Corporate Social Responsibility and Corporate Citizenship in the Arab World

Draft Background Paper
This Background Paper is intended to be used as background and contextual guidance for the “Corporate Social Responsibility and Corporate Citizenship in the Arab World” Conference on November 21-22 in Cairo, Egypt. This conference is jointly organized by the World Bank Institute, the Center for International Private Enterprise (CIPE), the Egyptian Institute of Directors, and the Arab Labour Organisation.

-Finance and Private Sector Development, World Bank Institute
-Egyptian Institute of Directors
-Global, Center for International Private Enterprise
-Arab Labour Organization
Background

The process of globalization has rendered this a new world in which to work. Companies, governments and civil society now operate in an environment with new, and often unfamiliar, risks such as security concerns, the impacts of new technology, demographic trends, doing business in difficult locations, climate change, and global health issues. At the global, national and local levels, the economic, social, environmental and security issues are too complex to be solved by any one sector. All of these risks create an environment that must seek solutions through multi-stakeholder collaborations and engagement of the private sector.

The concept of Corporate Social Responsibility (CSR) is gathering momentum, as global social, economic, and political problems demand both private and public solutions. Building a broader social capacity (through civil society, multi-lateral development and financial institutions, and the public sector) allows for more holistic and sustainable solutions to development challenges. This approach helps to bridge governance gaps between countries and improve governance in both the public and private sectors. New forms of multi-stakeholder partnerships must be encouraged and developed to further build and fortify this social capacity.

Corporate governance scandals such as those at WorldCom, Enron, and Tyco profoundly affected major capital markets worldwide, and placed issues such as ethics, accountability, and transparency firmly on the business, regulation and policy agendas. In 2000, a revised version of the OECD Guidelines for Multinational Enterprises was adopted. These Guidelines set forth recommendations on responsible business conduct. Heads of State and Governments at the 2002 United Nations' World Summit for Sustainable Development (WSSD) acknowledged public-private and multi-stakeholder partnerships as a critical means for tackling global development issues. Millennium Development Goal (MDG) Eight also calls for a global partnership for development with specific references to the engagement of the private sector. Also in 2002, the World Economic Forum (WEF) launched a Global Corporate Citizenship Initiative which organized and mobilized its 1,000 corporate members around various development challenges.

CSR continues to establish itself as a driving force in the private sector, as more and more traditional development actors, such as governments and civil society, are realizing that
true sustainable development must include a holistic approach. Further, foreign direct investment (FDI) and private lending continue to overtake traditional forms of aid and development project financing.

**Defining Corporate Social Responsibility**

Many terms are used to capture the role of business in sustainable development, and they can vary in meaning depending on the context in which they are being used. Terms can also vary across sectors, time and geographic location, causing some confusion. A commonly accepted definition of CSR (World Bank) is the commitment of business to managing and improving the economic, environmental and social implications of its activities at the firm, local, regional and global levels. CSR can be used as a framework through which business engages in multi-stakeholder partnerships for sustainable development. The concept of the "triple bottom line" expands on the traditional term "the bottom line" to include society and the environment.

**Regional Comparison of the Private Sector’s Role in Society**

<table>
<thead>
<tr>
<th>Economic Responsibilities</th>
<th>American Context</th>
<th>European Context</th>
<th>MENA Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate policies with regard to “good governance”, “remuneration”, or “consumer protection”.</td>
<td>Market driven</td>
<td>Legal framework codifying corporate constitution, minimum wage, sector-based legislation and regulations.</td>
<td>Corruption, Unregistered/Informal economy, unfair competition, tunneling, minority rights, disclosure, manipulation and insider trading.</td>
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<tr>
<td></td>
<td></td>
<td>Institutionalized</td>
<td>Needs to be institutionalized since markets are largely inefficient.</td>
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<thead>
<tr>
<th>Legal Responsibilities</th>
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<th>European Context</th>
<th>MENA Context</th>
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</thead>
<tbody>
<tr>
<td>Relatively low level of legal obligations.</td>
<td>Market driven</td>
<td>Relatively high levels of legislation on business activity.</td>
<td>Enforcement, enforcement, enforcement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Institutionalized</td>
<td>Laws need to be enforced and market forces should be able to act, balanced view.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Ethical Responsibilities</th>
<th>Individual Choices</th>
<th>Corporate Codes</th>
<th>Education and awareness, wait and see.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate policies with regard to local communities.</td>
<td>High level of taxation in connection with high level of welfare state provision of public services.</td>
<td>Voluntary practices of better treatment of employees, customers and minority shareholders, protecting the environment, obeying the law.</td>
<td></td>
</tr>
</tbody>
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<tr>
<th>Philanthropic Responsibilities</th>
<th>Widely present</th>
<th>Limited</th>
<th>Altruistic traditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate initiatives to sponsor art, culture, or fund education.</td>
<td>High level of taxation sees governments as the prime provider of culture, education, etc.</td>
<td>Filling the gap, supporting education, health care, etc. where the public funds are limited.</td>
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</table>

It is important to recognize that there is considerable skepticism directed at CSR. Critics worry that companies or organizations employ such terminology to ward off negative external attention. It is argued that sometimes companies' projects initiated under the term "corporate social responsibility" and others may simply be giving lip-service to sustainability or responding to external critics, and may be used as a smoke-screen for what is really being done on the ground.

The challenge companies face in addressing these perceptions is two-fold. First, they have to commit to sustainable poverty alleviation, job creation, education, etc. What this means is that CSR programs must not be thought of as one-off philanthropic projects, but rather as a set of strategically planned efforts consistent with companies’ own corporate strengths and complementary to programs offered by governments. This means that individual companies should not seek to address all development concerns and instead should focus on areas where they could make an impact. Business associations can play a fundamentally important role in making sure that different initiatives tie in together in one set of comprehensive private sector efforts to promote sustainable development. Second, companies must do a better job communicating their commitment and contributions to development. Part of the communications challenges is moving beyond process and conducting evaluations to measure impact.
The private sector can play an essential role in development by providing core competencies currently lacking in many development projects and solutions. Engaging the "responsible" private sector in development solutions can have a fundamental, long-term impact on poverty alleviation and social development by increasing client countries' national competitiveness.

The private sector, through its ability to command major streams of investments, goods, services and information, greatly influences economic and governance structures worldwide. If, for instance, businesses from industrialized countries follow cost-conscious sourcing strategies and, hence, boost the economic activity in a developing country through investment or procurement decisions, then a business role in poverty alleviation becomes evident. Jobs are created, incomes are generated and economic activity gains momentum.

The incentives for businesses to become involved in responsible business practices are manifold. Some of these incentives include:

- **Increased Leverage and Influence**: businesses can serve in leadership positions as "first movers" to change or affect government policies. Businesses engaged in CSR also tend to take the lead in regulatory and financial reform.
- **Market and Product Expansion**: businesses can discover and enter new markets by changing the way they market and to whom they market.
- **Improving Access to Finance**.
- **Attracting and Retaining Employees**.
- **Enhanced Reputation and Protection of Brand Identity**: businesses can increase their reputation and image, potentially increasing profit, by appealing to consumers who increasingly want to buy from firms that care about sustainable development.
- **Enhancing Operational Effectiveness**.
- **Reduction of Risks and Costs**: businesses that engage and invest in their communities enjoy lower production and transportation costs and a lower risk profile associated with production and local and global reputation.
- **Enhanced Government Relations**.
- **Developing a Local Skills Base**.
- **Increased Local Expertise and Access to Local Networks**
Private sector above all should be the driving force behind sustainable CSR initiatives, which can’t be driven by governments or NGOs. Private sector commitment and buy in is important. This also means that governments and NGOs must understand the incentives affecting private sector companies and their own role in shaping those incentives. For example, in case of investment, a recognized job creation mechanism, the role of governments is to create a proper legal and regulatory climate to attract investors, rather than simply appeal to potential investors.

In all, CSR should be looked at as both responsibilities of companies to contribute to resolving social problems as well as a set of rights that companies themselves have. In the end of the day, we should be concerned with building a competitive, transparent, and value-creating private sector that can create wealth to address global poverty, poor governance, and other problems.

**CSR in the Arab World**

Although some countries and companies in the Arab world are further ahead than others, CSR still remains more about philanthropy and is primarily considered external to business, as opposed to an internal process that is mainstreamed into core operations, strategy and long-term planning. CSR has typically been introduced by multinationals, and passed on through subsidiaries in the region. Although there have been several national and regional CSR-related conferences and consultancies springing up, there still remains the need to go beyond awareness-raising and to focus on practical “how to” guides and to harmonize CSR definitions, priorities, and initiatives.

It is important to remember that CSR is, by nature, culturally, geographically, and sector specific. What may constitute CSR in one country or in one industry sector may not resonate or be applicable in another. For example, consumer, environmental, employee, governmental and community activism – hallmarks of Western society – are not typically observed in the MENA countries. And, within this, a World Bank report finds that CSR has different meanings from country to country in the MENA region. The report revealed that CSR is currently best understood and manifested as external philanthropy of a company, and that CSR is driven primarily by either rational business choices or political

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choice instead of arising from or responding to pressures and demands from society (Ibid). In most countries, the actual society does not differentiate between ethical behavior and simply obeying the law when they evaluate business behavior. Drivers of CSR in the region include:

<table>
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<tr>
<th>Driver</th>
<th>Country</th>
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<td>1 The need to improve the investment climate – better governance, voluntary disclosure, transparency, accepting the rule of law.</td>
<td>Turkey, Morocco, Egypt</td>
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<td>2 Increased international and local competition due to liberalization – concerns for efficiency and productivity.</td>
<td>Jordan, Turkey, Egypt</td>
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<td>3 International business relations – learning by examples.</td>
<td>All countries</td>
</tr>
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<td>4 International Codes of Conduct, such as the BSCI Code in the textile industry.</td>
<td>Morocco, Turkey.</td>
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<td>5 The need to comply with International Standards.</td>
<td>Morocco, Turkey.</td>
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<td>6 Government – new laws and regulations, such as Corporate Governance Codes, disclosure and reporting requirements, labour laws.</td>
<td>Turkey, Morocco, Palestine, Jordan.</td>
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<td>7 Improved enforcement of existing laws and regulations.</td>
<td>Turkey, Egypt.</td>
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<td>8 International campaigns, programs and projects, such as the UN Global Compact, World Bank-IFC programs, UNDP programs.</td>
<td>Turkey, Lebanon, Egypt.</td>
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<td>9 Consumer preferences in developed countries (Ethical trade movement, for example).</td>
<td>Turkey, Morocco, Egypt.</td>
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<td>10 Relations with the European Union.</td>
<td>Turkey, Morocco, Jordan.</td>
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<td>11 Activism of global civil society organizations, such as Greenpeace, Transparency International, directly or through local agents.</td>
<td>Turkey, Lebanon.</td>
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<td>12 Awards and ratings.</td>
<td>Morocco, Turkey.</td>
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</table>

One area that resonates strongly among Arab companies and governments, and where a manifestation of CSR might make the most sense and have a positive multiplier effect on the region’s growth, is in the private sector’s engagement with youth. Creating meaningful employment and opportunities for young people throughout the Arab world is one of the most critical sustainable development challenges facing the region. Growing youth unemployment is a major problem, and there is often a gap between skill sets and

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3 Ibid. Note: This is based on one study only, and does not encompass all countries in the Middle East-North Africa Region.
job requirements. Further, small and medium-sized enterprises (SMEs) and family-owned enterprises (FOEs) are very prominent in the region and their success, development and expansion is critical to the region’s economic competitiveness, growth, and wealth creation. Investing in young people will pay off as a more skilled and entrepreneurial labor force is created.

**Young people within the Arab region are the potential customers, employees, partners and critics of tomorrow’s business community. Helping to raise skills levels and to grown small and medium-sized enterprises enhances locally-driven innovation, knowledge creation and competitiveness.**

*IBLF, Business and Youth in the Arab World*

**CSR Achievements**

In general, the Middle East as a whole is at a stage of trying to define CSR in their own context, map their stakeholders, and define their priority issues. In many ways, the MENA region is ahead of other regions due to the fact that it is taking an approach to CSR that is regional, organized, and driven at the policy level. There is beginning to be a strong governmental buy-in to the concepts of CSR, sustainable development, and environmental responsibility. Indeed, governments are beginning to realize that CSR can significantly and positively contribute to enhancing competitiveness, attracting investment, and maximizing the value of wealth creation to their country’s citizenry. Supporting and bolstering the adoption and implementation of CSR practices can be facilitated by governments through the creation of a policy environment conducive and rewarding to CSR adoption. For example, government can harmonize national laws and legislation with internationally recognized CSR–related management and reporting standards. Governments can also facilitate capacity building and awareness-raising on CSR-related issues, and encourage and engage in public-private partnerships to affect positive social change and to reach developmental, environmental and social goals. Placing emphasis and passing legislation on transparency and accountability in reporting

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and assurance is also important and signals to companies, both multinational and local, that CSR is being taken seriously.\textsuperscript{6} It also signals positively to the investment community.

At the policy level there is considerable movement. The MENA-OECD Investment Programme is launching, during its ministerial meeting to be held in Cairo on November 27-28, 2007, a Responsible Business Forum, chaired by Egypt. On July 11, 2007, Egypt became the first Arab and the first African country to sign the OECD Declaration on International Investment and Multinational Enterprises. Top officials and Ministers in many countries are taking a serious look at environmental and social challenges and finding some solutions through engaging business. At the regional level, steps have been taking to institutionalize the idea of CSR. For example, as planned in the first phase of MENA-OECD (2005-2007) a regional Institute for Corporate Governance (HAWKAMA) was established in 2006 in Dubai to advance corporate governance reform in the region. On a national level, ten countries have defined their National Investment Reform Agendas (NIRA) that include concrete investment policy reform measures aimed at improving the countries investment environment: Bahrain, Egypt, Jordan, Lebanon, Palestinian National Authority, Oman, United Arab Emirates, Morocco, Tunisia, Yemen. These reform agendas, which are also an initiative by the MENA-OECD, highlight the role of corporate social responsibility and corporate governance in creating a healthy investment climate.

Also on a national level, MENA governments are engaging business to achieve environmental and social objectives through public-private partnerships (PPP). In Egypt, for example, as part of the government's social goal of bolstering educational capacity, the Ministry of Investment's online portal sets forth PPP investment opportunities in the construction and maintenance of 2200 new schools, with investment cost of EGP 4.7 billion. While the private sector invests in construction and maintenance, the Egyptian government will cover the teachers' salaries, administrative staff, and the annual operational cost. In this way, the private sector's core competencies can be harnessed to meet national social needs. Public private partnerships provide better distribution of risks; therefore, they are attractive to foreign investors. Because they offer an FDI entry point, state policy highly supports this type of partnership in the MENA region, especially for environmental and social goals that can benefit from the private sector's financial

resources and results-driven approach. The socially-oriented FDI takes place in the form of PPPs in MENA countries comes from both multinational companies and regional companies. Some examples include the Coca-Cola Company's partnership with the Egyptian Ministry of Irrigation and Water Resources and USAID to launch a “Global Development Alliance” to provide clean water and solid and liquid waste treatment for communities in Upper Egypt and the Delta. On the regional front, Saudi Amiantit Group got an $11.36 million (LE 64.78 million) deal for pipes to provide water access around Egypt after the government announced a plan in January to fund LE 7 billion in sewage and fresh water treatment projects in 2007. Because PPP programs offer a valuable gateway to FDI, engaging with the private sector to achieve social goals has proven to be in MENA states' interest, not only for achieving social goals but also for attracting foreign investment.

**Issues to Consider Moving Forward**

The upcoming *Corporate Social Responsibility and Corporate Citizenship in the Arab World* conference in Cairo, Egypt on November 21-22, 2007, as well as the MENA-OECD Investment Forum and Responsible Business Forum in Cairo, Egypt on November 27-28, 2007, will no doubt further the policy discussion on CSR. Some issues that deserve attention as the CSR dialogue moves forward include:

- Moving from purely philanthropic activities to sustainable programs to address development challenges.
- Clearly define CSR and its role in MENA *as seen by local stakeholders*.
- Make the business case for CSR in MENA.
- Expand beyond social responsibility of companies and build an understanding of corporate citizenship, the concept which captures not only obligations of business but also its rights and corporate strategy.
- Explore potential ways in which social responsibility programs on the local level can be integrated to complement efforts to multinational enterprises and their supply chains.
- Promote the role of business associations in promoting business engagement in development, capturing and communicating successes, and solving the collective action problems.
• Addressing corruption and the informal/unregistered economy.
• Promoting engagement of women in political and economic arenas.
• Addressing the role of entrepreneurs, SMEs, and family-owned enterprises (FOEs) in sustainable development.
• Awareness-raising among regional and local companies, as well as awareness-raising among society.
• Harmonizing regulation (federal-municipal-local) and ensuring consistent enforcement.
• Nurturing innovation.
• Encouraging public-private partnerships.
• Encouraging partnerships with universities and academia to inculcate a culture of awareness and ethical behavior in young and future leaders.
• Concentrating on practical how-to guidance and advisory services – there is a gap between understanding broad concepts and actually implementing activities that achieve long-term, sustainable goals.