti-corruption strategy, driven by leadership that is willing to pay a political price to combat corruption. Political will has to be supported by adequate "soft" (institutions and rule of law) and hard infrastructure (technology), with strong enforcement mechanisms by an independent judiciary. It requires widespread conviction among politicians, executive, administration and business that bribery and corruption are costly to the country, to their interests and to economic and social development.

An anti-corruption strategy requires to invest in an effective, incorruptible civil service; as epitomised by Singapore, and the introduction of e-government as an important tool for administrative reform and reduced cost of government procurement; as being effectively implemented by Dubai and the UAE.

Widespread reforms are needed in some Arab countries to move towards rule-based, institutional behaviour, a transparent, accountable system of economic and political governance. Public accountability, and the overall quality of governance are key building blocks of anti-corruption strategies. Creating more transparency and openness at all levels of government budgets and financing, making the process more transparent are ways to ensure less opportunity for corruption.

Saudi's anti-corruption drive has a short-term cost but medium- and long-term benefits from improving the investment climate, lowering the cost of doing business and building trust in government and institutions. It can be a beacon and signal for other countries to initiate anti-corruption strategies.

The grassroots-driven Arab Firestorm reforms have failed, we are now entering a new process of a top-down and wide-reaching reform process.

