مركز دبي لأخلاقيات العمل
Dubai Ethics Resource Center

Corporate Social Responsibility in the United Arab Emirates
A Preliminary Assessment

Executive Brief

The traditional triple bottom line corporate social responsibility (“CSR”) agenda, usually defined as managing the social, environmental and economic performance of a company, is unlikely to be influential in the UAE, and the wider Gulf. Promoters of the CSR agenda face a formidable challenge that includes demographic obstacles, economic realities, political roadblocks and social apathy.

These present realities do not mean that the content of the CSR agenda needs to be abandoned, but it does mean that traditional approaches from outside the region are not likely to be useful or successful. We believe an approach characterized by integration of CSR goals into a broader reform agenda is both realistic and achievable.

Methodology for United Arab Emirates MDF٥ Country Case Study

This report was prepared by the Dubai Ethics Resource Center’s staff. We utilized a variety of published materials and our own research to construct a picture of the current business environment as it applies to CSR, and examine the consequences. We utilized the results of a series of interviews with senior business leaders, and we compiled a country dossier (Appendices A to C) based on media reports, presentations at business conferences and personal contacts. We’ve made use of the Dubai Chamber of Commerce and Industry’s Data Management and Research department to gather economic statistics on the UAE.

DERC Research – Interview with Business Leaders

We conducted targeted interviews with business leaders in the UAE on their perceptions of the challenges and opportunities related to corporate responsibility. The interviewees were selected in consultation with the Dubai Chamber of Commerce and Industry’s Business Groups (“Groups”). The Groups are organized by the Chamber and they represent specified economic sectors. The Groups represent their members to official government bodies and authorities within the UAE and abroad. Each Group executive committee was invited to submit their recommended members to be included in this study.

The interviewees were asked a variety of questions using a standard question set. In particular, interviewees were asked about their reviews regarding:

- Corporate philanthropy;
- Worker health & safety;
- Business ethics management systems;
- Corporate governance; and
- Employee misconduct and corruption.

The interviewees represented a broad range of businesses, including: government services; transportation; communications; financial services; retail; wholesale; manufacturing; construction; and real estate development. Most of the interviewees' organizations had at least some level of international operations. The interviewees' combined regional workforce is more than ٦٥،٠٠٠ throughout the region, and a combined $٤ billion USD in ٢٠٠٤ revenues. On average, the interviewees' organizations had been in existence for more than ٢٠ years.

DERC Research – Country Dossier

The Center compiled a dossier of UAE initiatives on CSR. This dossier relied on:

(١) Presentations by company representatives at business conferences, in particular the two Middle East CSR Summit conferences held in Dubai in ٢٠٠٤ and ٢٠٠٥;
(٢) Media reports in local newspapers on CSR-related programs, activities and products from local and regional companies, government organizations and non-governmental organizations ("NGO");
(٣) Center-identified companies, public sector entities and NGOs that promote CSR;
(٤) A review of UAE laws that govern labor and environmental issues; and
(٥) A center stakeholder, Mr. Sanjiv Singh from Workplace Internal Regulatory Establishment, who identified additional organizations.

This dossier includes a brief analysis of the type of CSR initiative being conducted, and, in the case of business organizations, what seemed to be their motivation for undertaking it. The dossier undoubtedly does not capture every initiative, but it does capture those who have publicized their CSR activities. We believe this helps understand what self-identified leading companies believe to be the state-of-the-art CSR activities in the UAE.

Report Structure

This report begins with background information on the UAE, and some economic statistics to provide readers with a sense of the conditions in which companies find themselves. We then turn our attention to how CSR is defined and understood within the Arabian Gulf region, and how that accords with international definitions and understandings of the concept. From there, we examine the regionally-identified priority CSR issues, and the main international CSR issues. We then examine the legal framework in the UAE, and how it impacts CSR, the public sector's influence on the CSR agenda and what role NGOs are playing. The last section of this report begins by arguing that an integrated approach to responsible business conduct can serve the CSR agenda by leveraging the important regional trends.

Background on the UAE

The United Arab Emirates is a young country, having only been established in ١٩٧١. The coastal Trucial States granted the United Kingdom control of their defense and foreign affairs in ١٩th century treaties. In ١٩٧١, six of Trucial States of the Arabian Gulf - Abu Zaby, 'Ajman, Al Fujayrah, Ash Shariqah, Dubayy, and Umm al Qaywayn - merged to form the United Arab Emirates ("UAE"). They were joined in ١٩٧٢ by Ra's al Khaymah. [١]

The UAE's per capita GNI, at $٢٤،٨٦٠, is not far below the average of developed nations ($٢٦،٣١٠)[٢]. Its generosity with oil revenues and its moderate foreign policy stance have allowed the UAE to play a vital role in the affairs of the region.

The UAE has an open economy with a high per capita income and a sizable annual trade surplus. Its wealth is based on oil and gas output (about ٣٣٪ of GDP), and the fortunes of the economy fluctuate with the prices of those commodities. Since ١٩٧٣, the UAE has undergone a profound transformation from an impoverished region of small desert principalities to a modern state with a high standard of living. At present levels of production, oil and gas reserves should last for more than ١٠٠ years. The government has increased spending on job creation and infrastructure expansion and is opening up its utilities to greater private sector involvement. [٣]

The UAE's position as a major financial center makes it vulnerable to money laundering; anti-money-laundering legislation was signed into law by the president on ٢٥ January ٢٠٠٢.

Macroeconomic data			
	٢٠٠٤	٢٠٠٣	٢٠٠٢
Nominal GDP, in in USD billions	٨٥,١٠	٧٩,٨٥	٧١,٢٠
Population In millions	٤,٣٢	٤,٠٤	٣,٧٥
GDP per capita In USD	١٩،٦٩٩	١٩،٧٥٩	١٨،٩٦٦

[١] World Fact Book, ٢٠٠٤
[٢] World Bank Country Data, http://www.worldbank.org/ (last accessed September, ٢٠٠٥)
[٣] World Bank Book, ٢٠٠٤

Real GDP growth % year to year	٤,٨	٧,٠	١,٩
Source: UAE Ministry of Economy & Commerce			

Macroeconomic data - Oil			
	٢٠٠٤	٢٠٠٣	٢٠٠٢
Oil production Millions of barrels per day	٢,٦٦٧	٢,٥٤٧	٢,١٦
Oil exports Billions of USD	٣٠,٧٧	٢٢,١٢	١٦,٦٨
Oil price, Per barrel, average	٣٥,٧٠	٢٨,٠٩	٢٤,٣٦
Source: UAE Ministry of Economy & Commerce			

Other Gulf Cooperative Council Countries

The UAE is a member of the Gulf Cooperative Council ("GCC"). Each of the GCC members has their own particularities, but they are also very similar. They confront similar challenges regarding employment, dealing with a large expatriate workforce and economic development. While this report is focused on the UAE, we believe that the experiences of other GCC countries is similar enough that it is worth incorporating some of their CSR experiences in this report.

Focus on the Private sector

Regional Concept of CSR and Its Relation to International Concepts

Dr. Saleh Hussain, General Manager of the Saudi National Commercial Bank and author of *Social Responsibility for Board Members*, defines CSR as a contract between an organization and society, where the organization is obligated to avoid unethical practices that would harm society, and in turn is given permission by the society to pursue profits[٤]. This definition is similar to Ian Davis', Worldwide Manager Director of McKinsey & Company, as explained in his May ٢٦, ٢٠٠٥ editorial in the *Economist*. Dr. Hussain's definition, while certainly consist with leading views in the region, overstates the development of CSR among business leaders.

Sulaiman Al-Mazroui, Coordinator General of the Emirates International Forum, a part of the Emirates Bank Group, outlined his concept of CSR and his organization's obligation under it, as follows[٥]:

- "The Arab culture and Islam both consider corporate responsibility as a duty that leads to social prosperity.
- This is reflected through the *Zakat* (tax on wealth) which is one of the pillars of Islam.
- Sadaqah is another charitable contribution which Islam encourages.
- In the UAE's cultural heritage, corporate responsibility is very much a way of life.
- Historical evidence show that corporate businesses have participated with governments in social advancement.
- numerous cases where major corporate businesses have participated in establishing social projects, such as schools, cultural centers, mosques, etc.
- The creation of *Al Tomooh* by Emirates Bank is one very clear evidence of this social responsibility."

Al Tomooh is a project to provide young Emirati's with subsidized loans to establish small businesses, and a support infrastructure to help them succeed.

Mr. Al-Mazroui's concept of CSR is very much in line with the mainstream business leaders' understanding in the region. His presentation is a good example of the two issues most closely linked with CSR in the minds of regional business leaders: the employment of nationals and corporate philanthropy.

The CSR concepts most common in developed economies are broader: Business for Social Responsibility defines CSR as "achieving commercial success in ways that honor ethical values, and respect people, communities and the natural environment"; the

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[٤] Based on Center translation from the original Arabic text of "Corporate Responsibility for Board Members" (٢٠٠٤)
[٥] Direct quoted from Mr. Al-Mazroui's presentation at the CSR Masterclass in Dubai, September ٢٠٠٤. The Masterclass was organized by *Business Principles*.

European Commission defines it as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with stakeholders on a voluntary basis.”; and the Institute of Business Ethics defines it as “the voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its principle stakeholders”.

However, Mr. Al-Mazroui’s definition flows well from the World Bank’s definition of CSR - “the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and good for development.” The youth unemployment problem confronting GCC countries is, arguably, the most important sustainable economic development challenge we confront.

Regional Priority CSR issues: Emiratization

All the GCC countries, to varying degrees will be confronting an employment challenge over the next decade. The problem is that there is insufficient job growth to accommodate the expected new graduates who will be entering the workforce.

١. According to The National Human Resources Development and Employment Authority’s (“Tanmia”) ٢٠٠٥ *Human Resource Report*, ٤٥ percent of the UAE’s nationals are under ١٥ years of age. The World Fact Book, which includes expatriate populations in its calculations, estimates that GCC countries are very young – with the percentage of persons under the age of ١٥ ranging from ٢٥,٣ (in UAE) to ٣٨,٢ (Saudi Arabia).
٢. Tanmia also reports alarming unemployment figures among UAE nations – nearly ٢٠ percent unemployment among women and ٩ percent among men.
٣. According to the United Nations Development Program, the region confronts high unemployment – estimated to be about ١٥ percent.

The coming decade will be one in which the GCC labor market will experience an enormous influx of young national workers. These young workers will be looking for meaningful work, and projected growth rates may not be enough to accommodate them. The problem is exasperated because GCC countries employ large numbers of expatriate workers; these workers are often recruited from relatively poor countries and business pays a fraction of the costs it would to employ a national of the same qualifications, or train a national to the same level as the expatriate. In addition, low skilled laborers are a constant feature of the region’s construction cites.

In the UAE, the government responded to this challenge by issuing “Emiratization” targets for different industries. These targets an set for each industry, and specify that individual businesses hire a certain percentage of nationals, or face fines and other penalties from the government.

A similar system is currently in place in Bahrain. However, Bahrain's Economic Development Board is in the process of rethinking their "Bahrainization" strategy because it is confronting real limits[٦]. The public sector, traditionally a source of jobs for Bahrainis, is already ٩٠ national, and already employs almost ٥٠ percent of Bahraini workers. Therefore, the country must turn to the private sector to find employment for its nationals. The challenge for Bahraini workers is that they are not employees of choice: In part because of the disparity in salary a Bahraini worker earns, versus a less expensive expatriate; expatriate workers cannot easily move their place of employment, while a Bahraini is free to leave if he or she receives a better offer. This combination of a low-cost and relatively unfree expatriate worker versus a more expensive and mobile Bahrani is the challenge its labor reforms hope to address.

The UAE does not have exactly the same problems as Bahrain, but it does have a similar dynamic in its labor force. The country is actively removing requirements on expatriate workers (allowing them greater job mobility) and increasing the cost of importing new workers. These steps, in addition to government-sponsored job programs, are bolstered by private sector efforts such as *Al Tomooh*.

The labor situation in the UAE is conducive to other kinds of unethical business conduct. In the Center's interviews with business leaders, one discussed the phenomena of hiring "ghost workers" – firms will import more expatriate workers than they need, and then hire them out to other firms to collect a portion of the workers' salaries. This practice is illegal, but the interviewee said it was widespread among construction companies. "Ghost workers" are also nations; the interviewee said some companies hire nationals solely to boost their Emiratization percentages, and don't even ask them to come in. These practices are likely to increase as fines for not meeting Emiratization targets grow.

Solving the problem of national employment and correcting the labor market imbalance is one of the most important CSR issues confronting regional companies – local and foreign alike.

Regional Priority CSR issues: Philanthropy

Corporate philanthropy or charitable donations are one of the oldest methods that organizations use to demonstrate their commitment to the local community. Michael Porter and Mark Kramer, in their well-received ٢٠٠٢ Harvard Business Review article[٧], argue that charitable giving is an underutilized opportunity for businesses to help create a "competitive context". By this they mean that companies should spend their philanthropic contributions on charities that indirectly promote their own corporate

[٦] Bahrain's Economic Development Board has posted several documents on their labor reform strategy online at http://www.bahrainedb.com/default.asp?action=article&ID=٢٣٧ (Accessed in September, ٢٠٠٥). The figures quoted above come from the *Summary of Stakeholder Workshop with FAQ.*
[٧] *The Competitive Advantage of Corporate Philanthropy*, Mark Kramer and Michael Porter, Harvard Business Review, December ٢٠٠٢.

interests. They cite as an example of strategic philanthropy Cisco Systems' contributions to training young people on network administration, thus creating a pool of potential future employees.

Our research has found that, while philanthropy is an important feature of regional business organizations, the concept of ***strategic philanthropy*** is not widely recognized or practiced, with the exception of Emiratization. Corporate philanthropy in the region is strongly driven by media attention given to certain international disasters, including the ٢٠٠٤ Asian Tsunami relief efforts, and the plight of Iraqi and Palestinian children. The interviewees stressed that philanthropic contributions are considered an optional business expense, and few companies use their corporate giving to advance their own corporate interests. The local concept of corporate philanthropy is deeply intertwined with *Zakat*, and most of the giving occurs during the Holy Month of Ramadan. In addition, few companies have taken the step to creating company-driven volunteering efforts.

Our dossier confirms this opinion of philanthropy. Of the ٢٨ companies with corporate CSR initiatives identified, ١٥ of those emphasized their philanthropic contributions. These contributions are generally of a humanitarian nature, and often given to hospitals and disadvantaged children. Nearly all of the company initiatives presented at the two CSR summits held in the UAE – an instructive illustration of how important a CSR issue it is considered.

Other CSR issues: Worker health and safety

Gulf Cooperative Council countries have been growing steadily over the last decade. This growth has resulted in a construction boom, as well as an increasing number of manufacturing operations. These economic developments also push worker health and safety to the forefront of the CSR agenda. The most important goal of worker health and safety is to minimize the frequency and severity of occupational accidents and illnesses. Worker health and safety management has important financial implications. A Harvard Business School study[٨] found that firms practicing high performance work practices, including excellent management of occupational health and safety, experienced a ١٤ percent market premium over their less cautious industry peers.

Our research found that worker health and safety standards have been adopted by local businesses, but this is mostly motivated by to legal compliance. There seems to be a lack of widespread understanding of worker health and safety beyond compliance – companies find little value in promoting a healthier workplace than required by law. Our research also found that workers themselves were often unaware, and sometimes even unwilling to follow basic safety guidance, such as wearing protective equipment mandated by the employer.

[٨] *The Human Equation: Building Profits by Putting People First*, Pfeffer, Harvard Business School Press, ١٩٩٨

The business community is unlikely to adopt worker health and safety as a priority issue. Our interviewees did not really embrace a business case for a healthy work environment, and did not report experiencing governmental pressure to adopt higher standards. This could be an opportunity for business leaders who do understand the importance of this issue.

Other CSR issues: environmental management

Environmental management is not generally considered a CSR issue by local businesses. Many companies establish their environmental management units as part of a larger quality group. This feature does not mean environmental management has not flourished. Leading companies, such as the Dubai Aluminum Company ("DUBAL"), have strong environmental management systems and are doing innovate work in this area[٩].

The Emirates Environmental Group, a local non-governmental organization ("NGO") dedicated to raising awareness about environmentalism, has published articles tying environmental management to CSR, and the Kanoo Group expresses its environmental management as a part of a commitment to CSR[١٠], so perceptions may be changing.

Other CSR issues: the role of multinational companies from developed economies

Our research found that, in general, foreign-based multinationals from developed economies tend to do substantially less CSR-related activities in their UAE operations than elsewhere. This finding is disappointing since many of those companies are recognized CSR leaders.

Consider the example of Norwich Union, the UK-based insurance company. Norwich Union is part of the Aviva, the world's sixth largest insurance company. The extracts below come from the company's ٢٠٠٢ CSR Report. Compare the way in which community support (a fundamental CSR issue for the region) is treated in the Middle East versus the UK.

> **<u>Middle East - Norwich Union</u>**
>
> We supported various sponsorships during ٢٠٠١. Some of those are highlighted below:
>
> • Our office in Bahrain has provided funding to the American Mission Hospital, Manama Toastmasters club, the British Club, St Christopher's Cathedral and also supports Young Musicians.
> • Our operation in Dubai have donated to various charities, supported the Traffic Department, Dubai Welsh Society and provided funding for the Club library.

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[٩] *Compass*, the Dubai Ethics Resource Center's newsletter, (September/October ٢٠٠٥) – available online at www.dubai-ethics.ae.
[١٠] Ibid.

• Our support from Oman includes sponsorship of the Indian festival and a donation to the Indian school. We have also supported various sporting events, including sponsoring the ISC Open Badminton tournament.
• Our operation in Saudi Arabia also sponsors various sporting events, including Cruzers Softball tournament, a cricket and tennis tournament and providing sponsorship for a sports association - Jeddah Hash. Support is also given to local fairs and festivals.

Norwich Union in the UK

٢٠٠٢ will be an exciting year for Norwich Union as we are currently seeking to develop a major community initiative, assisted by BiTC, to help strengthen our corporate profile in the UK and enable us to become a brand that is synonymous with commitment to its communities. Through the Group charities budget, in ٢٠٠١ we began supporting three key charities. We will work in partnership with Breakthrough Breast Cancer, Cruse Bereavement Care and the Princess Royal Trust for Carers. Each charity will receive a donation of £١٠٠،٠٠٠ each year over the next three years.

• Breakthrough Breast Cancer is a charity committed to fighting breast cancer through research and awareness. Norwich Union will be supporting Breakthrough Breast Cancer's Crocus Campaign in ٢٠٠٢. Norwich Union supported the Crocus Walks which took place on the ١٠th March and will match the money raised from these walks up to £١٠٠،٠٠٠. Crocus bulbs will also be planted in memory of the ١،٠٠٠ women who die from breast cancer each month in the UK.

• Norwich Union will also be working with The Princess Royal Trust for Carers (PRTC) to offer free breaks to carers across the UK. The PRTC exists to make it easier for carers to cope by providing information support and practical help to around ١٠٠،٠٠٠ carers each year through its Carers Centres. Carers often miss out on breaks because of their responsibilities and Norwich Union funding will allow ١،٠٠٠ carers and their families to enjoy a well deserved week's break at Pontins Holiday Centre in Blackpool.

• Cruse Bereavement Care provides a nationwide service giving support and counselling to anyone bereaved by death. Norwich Union's support will enable them to increase access to high quality bereavement support through their national telephone service. The project will also produce literature aiming to provide greater support for bereaved people and volunteers.

And it continues for several more pages.[١١]

Another example is Microsoft, which in ٢٠٠٤ highlighted a donation to Tanmia in the UAE as the example of corporate citizenship in the country. This is not as impressive as their CSR work with the United Nations to help refugees, or even other examples of community engagement.[١٢]

We believe that foreign-based multinational organizations will not be the leaders of a local CSR agenda. Foreign-based multinational organizations will play a role, if CSR develops further, but they cannot substitute locally-led initiatives.

Other CSR issues: responsible products

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[١١] Available online at http://www.aviva.com/files/reports/csr/٢٠٠٢report/reports/csr.cfm (Accessed September ٢٠٠٥)
[١٢] Information about Microsoft's CSR efforts are available online at http://www.microsoft.com/mscorp/citizenship/ (Accessed September ٢٠٠٥)

Some local entrepreneurs see CSR-related products and services as a way to build their business. We found that a number of companies have begun to advertise their products on the basis of CSR performance. This includes environmentally-friendly waste disposal services[١٣] to organic food[١٤]. These are, however, very much niche products, and there is no evidence that local consumers prefer ethical products. In addition, the government has not issued detailed labeling standards for organic foods or truth-in-advertising regulations. This makes it difficult to determine if ethical shopping is a rising trend, or a sales pitched directed at gatherings of presumably inclined customers (such as the Middle East CSR summits).

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[١٣] The Al Nouras waste collection company – identified by DERC researcher

[١٤] *Shopping without harm*, ٧day (A Dubai-based weekly), Sunday, ١١ September ٢٠٠٥ – available online at http://www.٧days.ae/lifestyle/shopping-without-harm.html (Accessed September ٢٠٠٥)

Focus on the Public Sector

The Legal Context of CSR in the Emirates

The UAE has a relatively developed and stable legal framework and regulations that govern social and environmental issues. It mostly conforms to international standards and provides support for mainstream environmental management and compliance to the International Labor Organization ("ILO") Fundamental Conventions, with a few notable exceptions. The UAE does not have separate commercial courts, which results in private sector organizations not routinely utilizing the formal legal system for contract enforcement, instead relying on formal arbitration, informal arbitration and mediation. Fines against companies for breaking environmental laws are rarely reported in the press.

The environmental laws are mostly derived from the various international treaties to which the country is a signatory. In particular, the country has committed itself to:

- Phasing out CFCs and HCFCs (ozone-deleting gases) in accordance with its obligations under the *Montreal Protocol*;
- Control of illegal animal and animal parts trade, in accordance with its obligations under the *Convention on International Trade in Endangered Species*;
- Regulation and control of common hazardous industrial pollutants, in accordance with the *Basel Convention on Hazardous Waste*;
- Eventual control of greenhouse gas emissions, in accordance with the *Kyoto Protocol*;
- Control of various shipping pollutants and other environmental hazards in accordance with its obligations under the *International Marine Organization Conventions*; and
- Control of oil-related pollutants and clean-up response to spills, in accordance with its obligations under the F*UND Convention* and the *Kuwait Regional Agreement*.

These treaty obligations are mostly captured in six UAE Federal Laws that apply to the public and private sectors (Federal Law ١ of ١٩٧٩; Federal Law ١٩ of ١٩٩٣; Federal Law ٢٣ of ١٩٩٩; Federal Law ٢٤ of ١٩٩٩; Federal Law ٢٦ of ١٩٨١; and Federal Law ٢٧ of ١٩٨١).

On paper, the environmental legal requirements of operating in the UAE are similar to those of developed economies. We are uncertain as to the quantity and quality of enforcement.

The Emirates' labor laws are, in general, not as advanced as its environmental laws. The current labor law (Federal Law ٨ of ١٩٨٠) was originally issued in ١٩٨٠, but has received periodic revisions, the latest of which was in ١٩٩٧. Federal Law ٨ of ١٩٨٠ is generally in compliance with the ILO Fundamental Conventions, with the notable exception of freedom of association. The current law does not allow the creation of trade unions or other collective bargaining organizations. This, however, is due to be changed in the new future – the labor law is under revision, and the proposed changes include the legalization of labor unions. The details of this revision have been made available to the press, and while it will not be fully compliant with ILO requirements for freedom of association, it will be a major step forward. The new labor law is expected to be issued in late ٢٠٠٥.

The current Federal Law ٨ of ١٩٨٠ is written and revised in accordance with the following ILO Conventions:

- Convention ١ – Limits on working hours
- Convention ٢٩ – No forced labor
- Convention ٨١ – Government-provided labor inspectors
- Convention ٨٩ – Regulations on night work that apply to women
- Convention ١٠٠ – No discrimination in law between men and women
- Convention ١٠٥ – Additional requirements to prevent forced labor
- Convention ١١١ – No discrimination in the workplace
- Convention ١٣٨ – Minimum working ages
- Convention ١٨٢ – Prohibition of child labor

The UAE's Ministry of Labor and Social Affairs ("MOLSA") is charged with ensuring compliance to the labor laws by all employers. The Ministry employs labor inspectors for this purpose who make both announced and surprise visits to work cites. Inspectors are empowered to fine employers who are found to have violated the labor laws.

The Ministry also acts as the workers' advocate in cases of contract disputes and allegations of employer misconduct. Thus, the government fulfills one of the tradition roles for independent trade unions. It is unclear whether or not the Ministry's advocacy role with be reduced with the legalization of trade unions later this year.

Additional Government Roles

The UAE government is occasionally involved in promoting CSR through means other than regulating. In particular:

- The Ministry of Labor and Social Affairs has a program to promote work opportunities for women, the elderly and persons with disabilities;
- The Ministry of Energy and the Environmental Agency fund research on green energy sources;
- The Dubai Council for Economic Affairs convenes a committee on workers' affairs, to which workers can submit their complaints anonymously and protect their rights.

The Ministry of Finance and Industry also advertises its internal environmental management program. Other government Ministries and agencies are likely doing similar activities.

In general, these programs have a limited scope. There is little interaction among various initiatives and no single agency is mandated to coordinate the government's CSR initiatives.

Leaders of the CSR agenda will find government is supportive, but cannot abdicate their role.

Focus on the Independent Sector

Non-government organizations in the Emirates

There are few non-government organizations in the UAE. Of this pool, few work on CSR-related issues. The reason for this lack of a vibrant independent sector is due to several factors, including:

(١) **The large expatriate population** – There is an agency problem due to the large number of expatriates, many of whom do not intend to stay in the country for an extended period of time. They have less incentive to create the kind of non-government organizations which flourish in their home countries.

(٢) **Legal obstacles to incorporating as a not-for-profit corporation** – the UAE Federal Law ٨ of ١٩٨٤ specifies that organizations may take one of seven forms – a general partnership; a simple limited partnership; a joint venture; a public joint stock company; a primate joint stock company; a limited liability company; or a partnership limited with shares. There are no standard procedures for creating non-charitable non-governmental organizations (sometimes known as a not-for-profit corporation). Those that do operate in the UAE, do so under a specific decree.

Despite these obstacles, there are non-governmental organizations that contribute to CSR in the country. These organizations are mostly charitable foundations that specialize in humanitarian relief and support for disadvantaged persons. Many of these charitable organizations attended the two Middle East Summits on Corporate Social Responsibility held in Dubai in ٢٠٠٤ and ٢٠٠٥.

Dubai Holding has recently launched a development project, the Dubai Humanitarian City ("DHC"), which is especially designed to cater to the needs of international relief organizations serving Africa and Asia. This is leading to rise in the number of relief agencies, including charitable NGOs, in the country.

There are currently two NGOs that specialize in CSR issues and not are not charitable foundations: the Dubai Ethics Resource Center and the Emirates Environmental Group. (For more information about the Dubai Ethics Resource Center, please visit our website at www.dubai-ethics.ae, and for more information about the Emirates Environmental Group, please visit their website at www.eeg-uae.org.)

Our research did not identify any pressure NGOs on CSR. In part, this may due to the lively dialogues amongst government agencies on pressing social issues, such as Tanmia's advocacy on behalf of UAE nationals who are unemployed. SustainAbility, the UK-based CSR consultancy, released a report in ٢٠٠٣ on NGOs where they explicitly tied their rise to social and political change[١٥].

Non-government organizations have played a secondary role, thus far, in advancing the CSR agenda.

[١٥] " The ٢١st Century NGO: In the Market for Change", by Seb Beloe and Georg Kell, (SustainAbility and the International Finance Center), ٢٠٠٣.

Evaluation of CSR in the UAE

Corporate social responsibility, as a discrete agenda focused on progressively improving the social and environmental performance of the local business community, may not be sustainable. There are a number of crucial factors that to consider:

(١) Few local social groups agitating for political or economic change;
(٢) Limited government involvement beyond meeting treaty obligations and maintaining a competitive business environment;
(٣) Overcoming expatriate apathy in promoting long-term sustainability in the country; and
(٤) Few industry leaders in the private sector.

The overall trends are not encouraging for CSR development. There are examples of companies doing excellent CSR work, which could serve as models for other regional companies, but they remain the exception.

We believe this requires a new strategy for how CSR is approached in the region. The CSR agenda, as a discrete item, may not sustainable, but several other corporate ethics and integrity initiatives are gaining the attention of key public and private sector leaders. In particular, good governance and compliance are rapidly progressing.

Corporate Governance

Financial services in the UAE

Financial services have become one of the most important parts of the modern UAE economy.

The UAE now has one of the largest and most advanced financial services and banking sectors in the Arab world. The Dubai Financial Market has a market capitalization of nearly $٦٠ billion USD (As of September ٢٠٠٥), and the Abu Dhabi Securities Market has a market capitalization of just over $٦٠ billion USD (As of September ٢٠٠٥). In Addition, the Dubai International Financial Center ("DIFC") and its Exchange, the Dubai International Financial Exchange ("DIFX"), will soon open its doors for business.

The DIFX aspires to be an international exchange. The Exchange is intended to serve growing regional companies that have achieved a high level of financial sophistication and wish to raise capital from international investors. The DIFX is governed by an independent legal system and supervised to world-class standards created by its independent regulator, the DIFC Financial Services Authority ("DFSA"). The listing requirements and governance standards of the DIFX are comparable to those of leading international exchanges

Local leaders understand that corporate governance is extremely important to develop and sustain the financial services sector. This understanding is evidenced by the DIFC's support for the DERC's *Corporate Directors Leadership Forum*, and its subsequent decision to house a future Gulf Institute of Directors to serve the region's corporate directors.

Similarly, Bahrain's business and government leaders recognize that good corporate governance is an essential element of their own financial sector's development. In ٢٠٠٤, the Bahrain Ministry of Commerce issued a corporate governance code for joint stock companies. This code is one of the deliverables from Bahrain's Corporate Governance Steering Committee. The Committee has conducted a series of studies about governance, and issued several pamphlets covering directors' responsibilities.

Dr. Saleh Hussain, quoted at the beginning of this article, was a member of Bahrain's Corporate Governance Steering Committee. He believes that CSR is an important aspect of the governance agenda, and wrote a book on CSR for directors. A similar dynamic can occur in the UAE.

Internal compliance

Another crucial aspect of financial services firms' responsibilities is controlling possible financial fraud, corruption and money laundering.

Samuel Huntington, the political commentator, described corruption as essentially good for commerce. His thesis is that administrative corruption, in which a business pays bribes to officials in order to speed up official actions, are economically beneficial. Without corruption, Huntington argues, routine government services would slow down the economy as a whole and make everyone worse off. This view had, and still has, its adherents, such as the political economist Nathaniel Leff.

In ١٩٩٩, the World Bank published an extensive empirical study of the actual effects of corruption[١٦]. Far from greasing the wheels of commerce, corruption is a significant impediment to economic growth. Further, the study found that:

- Companies that pay bribes spend, on average, ٣٠ percent more time dealing with government bureaucracy; and
- Companies that pay bribes are solicited for further bribes more often than those that do not pay.

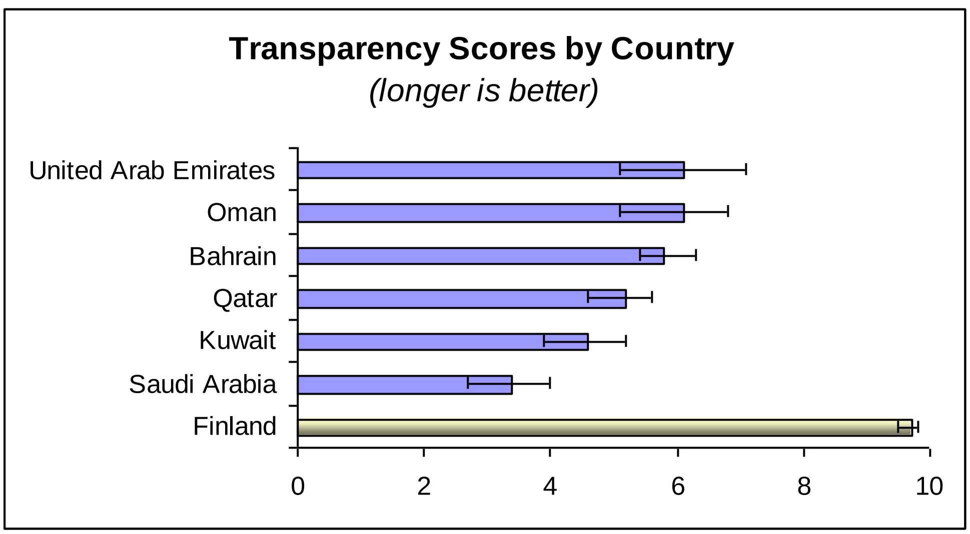
The World Bank study is not isolated[١٧]; its detailed review of empirical evidence of corruption shows that it is extremely harmful for a country's economic development in

[١٦] *Does Grease Money Speed Up the Wheels of Commerce*?, Kaufman & Wei, World Bank Institute, ١٩٩٩.
[١٧] The World Bank's database on governance and corruption, with more than ٢٠٠ consolidated studies, is available online at http://www.worldbank.org/wbi/governance/data.html.

general, and provides little relief, and often considerable grief, to the company's which engage in corrupt practices.

Corruption is an issue directly related to a company's financial position. Companies that engage in corrupt business practices are less competitive. At a minimum, they've lost the money to pay for the bribe. Even if the company can secure a contract via corrupt means, it is an indication that perhaps they cannot compete without resorting to illegal practices – so shareholders must ask whether the company's success at obtaining contracts will be replicable. All this, and corrupt business practices carry and inherent legal risk.

For companies operating in the Gulf region, this is not an abstract problem. According to Transparency International ("TI"), an international non-government organization dedicated to fighting corruption and documenting its prevalence around the world, corruption occurs in varying degrees of severity. The tables below use TI, data and incorporate Finland, the least corrupt country in the world according TI, as a benchmark.[١٨]



Basel II and compliance requirements

According to PwC Global Economic Crime Survey, economic crime is a serious threat, particularly to the financial sector. Thirty-seven percent of respondents reported experiencing significant economic crimes during the previous two years, and the average company lost more than $٢ million USD from those crimes.

In addition, local financial services firms are actively working toward compliance with Basel II risk management and anti-money laundering provisions that will come into

[١٨] Derived from the ٢٠٠٤ *Corruption Perceptions Index*. Available online at www.transparency.org.

effect in ٢٠٠٦. Leadings organizations, such as Dubai Holding, are preparing for ٢٠٠٦ by building substantial internal risk management and compliance offices.

We believe that this increased attention to compliance can be leveraged to promote the CSR agenda. Most CSR standards are focused on outcomes, these outcomes are difficult, if not impossible, to achieve without a significant internal ethics and compliance efforts. A firm's CSR goals can provide a performance requirement for which it measures its internal business ethics program.

Recommendations

The current state of CSR in the UAE and to some extent, in the GCC countries, requires local leadership and new strategies. The traditional elements that have made CSR successful in developed economies are not present or reduced in scope. However, establishing an integrated agenda – a corporate responsibility ("CR") agenda – that explicitly ties itself to good corporate governance and internal ethics and compliance, stands a much better chance to succeed.

The CR agenda leverages local interest in meeting international standards, and assuring international capital investors. It utilizes CSR to bring a fuller understanding of a corporate directors' obligations to the board (in accordance with the CSR agenda outlined by Dr. Saleh Hussain) and demonstrates that neither good governance or CSR is achievable without adequate internal ethics programs that ensure high standards are met, and internal misconduct is discovered.

For CSR-promoting organizations and NGOs, the challenge is to form alliances with like-minded organizations currently doing work outside of traditional CSR. These regional networks can exchange practices and implementation ideas to strengthen each others' work.

For local private sector organizations, the current state of CSR is a huge opportunity. The leadership mantel for CR has not been earned by anyone yet, and those that do take the steps necessary to earn it will be excellently placed to meet international obligations (such as Basel II), seek foreign capital investments and enjoy positive press and accolades from the CSR community. In addition, those leaders will soon discover how a commitment to responsible business conduct pays off in myriad ways, including: reduced employee misconduct; improved risk management; reduced resource usage; and improved employee morale.