TAYLOR McKELLAR

Operating responsibly in the Middle East and North Africa:

Implementing the United Nations 'Guidance on responsible business in conflict-affected and high-risk areas'

Taylor McKellar Practice Note

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"Risk management is key to managing operations in difficult environments. Taylor McKellar through building on the UN Global Compact's guidelines for responsible investment in conflict and high risk areas has provided valuable insights for organizations wishing to operate in the Middle East and North Africa".

Steve Killelea, Chairman and Founder, Institute for Economics and Peace

"I welcome this timely series of reports, which tackle one of the most difficult and neglected facets of corporate responsibility: namely the role of business in upholding human rights, reducing conflict, and promoting peace in volatile regions... Academics and practitioners alike will benefit from the insightful analysis and recommendations".

Professor Wayne Visser, University of Cambridge, University of Birmingham, and Director of CSR International

ABSTRACT

It is now widely acknowledged that business operations and investment capital contribute to peace and stability in host societies. This is especially so for large, foreign businesses and investors with interests in many different settings. If a foreign operation is managed with a sensitivity to this nexus, at the least it can avoid making things worse, and indeed it can play a beneficial role in socio-economic development and peace-building, thereby mitigating risk to host societies and its own operations. However poor risk management may not only contribute to political instability and violent conflict, but it may also *harm* the organisation by increasing the risk of doing business, repatriating assets, and the safety of personnel. Following the launch of the UN expert group guidance on responsible business and investment in conflict-affected and high-risk areas in June 2010, here we identify some challenges and opportunities to those seeking to use this latest thinking in the Middle East and North Africa region. We find that MENA provides a unique yet pertinent case that requires state and sub-regional analysis. This practice note will be of interest business leaders, institutional investors such as pension and sovereign wealth funds, as well as the media and NGOs.

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ABOUT US

Taylor McKellar is an award-winning political and conflict risk consultancy. We specialise in responsible management for organisations operating in politically unstable, conflict-affected areas.

From our offices in London and Melbourne, clients have included the United Nations Development Programme, World Bank, United Nations Global Compact, as well as various multinational corporations institutional investors, and governments.

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INTRODUCTION

The business and peace nexus

There has been a growing recognition that while international businesses and investors might attempt to be politically neutral in the developing countries in which they operate, their activities nonetheless can have serious consequences for host societies. This is especially so in countries and zones where conflict, whether manifesting as unrest, discrimination, repression, insurgency, human rights abuse, political violence or war, is an ever-present risk. A sizeable foreign business operation or investment in a developing country has a significant "footprint" in terms of its physical presence, economic impact, and political-cultural influence. For example, in 2006 and 2008 the Norwegian Government Pension Fund sold its holdings and blacklisted Freeport-McMoRan and Rio Tinto respectively over the firms' operating practices at the Grasberg mine in West Papua, which they claimed contributed to civil conflict, socio-economic disparity, and mass degradation of the natural environment.[1] In this way, foreign business operations and investment has the potential to *harm* the host society. But it also harms the foreign company: It faces not only increased risk of doing business, repatriating assets, and the safety of personnel on the ground, but also reputational fallout as stakeholders and observers level criticism at the business' poor management of political risk.

If managed responsibly (and well), businesses and investors may actually contribute to peace and stability. If a foreign operation is carefully managed with an eye to conflict sensitivity, at the least it can avoid making things worse, and indeed it can play a beneficial role in socio-economic development and peace-building, thereby mitigating risk to host societies and its own operations.[2] To do so requires more than advanced planning – there needs to be an intrinsic understanding that simply doing business in this interconnected and fragmented world presents the modern organisation with a new range of opportunities and challenges that must be managed responsibly.[3] Understanding of the relative merits and impediments of different cultural, religious, civilizational and societal approaches is becoming increasingly useful. For instance, despite common

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1 For a review essay, see: Taylor N. 'Red river: The blacklisting of Rio Tinto', Taylor McKellar Working Paper, June 2009, accessed at http://ssrn.com/abstract=1665167 on 10 September 2010.

2 See: Berdal M. & Wennmann A. (eds.), *Enduring Wars, Consolidating Peace: Economic Perspectives*, International Institute of Strategic Studies Adelphi Series No.412, September 2010; Nelson J., *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution,* London and New York: The Prince of Wales' Business Leaders Forum, International Alert, Council on Economic Priorities, 2001, pp.73-140; Tripathi S. & Gunduz C., *A Role for the Private Sector in Peace Processes? Examples and Implications for Third-Party Mediation*, Geneva: Centre for Humanitarian Dialogue, 2008, p.24.

3 See: Berdal M. & Wennmann A. (eds.), *Enduring Wars, Consolidating Peace: Economic Perspectives*, International Institute of Strategic Studies Adelphi Series No.412, September 2010; Bray J., 'Attracting Reputable Companies to Risky Environments: Petroleum and Mining Companies', in Bannon I. & Collier P. (eds.), *Natural Resource and Violent Conflict: Options and Actions*, Washington, DC: World Bank, 2009, pp.287-352; Nelson J., *The Business of Peace: The Private Sector as a Partner in Conflict Prevention and Resolution,* London and New York: The Prince of Wales' Business Leaders Forum, International Alert, Council on Economic Priorities, 2001, pp.73-140; Tripathi S. & Gunduz C., *A Role for the Private Sector in Peace Processes? Examples and Implications for Third-Party Mediation*, Geneva: Centre for Humanitarian Dialogue, 2008, p.24.

(mis)conceptions regarding Islam and human rights, some have argued that it fosters ethical standards entirely compatible with the Ten Principles of the Global Compact.[4]

In recognition of the critical role of foreign business and investment in conflict-prone environments, in 2000 the UN launched the Global Compact, a set of Ten Principles designed to help international businesses to understand and mitigate the potential negative impact of their activities on host societies suffering from conflict and instability, and indeed to play an active role in stabilisation and peace-building. The Global Compact has been gaining momentum ever since, and has had a tangible and positive impact on the role of international business in society. Lessons routinely accrue. To capture recent learning, in 2009 the Global Compact Office and Principles for Responsible Investment – an investor-led collaboration which seeks to incorporate social and governance risks into mainstream investment management – convened a group of experts[5] to develop their *Guidance on Responsible Business in Conflict-Affected and High-Risk Areas: A Resource for Companies and Investors*. This practice note is intended to provide general but practical insight into four key areas of activity, or business functions, through which a company can align with the expert group's guidance, and therefore also the Global Compact's Ten Principles.

The objective here is twofold. First, we seek to demonstrate how the guidance may be useful in managing risk in zones of actual or potential conflict, as well as contribute to peacebuilding and stability. As such, this paper aims to identify some of the issues that businesses and investors might face in trying to implement the UN guidance,[6] with a view to promoting further discussion on best-practice and some of the more general implementation issues that business and investors could face in a real-world developing country context. Second, we will begin to 'test' the efficacy of the guidance in a real-world context: the Middle East and North Africa (MENA). Subsequent reports in this series by Taylor McKellar will implement the guidance to specific states and sub-regions within MENA, thereby offering a framework for businesses and investors to operate responsibly in the region.

Defining Middle East and North Africa (MENA)

MENA is not a region as defined by geo-contiguity, but there is sufficient cultural, political and economic interaction between many of the countries, particularly Arabic-speaking countries, to warrant a regional consideration, and for it to be useful as a basis for business risk management and corporate contributions to peace-building in the wider MENA context. The region we have conceived

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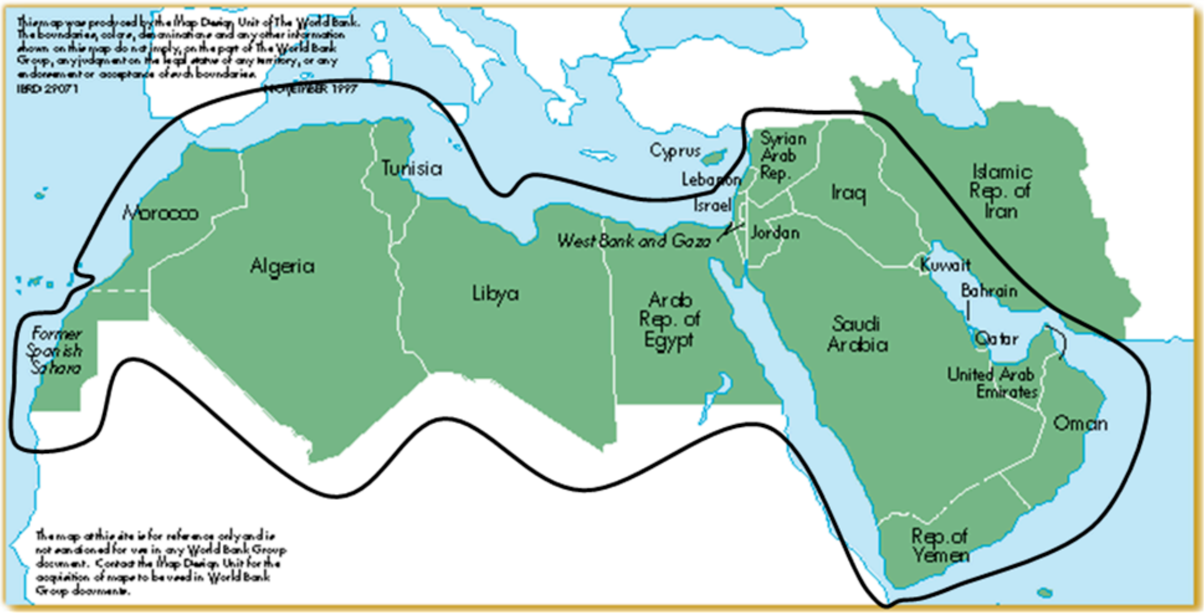
4 See: Williams G. & Zinkin J., 'Islam and CSR: A Study of the Compatibility Between the Tenets of Islam and the UN Global Compact', *Journal of Business Ethics*, Vol. 91 No.4, 2009.

5 Nicholas Taylor, a principal of Taylor McKellar, is a founding member of this expert grouping, and was a contributing author of the original guidance. Along with Robert McKellar, Nicholas is co-author of this contextualised series on business and peace in the Middle East and North Africa.

6 This is the first time the guidance has been formally applied to a specific state or regional setting. However prior to this report, the UN Global Compact and Principles for Responsible Investment previously piloted the guidance in a workshop in on Sudan to test the practical usefulness of the guidance by the UN Global Compact, see: UN Global Compact, 'Sudan Workshop', *Global Compact Local Network Sudan,* 1-2 March 2010, accessed at http://www.unglobalcompact.org/news/12-03-02-2010 on 1 August 2010.

is a cultural space stretching east from Morocco to Iraq, and as south as Yemen. (See: Figure 1 for a map of countries incorporated within this summary).

Figure 1: Middle East and North Africa (excluding Iran and Cyprus)



Source: World Bank, 1997

For the purposes of this practice note, we will make some general comments, with the caveat that more nuanced sub-regional (i.e. the Maghreb, Near East and Arab Peninsula) and state-level analysis (e.g. neighbours Algeria and Libya differ greatly, as do the US-allied Arab states of Jordan and Saudi Arabia) is reserved for our forthcoming business and peace in the Middle East and North Africa series of papers which will focus on one sub-region and state at a time.

The broad-brush approach adopted here warrants qualifications. First, while much of the MENA and Arab world can be treated as one entity, we exclude the Sudan and Mauritania (these are sometimes included in definitions of MENA, as they are ruled by ethnic Arab elites, but whose developmental path, as well as cultural and demographic composition, might be better characterised as being part of sub-Saharan Africa). Second, most generalisations will pertain to the Arabic-speaking states within MENA, which share a broadly similar cultural and political heritage. Several characterisations are relevant to Iran, but Iran is unique within the region and demands a separate treatment later in the series (it shares as much in common with NW South Asia and the Caucasus as with the Arab world, although it has been a major influence in Arab communities in every sub-region especially since the Iranian Revolution of 1979). Similarly, Cyprus is also omitted from this contextualised analysis.

This being an introductory overview of the region rather than an in-depth application of the guidance, we will only highlight distinctions when it is absolutely essential, and caution readers to approach different states and communities on a case-by-case basis. Put another way, what we posit in this paper is germane to general interpretations of the region, with the interspersing of state and sub-regional examples, not to localised planning.

Our definition of MENA results in a unique yet pertinent case to apply responsible political risk management. Although periods of major conflict,[7] whether civil or international, have occurred in recent decades, major conflict is not the norm, and the casual and infrequent visitor to the region would see familiar forms of economic and social interaction. Despite this, significant violent events have included: the decades long Western Saharan insurgency, 1980-88 Iran-Iraq War, 2006 Israel-Lebanon Conflict, 1992-2002 Algerian civil war [e.g. *le Pouvoir* vs. Islamists], 1990-91 Iraqi invasion of Kuwait and Western repulse, the Yemeni Houthi rebellion from 2004, as well as ongoing spot violence between Israel and Palestine. Periods of violent conflict aside however, the region is certainly also what the UN expert group guidance would define as "high-risk". That is, suffering from low-intensity social and political tensions and violence which increase the risk of widespread unrest or conflict, and which impede both economic development and human security. Some of the main trends include:

- An *anti-government challenge posed by Islamist groups* who, partly through lack of legitimate channels of expression and partly through radicalisation as a result of exposure to globalist extremist fundamentalism (as manifested by Al Qaeda and other "Salafist" movements[8]), have resorted to terrorism and insurgency. Whilst this was most acute in Algeria in the 1990s, most states in MENA have experienced varying degrees of Islamist violence in the last decade, although this dimension has been frequently overstated since September 11.

- *Inter-sectarian tensions* between different Muslim sects (e.g. Egypt), or between Muslims and Christians (e.g. Lebanon), with periodic localised violence and unrest;

- *Family, clan and tribal rivalries* that periodically result in sporadic violence as part of tribal feuds. Whilst this is most acute in Yemen, many MENA societies experience some degree of this phenomenon.

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[7] Definitions of "conflict" and "major conflict" vary significantly, however most reserve distinguish between "conflict" and "major conflict" as violent events resulting in upwards of 25 and 1,000 battle-related deaths per annum respectively. See: Wallensteen P., *Understanding Conflict Resolution*, Sage Publications, 2nd edition, 2007, pp. 22-24.

[8] "Salafism" is often defined as adherence to early Muslim ideals as espoused during the period of initial Muslim expansion, but more commonly it refers to a literalist interpretation of the *Holy Quran* and the application of Quranic and widely accepted Sunni Hadith precepts to modern society, as espoused by both some traditionalist clerics, but also sometimes by self-legitimised interpreters of the Holy text, i.e. those who lack the clerical credentials to act as official interpreters, yet who still attain considerable political influence. It is worth noting that Salafism is not the only basis of modern political Islam, much of which is premised on a more flexible humanist interpretation of the Scriptures in the context of modern socio-political trends, but Salafism is one of the most absolutist trends and hence many acts of violent insurgency have been perpetrated in its name. Al Qaeda's ideology is an archetype of this strand of thought. In this context, "salafa" as the root verb in Arabic, can be interpreted as "to have previously said" in this case with reference to original Islamic scholars and political leaders, see: Wehr H., *A Dictionary of Modern Written Arabic,* Cowan J.M. (ed.), xvii, Wiesbaden: Otto Harrassowitz, 1961.

- *Socio-economic and political frustrations*, and frustrations with closed political systems, leading to periodic outbursts of popular discontent that has manifested as violent demonstrations and riots, which are in turn met by a violent state response. For instance, following the 1990-91 Gulf War, Egypt has frequently seen public discontent despite its leadership role within the Arab world and relative wealth.[9]

- Arguably one of the most universal forms of violence throughout the region is *state repression*, including arbitrary detentions, disappearances and torture – a number of countries in the region could be characterised as police states[10] in which dissent is often characterised as subversion, and in which internal security apparati (either aside from or including regular police forces) operate with scant regard for human rights, transparency or due process, and usually covertly. For instance, in 2009 Human Rights Watch cited an intensifying level of state repression in a number of states in the Middle East and North Africa region. Attention was drawn to Tunisia, where intolerance of civil society freedoms, particularly in relation to press freedom and the refusal to grant legal recognition to any human rights NGOs over the past decade, has led to much international scrutiny.[11]

- *Sexual and racial discrimination and workplace abuse* is prevalent to varying degrees throughout the region. In Egypt as in elsewhere, homosexuality is repressed both socially and politically, and anti-gay violence can be extreme.[12] Similarly, women often hold a second-class status in many parts of the region, a status sometimes enforced by state policy and strict religious practices as in Saudi Arabia in particular.[13] The abuse of domestic

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9 See: International Crisis Group, 'The Challenge of Political Reform: Egypt After the Iraq War', *Middle East/North Africa Briefing No 9,* 30 September 2003, accessed at http://www.crisisgroup.org/~/media/Files/Middle%20East%20North%20Africa/North%20Africa/Egypt/B009%20The%20Challenge%20of%20Political%20Reform%20Egypt%20After%20the%20Iraq%20War.ashx on 1 September 2010.

10 Freedom House conducts an annual rating of countries according to political rights (i.e. degree of real democracy) and civil liberties (i.e. freedom of speech and expression, freedom to form organisations, etc). Their methodology incorporates seven sub-areas in each category, and countries are assigned a score from 1 (free) to 7 (un-free / effectively under dictatorship) in each category. Kuwait, which experienced some political opening following the 1991 Iraqi invasion, scored 4 in each category. All other MENA countries scored between 7 and 5 in each area, with Libya, Saudi Arabia and Syria at the bottom in terms of rights and liberties. See: Freedom House, 'Freedom in the World: Western Sahara (Morocco) Country Report', 2009 Edition, accessed at http://www.freedomhouse.org/template.cfm?page=22&year=2009&country=7751 on 20 September 2010.

11 Human Rights Watch, 'Country Summary – Tunisia', *World Report 2010*, January 2010, accessed at http://www.hrw.org/sites/default/files/related_material/tunisia_0.pdf on 13 September 2010.

12 See: Human Rights Watch, 'The Assault on Justice In Egypt's Crackdown on Homosexual Conduct', *HRW Report*, 2004, accessed at http://www.hrw.org/reports/2004/egypt0304/ on 23 August 2010.

13 Freedom House, 'Saudi Arabia: Country Reports', *Women's Rights in the Middle East and North Africa: Citizenship and Justice*, 3 March 2010, accessed at http://freedomhouse.org/template.cfm?page=384&key=264&parent=24&report=86 on 17 August 2010. For other country reports including: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Syria, Tunisia, UAE and Yemen, see the 'Overview Essay: Hard-Won Progress and a

workers, especially migrant workers, is not uncommon and in many instances authorities seem reluctant to act against it.[14] And migrant labour, especially in the Gulf and Libya, has few rights and can suffer dangerous or abusive working conditions. For example, even Palestinian-Arab refugees often live on the periphery of their host societies, and often face a high degree of official wariness and hostility.

We will not delineate between specific types of political instability or violence in what follows unless where absolutely necessary. The above is intended only to illustrate how necessary responsible political risk management is when operating in MENA, as well as to outline the degree to which the region is at risk of political violence and conflict in its various forms.

IMPLEMENTING THE UN GUIDANCE IN MENA

The following analysis will summarise the UN expert group guidance in each of the four areas where responsible business and investment can be achieved:

a. Core Business;
b. Government Relations;
c. Local Stakeholder Engagement; and
d. Strategic Social Investment.

Regional application of the guidance will then be examined by focusing on the opportunities and challenges for implementation of each of the four areas to the MENA context. We will summarise the central points raised in the UN expert group guidance, however we do encourage readers to download a copy of the full report. The conclusion will draw together the key attributes of the region that the reader should bear in mind when considering application of the Guidance paper's recommendations to their MENA operations.

a. Core Business

The UN guidance define core business as "corporate activities aimed principally at generating profits. This includes operations located at the company's own premises, its branches, subsidiaries and/or joint ventures, as well as trading and procurement links with suppliers". Core business, then, is the set of daily functions and processes that a company undertakes in the normal course of global and local operations. As defined in the guidance, these activities are global in scope, although in our

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Long Road Ahead' at http://freedomhouse.org/template.cfm?page=384&key=270&parent=23&report=86 or the country reports page at: http://freedomhouse.org/template.cfm?page=383&report=86.

14 See: Jureidini R., 'Migrant Workers and Xenophobia in the Middle East', *Identities, Conflict and Cohesion Programme Paper No. 2*, United Nations Research Institute for Social Development, December 2003, accessed at http://www.unrisd.org/unrisd/website/document.nsf/462fc27bd1fce00880256b4a0060d2af/045b62f1548c9c15c1256e970031d80d/$FILE/jureidin.pdf on 10 September 2010.

consideration of implications in MENA we will focus mainly on the regional and/or state level of operations.

A guideline for aligning core business activities and relationships with conflict sensitivity includes policies and practices that:

- Consider *the effect of business operations* on conflict and human security during the planning phase of business initiatives, with due diligence to discern relevant needs of host societies potentially affected by operations; design operations with an eye to these needs.
- Ensure that the company establishes a *proactive dialogue with host societies* to help identify needs and concerns in terms of conflict risk. Ensure that there are clearly defined grievance and dispute settlement mechanisms in place to identify and address problems as early as possible.
- Align with the highest *standards of corporate conflict sensitivity*: If international standards are higher than those set by national law, then use international benchmarks.
- Apply current best practice (e.g. the Voluntary Principles on Security and Human Rights) in *conflict sensitive corporate security*, and when at all feasible seek the alignment of public security forces responsible for company security with these practices.
- Conduct *due diligence on suppliers and partners* to ensure that their activities do not infringe on human security or benefit conflict actors; seek alignment of partners and suppliers with international standards of conflict sensitivity.
- Ensure that *anti-corruption measures* are sound, and aligned with the corruption risks that exist in operating environments. This not only reduces legal liability, but also prevents resources being siphoned off for the benefit of conflict actors' coercive capacities.

MENA Opportunities

Implementing the guidance in MENA, there is one key advantage, pertaining to establishing a proactive dialogue, grievance or dispute process. In many MENA communities, certain families or tribes are recognised community leaders, and within these family heads or tribal heads have considerable legitimacy and a profound understanding of their own communities. On the local level, these traditional authorities are readily identifiable and can often act as legitimate spokespersons for the local community in dialogue with the foreign firm. The one caveat is that the interest of leading traditional authorities do not always reflect those of the whole community can indeed be at odds with the interests of some other tribes or families. While they represent a good starting point, any dialogue would need to ensure that there was open room for dissent with prevailing opinion, and that voices other than community leaders were not marginalised.

Many MENA states also have a relatively well-developed national and local network of NGOs who can also act as arbiters and help channel community opinion into actionable feedback. Some states, including Saudi Arabia and Syria, put tight limitations on NGO activity, and many shun NGO activity oriented towards human rights or political reform. Nonetheless the NGO domain is a burgeoning space,[15] particularly in more moderate Arab states such as Egypt.[16]

As recently as September 2010, the United Nations and Gulf Cooperation Council launched the Pearl Initiative, a business-led body for the promotion of improved corporate governance standards in the six Gulf state's of: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.[17]

MENA Challenges

With respect to security provision, it is of course feasible to influence the behaviour of private contractors, but influencing relevant government authorities towards compliance with good practice in conflict sensitivity and human security is more challenging.[18] There is a widespread culture of elitism among security officials operating in MENA countries, as well as a long-standing, though not universal, disregard for the adequate application of human rights. While law enforcement might be reasonably professional at the community policing level, the "state security first" culture of security organisations is well entrenched and a company would face opposition in trying to apply the basic principles of human security. This is especially the case if security personnel are only intermittently engaged with providing company security, and regularly rotate back to other normal duties. That being said, any company effort to instil greater respect for human rights among security officials would have at least some impact, and if changes in attitude circulated back into wider security organisations, then this could at least plant some seeds of conflict sensitivity.

Operations in MENA typically rely on a very complex and disparate supply chain, leading to an additional challenge. The great majority of these suppliers are quite small, and regional supply

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[15] "Since September 11 and the war on terrorism, nongovernmental organizations (NGOs) in the Arab world have acquired a special presence and weight, requiring critical analysis. The increase in NGOs just in the past few years—from an estimated 175,000 in 1995 to about 225,000 in 2003", see: Abdo N., 'Imperialism, the State, and NGOs: Middle Eastern Contexts and Contestations', *Comparative Studies of South Asia, Africa and the Middle East*, Vol.30 No.2, 2010, pp.238-49. Many regional and local NGOs had roots before late 2001, but donor interest subsequent to the invasions of Afghanistan and Iraq has indeed led to the creation of more NGOs. NGO funding tends to follow donor interest, yet in the MENA region there was a good base to build upon even before any major foreign intervention.

[16] McGann J.G., 'Pushback against NGOs in Egypt', *The International Journal of Not-for-Profit Law*, Vol.10 Is.4, August 2008.

[17] See: Gulf Cooperation Council and UN Global Compact, 'Concept Paper', *Pearl Initiative*, September 2010, accessed at http://pearlinitiative.org/concept-paper.html on 10 September 2010.

[18] In Algeria in the late 1990s for example, foreign extractive firms were constrained to rely upon heavily on the Algerian security services and military, or government approved private security firms consisting mainly of semi-retired or seconded police officers, for their protective security. During periods of intensified anti-Islamist (i.e. GIA / GSPC mainly, at the time) activity, general and often indiscriminate security sweeps would often result in the detainment of national workers. Many foreign firms lobbied the government to at least offer due process to their workers, for whom they felt, and had, a duty of care, but this generally fell on deaf ears. Efforts to increase sensitivity to human security in project locations similarly met with official obfuscation. This example is drawn from direct on-site project research conducted by one of the authors in 2000. Although this example pertains to a counter-insurgency, the "security first" orientation exemplified here is common to many, if not all, MENA countries.

chains would likely be very diverse.[19] This increases the number of entities that a foreign company would need to scrutinise or influence. Additionally, most local businesses are family-owned, and the same families which run a business can also be influential stakeholders in the local or national politics. To varying degrees, unlike in many Western societies, there is seldom a strict separation of business and politics.[20]

In Algeria in the late 1990s for example, foreign extractive firms were constrained to rely upon heavily on the Algerian security services and military, or government approved private security firms consisting mainly of semi-retired or seconded police officers, for their protective security.[21] During periods of intensified anti-Islamist (i.e. GIA / GSPC mainly, at the time) activity, general and often indiscriminate security sweeps would often result in the detainment of national workers. Many foreign firms lobbied the government to at least offer due process to their workers, for whom they felt, and had, a duty of care, but this generally fell on deaf ears. Efforts to increase sensitivity to human security in project locations similarly met with official obfuscation.

Although this example pertains to a counter-insurgency, the "security first" orientation exemplified here is common to many, if not all, MENA countries. Political interests of local suppliers would therefore be a factor in their willingness to adapt to conflict sensitive modes of business. This does not make conflict sensitive supply chains unachievable, but it does increase the investment, in terms of time and management attention, that could be required.

Finally, with respect to corruption, in MENA society and bureaucracies the issue is seldom observed as it is in the home regions of many international businesses. Western business ethics and standards of governance are not necessarily accepted, and a commitment to "clean" business is often

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19 For a useful overview of business and peace for small and medium sized enterprises, see: International Alert, 'Sustaining Business and Peace: A Resource Pack on Corporate Responsibility for Small and Medium Enterprises', *Joint publication of International Alert and the UN Global Compact*, July 2009, accessed at http://www.international-alert.org/pdf/Sustaining_Business_and_Peace.pdf on 17 July 2010.

20 Many of the UAEs main business conglomerates, for example, while not indicative of small business behaviour, make the point. Many large corporations in the UAE are either partly state-owned, or their senior executive teams include princes accountable to their respective Emirates or the UAE federal government in Abu Dhabi. General discussion with Middle Eastern sources indicates that the business-political power overlap is often a necessity for sustaining a business, and in many cases prior political influence and relationships are a trigger or facilitating factor in the decision to launch a business in the first place – the owners know that whatever business it is, it will get official support in terms of smooth bureaucratic approvals, and in some cases competitive advantage through political favouritism. A rather acute example of this overlap is the West Bank territory of Palestine / Occupied Territories: Many senior security officers own and manage local businesses, and actually use troops under their command as employees when they are not engaged in training or security duties, see: Strategic Assessments Initiative, *Planning Considerations for International Involvement in the Palestinian Security Sector*, July 2005. (Note: Robert McKellar, one of the authors of this paper conducted background research for this report). These illustrative examples aside, it is reasonable to maintain that the business-politics nexus in the MENA region is a relatively common phenomenon, and this nexus of interest certainly has implications for corporate governance.

21 This example is drawn from direct on-site project research conducted in 2000 by Robert McKellar, co-author of this report.

secondary to commitments to family, friends and patronage networks. That said, there have been some formal efforts to promote corporate responsibility in the MENA region, most notably by Queen Noor of Jordan. Anti-corruption processes might address the issue at a technical level, but at the cultural level getting alignment on anti-corruption will be a slower process. For instance, whistle-blowing is especially alien to Arab culture. In particular, white collar Arab workers identify very strongly with their peer group and have considerable deference for organisational authority, and would regard whistle-blowing as a very extreme measure which carries high risks in terms of social backlash. Again, policies and processes can only address part of the challenge; cultural attitudes are where the real work lies.

b. Government Relations

The UN guidance defines government relations as "interactions between the company and government officials, agencies and organisations... Government relations also include legitimate public and private lobbying activities to shape the operating environment for business." It also points out that for an international business, this includes both home and host governments, though we will consider primarily the host government level, which includes a recommendation to:

- Explore all avenues for *constructive engagement* with government, particularly by way of increasing conflict sensitivity, and set strong examples of conflict sensitivity in dealing with governments.

- Strive to *avoid real or perceived complicity* in government human rights abuses.

- Ensure that there are *clear, publicly available policies and practices* aimed at preventing corruption in relations with officials, and that host government relationships, including commercial agreements, are as transparent as possible. The latter creates disincentives for corruption, and ensures that corruption is not perceived when in fact it might not have occurred.

MENA Opportunities

Governments across MENA have undergone considerable reform over the last few decades. Domains of authority have become more clearly demarcated, whilst administrative professionalism and proficiency has increased considerably. This assists a foreign firm in targeting their government relations towards operational support and addressing specific concerns and issues. In some countries (e.g. Jordan) professionalism and familiarity with international standards of governance is quite high, and this facilitates clear-headed discussion around mutual issues.

Another opportunity lies in the general legitimacy of the state in most of MENA. Although levels of democracy differ significantly within the region, most governments are broadly accepted as the legitimate authority in their respective countries. This means that simply dealing with a national government does not in itself amount to complicity in human rights abuses (as is arguably the case in many African states such as Chad). It is possible, if at times challenging, to work with regional governments while staying clear of negative complicity. Increasingly, international organizations such as the World Bank, International Business Leaders Forum (IBLF) and numerous NGOs offer timely and reputable analysis of the governance standards and policies present in particular states and regions. For instance, the European NGO Transparency International has already established 10 national chapters throughout MENA, with a view to establishing a further 5 in the next few years. For example, a recent report stated that governance standards in states such as Egypt, Lebanon, Morocco and Palestine, whilst improving over the past decade, are well behind international best practice.[22]

Finally, many MENA governments have recognised the need for transparency in dealing with foreign investors, and there have been several anti-corruption initiatives across the region (e.g. the *Transparence* initiative in Algeria) aimed at breaking up mid-level bureaucratic fiefdoms wherein corrupt practices previously went unnoticed. The success of such initiatives, and the governance standards behind them, are highly variable, but that they have occurred at all is evidence of authoritative recognition of the need for transparency in dealing with foreign investment, and therefore of some empathy with the concerns of foreign investors conscious of the need for signs of good governance.

MENA Challenges

MENA governments might be more rationalised and professional than in previous decades since the launch of the seminal Arab Human Development Reports series,[23] but on a global level they remain somewhat byzantine. This is especially evident in standards of corporate governance and regulation. It is entirely feasible for a foreign company to familiarise themselves with government structures and lines of authority, and to find pockets of good practice in which mutually beneficial discussions are easily facilitated, but in some cases it requires considerable patience and learning. Furthermore, those pockets of good practice are not necessarily going to be those who deal with a given issue facing a foreign firm. Understanding unofficial influence networks and pressures within bureaucratic structures is still going to be necessary for effective government relations.[24]

With respect to complicity in human rights abuses, as noted above it is entirely feasible for a foreign company to have commercial dealings with a government without being complicit in abuses, even if

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22 Transparency International, 'The Good Governance Challenge: Egypt, Lebanon, Morocco, and Palestine', *Transparency International Research*, March 2010, accessed at http://www.transparency.org/content/download/51657/826927/NIS_Regional_Mena_web_English.pdf on 4 June 2010.

23 United Nations Development Programme, 'Arab Human Development Reports', accessed at http://www.arab-hdr.org/contents/index.aspx?rid=5 on 28 June 2010. See the 2004 report for the most thorough and critical analysis of governance, transparency and corruption in the region.

24 An example is foreign company dealings with the Algerian national oil and gas company, Sonatrach. As the state-owned body responsible for the bulk of foreign earnings, Sonatrach has been the hub of political manoeuvring towards influencing where its revenues go in terms of different Algerian political interests. It is essentially caught between the civilian regime and the military-security apparatus: both sides vie for control of this important organisation, and this has led not only to significant shifts in leadership and strategy, but also to much confusion among foreign managers as to the real interests being represented by Sonatrach officials.

abuses do occur in the country on a regular basis. However, dilemmas arise when members of the company's own workforce become targets of the security apparatus or suffer arbitrary detention or abuse. This situation is especially acute when operating in countries already suffering from insurgency or when the state perceives an active subversive threat; Security forces become vigilante to the point of indiscriminate paranoia (e.g. resulting in general security sweeps and roundups of anyone perceived as connected to an anti-government or terrorist threat, as happened routinely for years in Algeria during the Islamist insurgency).[25] A company operating in MENA must ensure that it applies its duty of care principles to detained workers and seeks to follow up on their fate and get transparent justice whenever possible. It must also ensure that the company itself and the workforce avoid direct or inadvertent collusion with security agencies. In a paranoid environment, even a hint that a co-worker might hold subversive views is enough to lead to detention at a minimum. A security agency might well penetrate a foreign company and develop informants without anyone knowing about it, but there is much proactive work that a company can do to prevent the spread of rumours among its legitimate workforce and to avert unwanted security attention.

Similarly, corruption remains an issue in many parts of MENA.[26] Transparency is improving, but there is some distance to go to meet international standards, and government officials, who hold sway over many key essentials of doing business in a country, remain some of the worst offenders. Internal controls are underdeveloped and, again, often not taken at face value. Official and overt channels of oversight, resource allocation and transfer often coexist beside personal networks defined by shared interests, tribal affiliations and patronage.

Doing business in MENA is often just as difficult for regional businesses too. For example, a breakdown in negotiations between the Jordanian government and the Doha-based Al Jazeera network to secure broadcasting rights of the 2010 World Cup in South Africa, led to the jamming of regional coverage by equipment located in Jordan it has recently been alleged. As a result, the viewing of some of the games was either impossible or significantly disrupted for millions of people in the region.[27]

Finally, although institutionalisation is improving, to varying degrees there remains an element of personal fiefdom in MENA bureaucracies, accompanied by an attitude that the official apparatus is there to serve the senior official, not vice versa. Applying pressure for kickbacks or bribes is a natural

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[25] This example is drawn from direct on-site project research conducted in 2000 by Robert McKellar, co-author of this report.

[26] According to Transparency International, MENA ranked highest in terms of local people's experience of paying bribes to officials, worse than sub-Saharan Africa, and in fact the worst among the eight regions surveyed. 40 percent of surveyed MENA respondents reported having paid a bribe in the assessment year, 2008-2009. See: Transparency International, *Global Corruption Barometer 2009*, 2 June 2009, accessed at http://transparency.org/policy_research/surveys_indices/gcb/2009 on 1 September 2010.

[27] Black I., 'Foul Play: how al-Jazeera's live World Cup football coverage got in a jam', The Guardian, 29 September 2010, accessed at http://www.guardian.co.uk/world/2010/sep/29/al-jazeera-world-cup-coverage-jordan on 1 October 2010.

outgrowth of this attitude. Expatriate managers, often under considerable pressure to win strategically important contracts against stiff competition, and to execute on time, are highly susceptible to this pressure, especially when corrupt officials and their private sector agents convey corruption in euphemistic terms (e.g. special facilitation fees, erroneous consulting fees, and so on) or as entirely normal in the cultural context.

Aside from setting a good example through its own practices, trying to influence official culture might be beyond the capacity of a foreign firm. However, training managers in when to recognise corruption and how to deal with it is not. Building transparency into government relations through appropriate internal controls, procedural checks and balances, and making public as much information as possible on government dealings also provide managers with a ready response to corruption pressure in a way that does not cause personal friction with their government counterpart. With sufficient internal control and transparent reporting, a foreign manager can rely upon the oft-heard refrain: "We could consider such fees, but of course we'd have to disclose this arrangement internally and in our social reporting." In the long run this approach is likely to reduce the frequency of incidents when this kind of pressure is applied.

c. Local Stakeholder Engagement

The UN guidance defines local stakeholder engagement as "consultation and communication strategies for the purpose of building ongoing relationships with local communities... It may address a wide array of issues, including company policies, core business and social investment." We consider the aim of stakeholder engagement to be the promotion of local peace-building and peaceful company-community interaction.

The guidance herein are as follows, with the addition of a final point that collates a number of issues raised in the guidance:

- Develop *accessible stakeholder engagement mechanisms* across company and contractor operations, guided by key performance indicators which demonstrate accountability to the company's own stated standards in dealing with host communities (i.e. stakeholder engagement is not just lip service but is measured against real objectives).

- Take an *inclusive approach to stakeholder engagement* which takes into account existing inter and intra-group tensions.

- *Engage proactively with relevant civil society and international organisations* (the converse, waiting for an organisation to come to the company, risks interaction with key stakeholders only after they have perceived a problem with the company's behaviour, while proactive engagement can identify potential issues and expectations before problems arise).

- We add, extrapolating from various parts of the paper: When possible *constructively engage local communities*, whether as suppliers or workers, in the operation to promote job training and meaningful economic benefits, and do so equitably with an eye to balancing the needs of different community groups. This is an important point on two levels. First, giving the local community a stake in the operation not only provides developmental benefits, but integrates the operation with its social environment, thereby decreasing potential company-community friction (foreign operations are invariably disruptive, and if a local community sees no benefit from a project, the foreign firm is likely only to be perceived as a negative intrusion). Second, by bringing different groups together within a common workforce, the company helps to promote inter-group understanding and awareness, which can help overcome stereotypes and perceived differences that might be driving conflict or tensions in the host community.

MENA Opportunities

Civil society in MENA countries tends to be quite cohesive at the local level. There are many cases in North Africa, for example, where neighbouring communities compete for access to scarce agricultural resources or control of local trade, and this, along with sharper tribal distinctions, becomes a source of tension and rivalry. While local communities in MENA might have different tribal and family influences, by-and-large there is generally little inter-community tension, and people often move freely throughout different communities in search of work, and meld quite easily into the local milieu. Therefore local stakeholder engagement strategies do not have to be as nuanced or localised as in some other developing regions, and this simplifies the engagement process. The outcomes of the pilot workshop in the Sudan held in February 2010 by the UN Global Compact Office and the Principles for Responsible Investment initiative should provide practical insights into the mechanisms and strategies that might be most fruitfully employed to engender and conduct dialogue with host societies in the region.[28]

Another advantage has already been discussed under the opening section on Core Business: many local MENA communities are led by the heads of particular families and tribes, and these can represent legitimate local channels for community dialogue with the company. The same caveats that exist in the context of proactive dialogue and grievance resolution apply in the context of stakeholder engagement: While there might be readily apparent “head men” within a community, a company cannot assume that they share common interests with all sub-groups in a community, and an engagement process must be designed to take the views of all stakeholders into account, even if many of them appear at first glance to share common ground with the traditional community leaders. The previous point about well developed NGO networks applies to local engagement: local NGOs, and international NGOs with a local presence, can serve as useful barometers on local attitudes and needs, and as useful channels for communication. For example, increasingly human rights movements such as Human Rights Watch and Amnesty International are leveraging their local

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[28] For further information, see: the meeting report is accessed at http://www.unglobalcompact.org/docs/issues_doc/Peace_and_Business/FINAL_Sudan_Meeting_Report.pdf on 17 October 2010.

employees and contacts to identify the use of particular types of conventional weapons that are considered inhumane or indiscriminate under international human rights and humanitarian norms.[29]

In terms of bringing the community into an operation in productive roles, as with most developing countries rural areas and small towns might be able to provide semi-skilled labour but for educated workers the "community" might have to be more broadly defined, as perhaps the sub-region or even the whole country including its key urban centres. Defined as such, most MENA countries have satisfactory education standards and a sizeable pool of potential management personnel. Training and skills development will likely be necessary for most local and national positions, but baseline human capital is relatively well developed. In any case, the transfer of job skills has developmental value and ultimately contributes to peace-building by providing alternatives to conflict as a means of livelihood.

MENA Challenges

One of the principal challenges in stakeholder engagement in MENA is the spread of extremist Islamist ideals, which generally hold that Western businesses are agents of foreign anti-Muslim regimes and are inherently negative influences.[30] This can obviously complicate stakeholder

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[29] See: Banning Cluster Munitions: Government Policy and Practice, Human Rights Watch, Amnesty International, Landmine Action, Landmine Monitor, International Campaign to Ban Landmines, Cluster Munitions Coalition, *Fuelling Conflict: foreign arms supplies to Israel/Gaza*, February 2009, accessed at http://www.amnesty.org/en/library/asset/MDE15/012/2009/en/3301b5c0-189b-4ba2-9bca-68e116fd590f/mde150122009en.pdf on 20 August 2010; Landmine Monitor, Mines Action Canada, Handicap International, Human Rights Watch, Landmine Action, Norwegian People's Aid, *2009 Annual Report: Toward a Mine-Free World*, October 2009, accessed at http://lm.icbl.org/lm/2009/res/Landmines_Report_2009.pdf on 20 August 2010.

[30] Hassan Al Banna, a founder of the Muslim Brotherhood, an influential Muslim fundamentalist institution with much subsequent impact on Islamist thought, wrote in *Between Yesterday and Today*, a treatise published in various sources in Egypt and abroad in the late 1940s: "The Europeans worked assiduously to enable the tide of this materialistic life with its corrupting traits and its murderous germs, to overwhelm all the Islamic lands to which their hands were outstretched … to flood the countries with their capital, their banks, and their companies; to take over the workings of the economic machinery as they wish; and to monopolise to the exclusion of the inhabitants, enormous profits and immense wealth… they imported their half-naked women into these regions, together with their liquors, their theatres, their dancehalls, their amusements, their stories, their newspapers, their novels, their whims, their silly games, and their vices …" Muslim business principles can be characterised as capitalist and have much in common with Western liberal capitalism, but Al Banna's assertions hold true for fundamentalist Muslims, as there are significant distinctions between the two versions of capitalism, the Muslim interpretation of which tends to emphasise the social role and religious obligations of business. Since Al Banna's death, the notion that Western business ideals and their presence in Muslim lands are an agent of Western imperialism has remained a fundamentalist precept. The concept of "Westoxification" for example was a major rallying cry in the Iranian Revolution of 1978-1979, and an element of the Islamic Group's (Al Gamma'at al Islamiyya) motivation for killing Sadat in Egypt in 1981, an act which was driven as much by Sadat's *Infitah* (or "Opening") policy of adaptation to liberal capitalist ideals as by his accord with Israel. This interpretation of liberal capitalism has remained an element of fundamentalist and Salafist thought since. In recent years, Western businesses have been attacked as much for being soft and accessible Western targets as for their ideological values, but the premise that Western businesses are an agent of cultural and political imperialism holds true among modern Islamist extremists. Al Qaeda's 2001 targeting of the main

relations in areas where extremist religion has a significant presence. A company's stakeholder engagement efforts could be undermined or directly countered by concurrent and opposite public relations efforts conducted by Islamists. Indeed, in the worst cases, as in the "Triangle of Death" in Algeria in the 1990s, community leaders or indeed entire villages who dared to engage with foreign firms faced a violent backlash from Islamist rebels. There is no comparably dire situation currently, but as the fortunes of Islamist extremism ebb and flow similar situations could arise in the future. This begs the question of whether or not operations in such situations even are, or should be, within the risk tolerance of a foreign firm.

Pockets of anti-Western sentiment can still be an issue however. Dealing with this requires tremendous tact, and the avoidance of any affiliation with a political ideology or national interest, as well as a downplaying of the foreign firm's own home country national identity. It should also be understood that much fundamentalism has grassroots origins, and is driven more by socio-economic frustration than commitment to a national or global extremist movement. A company's social performance, including its inclusion of host communities as economic partners in a project, can go a long way towards mitigating Islamist reactions to a company's presence.

Gender is another stakeholder engagement issue particular to the MENA region. While women play important domestic roles, and in urban centres are increasingly accepted as a valuable part of the workforce, there is still both cultural, and in the Gulf institutional, biases against gender equality. The UN guidance discusses inclusiveness, and in many contexts best practice in development entails promoting gender equality and increasing women's participation in political and economic life. Stakeholder engagement strategies which attempt to implement this in MENA without a consideration of local attitudes are likely to face some opposition. Different MENA communities will vary in their anchoring to traditionalism, and a careful reading of local gender attitudes can inform a company about how far and hard to press on gender inclusiveness. From a developmental perspective, some pushing of cultural boundaries has long-term benefits for host communities who could increase access to human capital by greater gender equality, but a company is not there to reform local culture. If a community appears ready to move to a new level in gender equality, then a company can provide opportunities to facilitate this. If this would be perceived as cultural intrusion and alienate key community representatives, then a company must tread carefully.

Including rival groups within a common workforce may have some benefits in terms of peace-building, but also risks taking community tensions into the workplace, where they could manifest as especially bitter office politics or an inability to cooperate on shared tasks. MENA is no different

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commercial hub of the US, as a country a symbol of liberal capitalism, was not simply because it was an easy target. Nor were 1993 World Trade Center bombing, the various attacks on Western business compounds in Saudi Arabia in 2004, the Bali hotel bombing in 2005 (one of several targets), the attack on the Marriot in Islamabad in 2008, the 2008 Islamist attacks in Mumbai (which targeted a large hotel favoured by Western tourists and business people), or recent attacks on foreign businesses in Yemen. High profile attacks aside, the perception that the presence of Western businesses is antithetical to Muslim values holds true among even moderate fundamentalists, and remains a partial impediment to stakeholder engagement in Muslim countries, of which MENA constitutes a significant proportion.

from many developing regions in this respect. A company should be careful to forge a common identity and work ethic among its workforce, and closely monitor and deal with incidents of workplace discrimination or conflict that arise as a result of inter-group tension (e.g. between Coptic Christians and Muslims in a project in Egypt, between members of rival tribes in a project in Yemen, or between Druze and Shiite workers in a project in Lebanon).

Finally the issue of state security again raises its head. One aim of stakeholder engagement is to empower local communities to voice their concerns and expectations of company behaviour, in order to identify and handle issues before they become sources of tension. In foreign operations carried out on behalf of the government, or in conjunction with state enterprise partners, dialogue would naturally extend to issues concerning government behaviour as it pertains to the business operation. In MENA, if the company had not already attracted security attention, then gatherings in which community members are encouraged to openly speak their minds would put the operation firmly on the radar. A company needs to consider the realities of operating in MENA mean that the security apparatus is likely to know what is being discussed in meetings with local stakeholders, and that its patience with criticism of the government is limited. Stakeholder dialogue concerning government behaviour should be conducted cautiously with an eye to avoiding local community members implicating themselves in the eyes of security officials. It might sometimes be necessary to read between the lines when seeking feedback on the performance of government agencies involved in a project, and then to take a general extrapolation of such feedback to the government to address perceived issues, rather than press for what could be regarded as incriminating criticism.

d. Strategic Social Investment

Strategic social investment "refers to the voluntary, and sometimes legally mandated, financial contributions by companies. They can help local communities and broader societies achieve their development priorities... in ways that are sustainable and aligned with strategic business objectives." Strategic social investment includes land compensation, but more strategically it involves leveraging core business activities, such as local hiring, contracting and waste management, in such a way that they complement strategic social investment. The UN guidance stress the importance of this last point: If strategic social investments are undertaken separately from core business activities, then they represent an additional non-core activity for the company, and this leads to wasted time and resources, which in turn can lead to a lack of company commitment and involvement in strategic social investment. There are four guidance points in this area, and we again include an additional point by extrapolating a number of ideas from the original text:

- Strategic social investment should build on existing stakeholder engagement programmes, and should not become a substitute for *local engagement and consultation*. This point could require some explanation. A company might acknowledge that it has a role in assisting in host country development and peace-building, and "throwing money" at relevant programmes being undertaken by the government, NGOs or donors might seem like a quick and efficient way to play this role. However, if a company uses this as a substitute for local engagement, then it misses opportunities to understand social needs in closest proximity to its operations, and even though it might be supporting broader developmental initiatives, this might not help it to avoid friction with local communities or avoid exacerbating tensions within them. Additionally, strategic social investment in the absence of stakeholder engagement remains relatively uninformed, and therefore risks leading to broad-brush programmes that miss opportunities to have a sustainable positive impact.

- Companies should apply the same rigour to strategic social investment programming as they do to their own core business operations. In a sense, both *strategic social investment and stakeholder engagement become core activities* when operating in a conflict-prone society, and the company should hold these new activities to the same standards of efficiency and effectiveness as any other core business function.

- *Strategic social investment is separate from initiatives to compensate* for or mitigate disruption or loss to the host community caused by the business operation. Compensation is a basic obligation, and seldom leads to sustainable improvements for host communities and by extension the company's operating environment.

- *Strategic social investment projects should be sustainable* and not replace services that should be provided by the government. Sustainable means that a programme is not dependent on the company's presence for successful fruition – it leads to knowledge transfer that ensures continuity after a hand over to local or national management, and it is not tied to technologies or assets that it will not have access to once a company leaves. Strategic social investment should not replace what the government should provide for two reasons. First, this undermines the credibility of the government and risks dependence on the foreign company, which will eventually leave. Second, it is not the company's responsibility to provide what governments are expected to handle. Programmes which take over the state's burden can absolve of it responsibility to live up to its own obligations, and this in turn can slow development in that direction. Two areas where a company's contribution can make most sense are the support of peace-building initiatives, and investment in local economic ventures and related skills to create enduring business activity and employment opportunities.

- We add, strategic social investment must be designed in consultation with host communities so that they feel a sense of ownership and involvement, rather than being passive and perhaps frustrated recipients. Additionally, programmes need to take into account the equitable allocation of benefits, or they risk exacerbating tensions between those who experience positive change and those who miss out. This is especially serious when discrepancies coincide with existing axes of tension.

MENA Opportunities

MENA societies are relatively entrepreneurial, and there is a strong propensity among the numerous under-employed but well educated to turn to private ventures in the face of lack of prospects with established businesses or the public sector. There are a range of opportunities to help forge new economic activities among MENA societies, and the regional market is growing at a sufficient rate that a well managed new business has considerable growth and employment prospects into the future. The principal problem is start-up investment and a lack of immediate technical skills, both of which can be provided by a foreign company. By sticking to its core business, the foreign firm can provide leading edge training and expertise, and in so doing it not only accelerates local development, but increases its own range of suppliers and contractors in the future.

By extension, working closely with local suppliers and contractors to bring them up to international standards helps to make them internationally competitive, and increases the quality of service that a foreign company can expect from them. This last point is highly tangible, because many MENA governments mandate that a certain amount of project inputs be sourced from "local content"; where this mandate exists but local supplies and services are of poor quality, a foreign company can struggle trying to balance its own needs and its local content obligations.

In spite of a level of repression and corruption across all MENA governments, many of them, in particular those with significant oil reserves such as Saudi Arabia, have varying degrees of strategic vision concerning economic development in particular (as opposed to political development, which can be seen as a threat to regime stability), and several are especially open minded about how this could be achieved. Strategic social investment focused on economic development opportunities and building skills in the private sector would likely be well received by most MENA governments, in some cases in principle at least, in other cases, such as Jordan or Tunisia, with a higher level of government response and commitment.

A final advantage in MENA is the relatively strong homogeneity of most MENA societies. Inter-communal tensions raise their heads in Lebanon, Syria and Egypt; Yemen suffers from tribal disputes; and in the Maghreb there are, however subtle, sometimes tensions between indigenous Berber populations and ethnic Arabs. On the whole however, and compared to most other developing regions, there are relatively few significant divisions between and within local communities (one can compare the situation with Africa, for example, where serious ethnic-based rivalries can arise even between villages in reasonably close proximity). This social cohesion makes it less likely that a company will incur hostility or exacerbate tensions by inadvertent lapses in the fair distribution of programme benefits. While fair distribution can be a painstakingly detailed and serious consideration in other regions, in most of MENA, companies can afford to focus more of their attention on the contents of social programming.

MENA Challenges

The success of strategic social investment programmes, especially in developing economic and commercial opportunities, depends in part on the governance framework in which programmes are pursued. Corruption and weak governance remains an issue across the MENA region to varying degrees. This could be a hindrance to strategic social investment programmes, which are necessarily premised on good corporate governance and transparency among recipient organisations. There would inevitably be a tendency for groups and organisations benefiting from strategic social investment programmes to fall back into patterns of corruption common in the wider environment. Local businesses that are already well established could even regard good corporate governance and internal control as a hindrance to their competitiveness vis-à-vis other local companies. In either case, strategic social investment in commercial development needs to include training and awareness about anti-corruption and internal control, and in the case of established enterprises the foreign company can make it clear that far from making a local business less competitive, those with cleaner track records are far more likely to get the business of international firms.

Contributing to peace-building initiatives is of course another avenue of strategic social investment. In many countries at risk of conflict, governments are already engaged, often with international donor support, in peace-building and human security initiatives, and corporate support for such initiatives is often welcomed. In most of MENA, however, governments tend to regard foreign intervention in peace-building as an unwelcome intrusion on sovereignty and likely as weakening their grip on security. They would much more willingly accept unpublicised government-to-government stabilisation assistance than see foreign companies, NGOs and donor organisations involved in anything connected to issues of stability and peace-building. This is too close to the ever-important national security imperative for most regional tastes. Peace-building at the level of inter-community or intra-group social tensions might be indirectly pursuable, but programmes which address political conflict are likely to face an uphill struggle in terms of government acceptance and support. Similarly, while the region might be in need of political openness and better governance, states would be wary of social programming that focused on institutional reform or democratisation, again as a result of the perceived security imperative.

CONCLUSION

Key considerations for implementation in MENA

We have begun to implement the UN expert group guidance in the regional, country, and local environment for those businesses and investors operating in MENA. In so doing we have demonstrated how regional and country nuances are critical to the opportunities and limitations in implementing the guidance, and one can expect that a level of adaptation will be necessary in any developing country environment. We will conclude this summary with a brief synopsis of the key contextual issues that could affect implementation in MENA, pulling together the opportunities and challenges as explored in the four core areas – Core Business, Government Relations, Local Stakeholder Relations, and Strategic Social Investment – identified in the UN guidance.

MENA opportunities can be summarised as:

- The *legitimacy of traditional authorities* at the community level, which constitute a strong channel for company-community dialogue and grievance settlement, with the caveat that traditional community heads do not necessarily represent all interests.

- The *presence of well-established NGO networks*, and in many cases of the development arms of donor agencies, who can help companies in community engagement and support strategic social investment initiatives.

- Overall, *relatively high social cohesion and cultural homogeneity* – this simplifies the stakeholder engagement process and reduces the risk of friction arising from perceived inequalities in the distribution of social benefits arising from strategic social investment.

- *Improving professionalism, transparency and rationalism* of MENA governments (though with wide variations), and in many cases a strong vision for economic development. This makes it easier to target government relations for best effect, and to have meaningful and clear-headed discussions around common issues.

- *Relatively high government legitimacy* within MENA societies. Whilst MENA governments do not function in the same manner as Western democracies (i.e. US and UK), and there are instances of systemic, state repression throughout the region, it is entirely feasible to have solid government relations without augmenting repressive capacity. If managed responsibly, stakeholder engagement with a MENA government is not tantamount to complicity with an illegitimate regime.

- *Strong human capital and entrepreneurialism* in many MENA societies. This provides a strong base for strategic social investment and improves the likelihood of achieving sustainable results.

The challenges include:

- The *omnipresence of state security apparati* and the overriding state concern for national security. This leads to repression and human rights abuses, and stifles opportunities to engage with the state on peace-building issues. It also compels a company to take special care not to arouse suspicion that could lead to harm to local communities or workers, and creates unique duty of care dilemmas in dealing with cases in which company national staff are detained or abused.

- *Corruption*, which remains very common in both the private and public sectors. Alignment with international standards of good governance is hindered by a degree of cultural acceptance or resignation to corruption, and a strong aversion to the concept of whistle-blowing. This necessitates that corruption is rigorously addressed in core business, government relations and strategic social investment activities, and that companies develop stringent policies on transparency to deter and reduce corruption in their dealings with governments and local businesses.

- While governments are improving, there remains a high degree of convolution and structural irrationality in many MENA governments, and this complicates *government relations*. In particular, MENA governments are prone to the establishment of personal fiefdoms in which senior bureaucrats can engage in corrupt practices with relatively little risk of it being discerned. This is changing with anti-corruption initiatives, but it will remain an issue for the foreseeable future.

- *The presence of Islamist extremism* (not to be confused with political Islam generally), which can portray foreign businesses as negative influences and work against constructive community engagement. The prevalence and degree of this phenomenon varies, but necessitates considerable political sensitivity on the part of foreign businesses.

- *Gender inequality* – while women are increasingly accepted as being equal in some MENA states, in others they remain firmly second-class citizens. In seeking inclusiveness and fairness in community dialogue and strategic social investment, a company would be right in assuming that it would be helping long-term development prospects by facilitating gender equality, but in many cases this could lead to unbearable friction with traditional MENA values. Gender issues need to be approached with an eye to balancing development imperatives and traditional sensitivity.

- *Fragmented local business landscape.* A local supply chain for a foreign operation is likely to consist of numerous small, family-run businesses, the leading families of which often have political interests in addition to their commercial pursuits. Ensuring that local suppliers and contractors are compliant with good corporate governance and conflict-sensitive practices is a challenge.

APPENDIX

Useful information sources on MENA

In addition to the additional resources provided in the UN guidance, we list below a concise list of useful information sources for the latest news media, policy developments and research:

AlertNet – Middle East and North Africa Portals

AlertNet offers live news feeds on conflicts and crisises through the Reuters network.

http://www.alertnet.org/thefacts/countryprofiles/middleeast.htm (Middle East)
http://www.alertnet.org/thefacts/countryprofiles/africa.htm (North Africa)

Business and Human Rights Resource Centre – Business, Conflict and Peace Portal

Up-to-the-minute news and reports about the positive and negative impact of companies on human rights worldwide.

http://www.business-humanrights.org/ConflictPeacePortal/Guidancetools

CSR Middle East

A regional body promoting corporate social responsibility (CSR) and releasing interesting reports on the attitudes and initiatives of firms based in the Middle East on CSR.

http://www.csrmiddleeast.org/

Extractive Industries Transparency Initiative – Candidate Countries

EITI applies four indicators to a country's governance of its oil, gas and other minerals resources with a view to reducing the incidence of poverty, corruption, and conflict.

http://eiti.org/candidatecountries

Heidelberg Institute for International Conflict Research – 2009 Conflict Barometer

The Heidelberg project maintains is one of the leading interactive maps of ongoing intra-state and inter-state conflicts.

http://hiik.de/exhibit_09/

Institute of Economics and Peace – Global Peace Index

The Global Peace Index is an exceptional source of detailed information on the current drivers of peace and conflict, including political instability, the level of crime, and corruption measures.

http://www.visionofhumanity.org/gpi-data/#/2010/scor

International Crisis Group – MENA Portal

The ICC delivers an up-to-the-minute source of commentary and analysis on the current state of conflict and efforts toward conflict resolution.

http://www.crisisgroup.org/en/regions/middle-east-north-africa.aspx

Pearl Initiative

A joint initiative of the United Nations and Gulf Cooperation Council that seeks to improve corporate governance and transparency standards in the Arabian Gulf region.

http://pearlinitiative.org/

ReliefWeb

News feed of news media and reports relating to conflict and crisises by country and region.

http://www.reliefweb.int/rw/dbc.nsf/doc401?OpenForm

Transparency International – MENA Portal

TIs Middle East page profiles the NGOs projects, indices and studies of corruption in the region.

http://www.transparency.org/regional_pages/africa_middle_east/middle_east_and_north_africa_mena

World Bank – MENA Portal

This page documents the World Bank's projects and data on MENA, including its assessment of national economic policies, governance, and development status.

http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/0,,menuPK:247603~pagePK:158889~piPK:146815~theSitePK:256299,00.html

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Robert completed an MA in Political Science, focusing on international relations, terrorism and conflict analysis, before studying Arabic in Tunis and completing a Master's in International Business in France. Robert's mother tongue is English, although he is proficient in French, and his Arabic is intermediate.

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