IMPROVING INTEGRITY PRACTICES IN GULF FIRMS:
THE BUSINESS CASE FOR IMPLEMENTING CORPORATE INTEGRITY PRACTICES

PEARL INITIATIVE

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LETTER FROM THE EXECUTIVE DIRECTOR

"This report seeks to identify the benefits, progress to date and potential challenges to improving integrity practices in Gulf firms."

As part of the Pearl Initiative's series of reports on Business Integrity Practices, we are proud to present this publication that seeks to shed light on the efforts undertaken by Gulf Region countries and Gulf firms to better address business integrity in the region.

The value to business of designing and implementing a robust integrity framework has been the topic of discussion on both an international and regional level. With an emphasis on the important role that the private sector plays in enhancing the transparency and accountability in the business environment, this report seeks to identify the benefits, progress to date and potential challenges to improving integrity practices in Gulf firms.

The Pearl Initiative has launched the Gulf Integrity Indicator in order to continue to raise awareness about the elements of an effective business integrity framework and to create a community of organisations that can share best practices. The indicator provides the opportunity for organisations to voluntarily review the framework that they have implemented and compare their practices with regional and global peers. We invite all Gulf firms to reflect upon the positive impact that corporate integrity practices can have on both individual companies and the broader business environment and how to continue to build upon the progress seen to date.

I would like to thank the Pearl Initiative's partners. Our work would not be possible without their support and leadership. We hope this report and the Gulf Integrity Indicator will be resources that are practically applicable and bring real value to organisations working to evaluate and improve their integrity frameworks.

Carla Koffel
Executive Director

1. INTRODUCTION

With an increased demand for transparency and accountability, business integrity and trust in private enterprise have re-emerged under the spotlight as the general public question the conduct of financial and non-financial firms. At the same time, regulators are raising the regulatory bar in terms of corporate compliance in a number of areas as diverse as tax, money laundering and governance. Today, the expectations of policymakers and the general public around the conduct of firms go beyond the strict implementation of the relevant laws and regulations. As the trust in the corporate sector - particularly in the financial sector firms - has been shaken, corporations around the world face the challenge of rebuilding it.

Efforts to improve and formalise processes around corporate integrity, corporate social responsibility and corporate governance in the Gulf Region have been ongoing for more than a decade. However, they have gained further urgency in the current low oil price environment where foreign capital is sought to finance domestic spending. Yet, foreign investors often note that they would benefit from additional information about the Gulf Region corporate sector as a potential partner, client or supplier. Equally, domestic investors frequently face obstacles in obtaining key information regarding the ownership, performance and business integrity of their partners, suppliers and customers.

Addressing business sector integrity and governance is crucial now as governments in the region are seeking to transition from the public-sector led development model to private sector led development, as for instance as outlined in the Saudi 2030 vision[1] and other economic development plans in the region. To increase the role of the private sector, corporations need to trust each other in order to lower the cost of doing business and reduce their own legal and compliance risks. As business relationships are growing increasingly complex and with the advent of the network firms, integrity related risks are growing exponentially.

To this end, policymakers in the region have been working to improve the broader context for private sector development and this has had an indirect consequence on improving public and private sector integrity. Notably, the administrative simplification undertaken as part of broader doing business reforms has reduced the probability of integrity-related risks in the relationship between public officials and firms. For instance, the UAE is leading globally in a number of Doing Business indicators (e.g. obtaining construction permits and getting electricity), simplification of these procedures also reduces corruption related risks (World Bank, 2017).

The private sector also has a crucial role to play in improving the business environment generally and for creating the conditions that can foster transparent and accountable business practices. To do so, they can focus on their integrity in a number of specific areas, including in their relationships with suppliers, customers, partners, employees and other stakeholders. The focus areas will naturally vary depending on the sector the firm operates in, the size of the firm and other parameters which will determine where integrity risks for private enterprises are most significant. Thus, an integrity risk identification, assessment and mapping process can help firms identify and manage risks more efficiently.

[1] The Saudi government envisions to transit to the model whereby the private sector contributes to 60% of the GDP from 40% currently (Saudi 2030 Vision, 2016).

2. PROGRESS TO DATE

While the benefits of good corporate governance have long been discussed in the Gulf Region and the first governance codes and regulations date back 10-15 years, the recognition of the need to focus on broader integrity practices in the region is more recent. **The establishment of anti-corruption legislations, governmental authorities to fight corruption and private sector initiatives to promote integrity in the public and private sectors in the Gulf Region started approximately 5-10 years ago.**

While most Gulf Region countries had general anti-corruption provisions in their penal codes or other criminal legislation, some countries in the region have recently passed additional specific legislation criminalising bribery. These laws have been crucial in expanding the scope of transactions considered as bribery and hence criminalised, as well as in setting out more significant sanctions for breach of these laws. The adoption of these laws has also resulted in the establishment of national anti-corruption

"Bribery includes offering, promising, giving, accepting or soliciting an undue advantage of any value (which could be financial or non-financial), directly or indirectly, and irrespective of location(s), in violation of the applicable law, as an inducement or reward for a person acting or refraining from acting in relation to the performance of that person's duties."

ISO 37001: 2016 - Anti-Bribery Management Systems

For instance, in the UAE, the revision of the Federal Penal Code in 2005 resulted in the criminalisation of bribery in the private sector, while the same is still not the case in all the Gulf Region. Annexure 1 provides an overview of key laws and regulations with a bearing on the integrity in public and private sectors in the Gulf Region. It highlights that apart from Saudi Arabia, **most of the Gulf Region countries have not adopted comprehensive anti-corruption legislations.**

All Gulf Region countries have in recent years recognised international anti-corruption treaties and instruments. Furthermore, **Saudi Arabia and Kuwait have recently introduced national strategies for combatting corruption as well as national anti-corruption entities.** Both strategies are generally qualitative, establishing the means and the general objectives of the anti-corruption entities to address bribery in their respective countries. The introduction of clear strategies and mechanisms to address corruption-related risks sends a clear message to the stakeholders.

Gulf Region countries are now members of the **United Nations Convention Against Corruption**[2], Oman ratified the convention in 2014, following Saudi Arabia in 2013, Bahrain in 2010, Qatar and Kuwait in 2007, and the UAE in 2006.[3] In addition, they are also signatories of the **Arab Convention to Fight Corruption** ratified in 2010 by 21 Arab countries.[4] Most of the Gulf Region countries are also members of the **Arab Anti-Corruption Integrity Network**, established in 2008 as the Arab regional mechanism to bring together governmental and non-governmental entities to consult and cooperate against corruption.

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[2] The Convention aims to promote and strengthen measures to prevent and combat corruption, facilitate international cooperation in prevention and fight against corruption and promote accountability in the management of public affairs and property.

[3] On the other hand, none of the GCC countries have adhered to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which addresses foreign bribery specifically. Indeed, GCC countries do not explicitly criminalise the bribery of foreign officials.

[4] The Arab Convention aims to prevent and address all forms of corruption, through reinforcing Arab cooperation, particularly in the recovery of stolen assets.

3. CORPORATE INTEGRITY CHALLENGES

Gulf business continues to face integrity-related challenges in a number of spheres including in particular in their value chains where they need to be assured of the integrity of their partners, suppliers and customers. A number of businesses have as a result introduced codes of ethics and conduct that apply not only to their employees but also extend to third parties with whom they interact. In doing so, these organisations attempt to address practices internally as well as influence firms in their broader value chain.

This had a positive impact on the overall business climate but challenges remain, especially for smaller companies, to ensure that good practices are in fact adopted and implemented by their partners. Smaller business that have less resources to introduce mechanisms such as whistleblowing channels need to be particularly careful that their dealings are characterised by a relationship of trust and integrity. **Private sector efforts have been reinforced and supported by regulatory and legislative changes that go hand in hand in fighting illicit and improper practices in business.**

While countries of the Arabian Gulf have made significant strides in better defining corruption and other illicit behaviours in the relevant laws, including in specific anti-corruption, money laundering and procurement laws and regulations, the impact of these laws remains varied. This reflects elements of the legislation as well as aspects of the Gulf Region culture where certain behaviours such as gift giving is not commonly perceived as being in violation of the applicable laws.

The performance of the Gulf Region countries on international business integrity and anti-corruption rankings has been variable.[5] According to these ratings, corruption-related risks are of concern in Gulf Region countries. The below figures highlight variability in corruption perceptions across the Gulf Region as follows:

BAHRAIN	KUWAIT	OMAN	QATAR	SAUDI ARABIA	UAE
7.5%	12.7%	3.4%	2.4%	3.6%	1.6%

PERCENTAGE OF RESPONDENTS THAT PERCEIVE CORRUPTION AS A CONCERN (TI, 2016)

Improving business integrity practices in the private sector is important in order to attract investments to the region and to strengthen the economic ties of Gulf firms with their international partners more generally. Indeed, Table I below demonstrates that perceptions of corruption within a country and business environment ratings are correlated in a number of instances. The UAE with the best integrity score in the region also has the highest Doing Business rating (TI, 2106, WB, 2016).

[5] For instance, Kuwait dropped 20 places in this year's Corruption Perceptions Index, in 75 out of 175 economies ranked, the lowest among its GCC peers.

TABLE I. COUNTRY CORRUPTION PERCEPTION RANKING, EASE OF DOING BUSINESS INDEX & BRIBERY RISK MATRIX

Country	Corruption Perception Index	Ease of Doing Business	Trace Bribery Risk Matrix
BAHRAIN	70th	63rd	44th
KUWAIT	75th	102nd	76th
OMAN	64th	66th	48th
QATAR	31st	83rd	45th
SAUDI ARABIA	62nd	94th	63rd
UAE	24th	39th	39th

Source: 1) Corruption Perception Index - Transparency International / 2) Ease of Doing Business - World Bank / 3) Trace Bribery Risk Matrix - Trace

1) The Corruption Perception Index measures and ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys

2) The Ease of Doing Business index is an academic research that ranks economies on their ease of doing business based on their regulatory environment

3) The Trace Bribery Risk Matrix measures business bribery risk in 200 countries. The overall country risk score is a combined and weighted score of four domains.

These figures clearly highlight that **most of the Gulf Region countries need to continue their progress on the institutionalisation and enforcement of their anti-bribery legislation** as well as related rules and regulations on anti-money laundering, illicit financing and other areas. Regulators need to first assess the comprehensiveness of laws and regulations in place. The legislation of the Gulf Region countries – while now addressing bribery and other illicit practices in the public sector - does not always criminalise similar behaviours in the private sector.[6]

A related challenge is the enforcement of existing legislation, especially of laws and regulations concerning sensitive areas such as anti-corruption and corporate governance. In fact, effective enforcement of these laws and regulations relies on a number of factors including the efficiency of courts, the presence of mechanisms to help determine violations, and last but not least the capacity of the securities, banking and other regulators.

As highlighted in the recent OECD report on corporate governance enforcement in the region, the extent of enforcement actions taken by securities regulators in the region remains relatively timid compared to their international peers and remains focused on administrative sanctions (Amico, 2014). A few regulators in the region such as the Saudi Capital Market Authority or the Dubai Financial Services Authority have rigorously enforced the laws and regulations and have disclosed the results of their enforcement actions publicly.

[6] For instance, Oman does not criminalize bribery in the private sector (UNODC, 2015).

4. THE BUSINESS CASE

Perceptions of the quality of the business environment and integrity practices in the Gulf Region can be further improved by the Gulf Region's businesses if they are able to demonstrate to each other and to foreign investors, governments and other partners that they not only respect prevailing domestic and international laws and regulations, but that they also aim to implement a culture of integrity throughout their organisations.

A number of cases in the Gulf Region where shareholder and stakeholder trust was shaken have highlighted the risks and the serious consequences that weak integrity practices can have. Such cases are damaging not only to the reputation of the shareholders and stakeholders of these companies, but can also had wide-ranging repercussions on the perception of domestic stock markets and the Gulf Region economies more generally.

As highlighted in this report, securities regulators, central banks and to a lesser extent stock exchanges in the region have already been active in introducing and reviewing company performance against the relevant laws and regulations. The business community in the region needs to also up into its responsibilities. Gulf firms needs to act as a collective unit to combat damaging business practices, not only within their organisations but also in the wider business community. This requires executives and boards of these firms to follow international and local legal and regulatory developments, as well as to continuously assess sources of integrity risks that their organisations face and develop appropriate frameworks to address them.

While there are few reliable statistics on the extent of corruption or other illicit practices in the Gulf Region, **the business case for improving integrity related practices in Gulf firms is clear considering global experience and emerging regional risks.**

Indeed, the scale of bribery globally provides a useful context for the Gulf Region policymakers and business leaders to consider. Estimates of the cost of corruption suggest that it reduces global GDP anywhere from 2% to 5% annually (OECD, 2015, IMF, 2016). There are a number of mediums related to corruption that adversely affect growth and income distribution in countries where it thrives. On the macro-economic level, corruption affects financial stability, public and private investment, human capital accumulation and total factor productivity (IMF, 2016).[7]

The World Economic Forum estimates that corruption increases the cost of doing business by up to 10% on average. At the same time, it is clear that corruption does not affect all enterprises and all sectors equally. Specific sectors, such as healthcare, extractive industries and utilities are generally considered as being at a higher risk. Likewise, industries where companies interact with government officials or firms and depend on the public sector for permits or contracts are at a higher risk.

Surveys of senior executives and board members highlight that corruption and other illicit behaviour pose a significant risk to their organisations. In a survey of 400 senior executives, PWC found that almost 45% of respondents have not entered a specific market or pursued a particular opportunity because of corruption risks (PWC, 2007).

More recent views of CEOs and boards both globally and in the Gulf Region echo this sentiment. **A recent corporate survey conducted by the OECD highlights that integrity is increasingly prioritised and is subject to greater corporate spending:** 80% of respondents indicated that their company's board was strongly involved in the design and implementation of their company's integrity policy. Almost 20% of respondents reckon integrity budgets to have increased by 25% to 50% over the last 5 years (OECD, 2016).

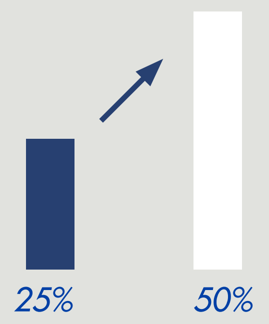
Estimates of the cost of corruption suggest that it reduces global GDP anywhere from 2% to 5% annually

(OECD, 2015, IMF, 2016)

The World Economic Forum estimates that corruption increases the cost of doing business by up to 10% on average

(WEF, 2011)

20% of respondents reckon integrity budgets to have increased by 25% to 50% over the last 5 years



[7] For instance, recent IMF research has shown that investment in corrupt countries is almost 5% less than in their peers which are relatively not corrupt

Likewise, a recent Financial Crime Survey in the MENA region demonstrated that close to a third of respondents anticipated their anti-financial crime budgets to increase by over 50%. A further 25% of respondents thought their budget would rise between 10-25% and another 20% thought spending would rise between 25-50% (Deloitte and TR, 2016). Regulatory compliance was indeed the greatest concern of executives surveyed: 40% of them were concerned about not being able to meet their regulatory objectives, whereas only 23% were concerned about their ability to meet their business objectives.

These figures highlight that executives and boards of Gulf firms are aware of the increasingly growing regulatory compliance burden and that they are cognisant of the need to improve not only their compliance practices but also the tone at the top. Business integrity is today one of their priorities.

By prioritising business integrity, it is supporting the introduction of integrity frameworks and practices in the Gulf so as to support private sector development in the region. Better integrity in the private sector will have a number of positive effects, including notably facilitating the attraction of much needed private investment. It is also anticipated to have a positive impact in reducing transactional costs among Gulf businesses, lowering of compliance-related and legal costs that may arise from improper behaviour which is prevented by the introduction of these practices. The numerous benefits of business integrity are outlined further below.

5. ANNEXURE 1

INTEGRITY LAWS AND REGULATIONS IN THE GULF REGION

Country	Anti-corruption laws	Corporate governance codes and regulations	Other laws and regulations
BAHRAIN	No specific anti-corruption legislation Penal Code (1976)	Corporate Governance Code (2010)	Anti-Money Laundering Law (2001) Decree No.36 Regulating Government Tenders and Purchases (2002) Tender Board Circular (2009) Ministerial Order No.1 on Prevention and Prohibition of Money Laundering at the Stock Exchange (2004)
KUWAIT	No specific anti-corruption legislation	Corporate Governance Code (2015) Corporate Governance Code for Banks (2016)	Kuwait Central Bank Money Laundering Instructions (1997) Kuwait Combating Money Laundering Operations Law (2002) Implementing Regulations 77 for the establishment of the Anti-Corruption Authority (2015)
OMAN	No specific anti-corruption legislation Penal Code (1974)	Corporate Governance Code (2015) Corporate Governance Guidelines for Banks (several decrees)	Law on the Protection of Public Funds and the Avoidance of Conflict of Interests (2011) Anti-Money Laundering and Terrorism Financing Law (2015)
QATAR	No specific anti-corruption legislation	Corporate Governance Code (2009) Corporate Governance Guidelines for Banks (2015)	Administrative Order Establishing the Financial Intelligence Unit (2004) Anti-Money Laundering Law No. 28 (2002) Central Tenders Committee General Tenders Conditions Combating Money Laundering and Terrorism Financing Law No. 4 (2010)
SAUDI ARABIA	Anti-bribery Law (1991)	Corporate Governance Regulations (2017) Corporate Governance Guidelines for Banks (2014)	Anti-Bribery Regulation (1991) Anti-Money Laundering Law (2003) Anti-Money Laundering and Counter-Terrorism Financing (2008) SAMA Manual of Combating Embezzlement and Financial Fraud and Control Guidelines (2008) Government Tenders and Procurement Law (2009)
UAE	UAE Penal Code (1980) Specific legislation by Emirate [8]	Corporate Governance Code (2016) Guidelines for Banks (2009)	Anti-Money Laundering Law (2002) Anti-Money Laundering Procedures (2004) Human Resources Management Law (2006)

[8] Dubai Government Human Resources Management Law of 2006 Abu Dhabi, Law No. 1 of 2006, which regulates the Abu Dhabi civil service, prescribes similar rules and standards of conduct for civil servants and also contains a number of provisions which are specifically aimed at curtailing corrupt practices.

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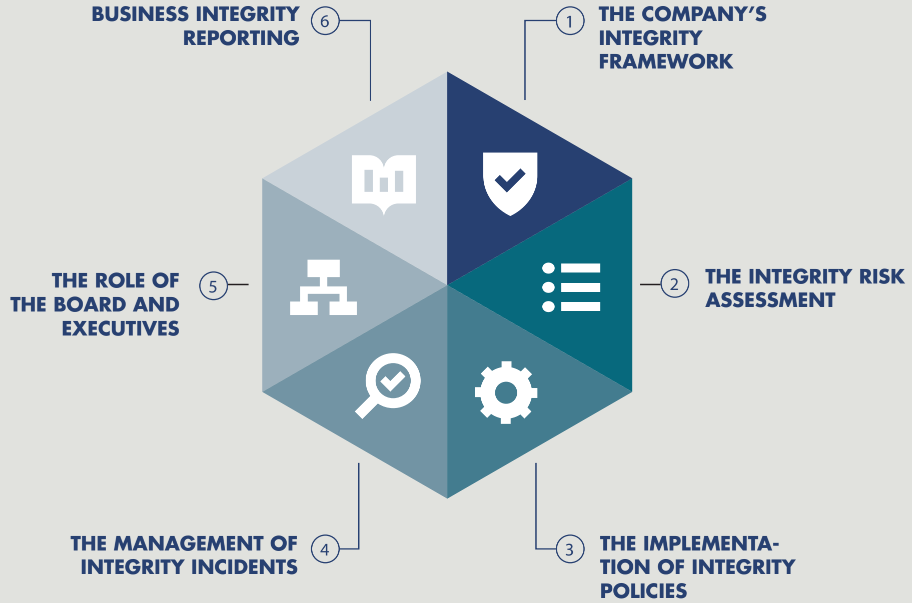
ABOUT THE GULF INTEGRITY INDICATOR

The Gulf Integrity Indicator was developed by the Pearl Initiative with the support of the Siemens Integrity Initiative. It has been developed to promote business integrity best practices among Private Sector organisations operating in the Gulf Region. The ultimate objective is to showcase leading organisations from across the region and highlight the benefits for business to adopt robust integrity practices.

The Gulf Integrity Indicator aims to provide a comprehensive, yet straightforward framework for companies to measure their performance relative to international benchmarks and regional best practices. Organisations can use this benchmark to consider measures to further improve their organisation's integrity practices. The indicator describes six pillars of integrity best practices. It utilises a methodology combining qualitative and quantitative factors, designed to apply to a diverse range of companies.

The Gulf Integrity Indicator focusses on six pillars of integrity best practices:



ABOUT THE PEARL INITIATIVE

OUR PURPOSE

Fostering a Corporate Culture of Accountability and Transparency in the Gulf Region

Founded in 2010, the Pearl Initiative works across the Gulf Region to improve corporate accountability and transparency. It is a regionally-focused growing network of business leaders committed to driving joint action, exhibiting positive leadership and sharing knowledge and experience, in order to support the regional business and student community towards implementing higher standards.

STRATEGIC PARTNERSHIPS

- Established in cooperation with the United Nations Office for Partnerships
- Strategic partnership with the United Nations Global Compact

KEY CHARACTERISTICS

- Gulf Region Focus
- Competitiveness Drive
- Non-Profit Independent Organisation
- Created by Gulf Business, for Gulf Business

APPROACH

- Programmes and Research
- Events and Workshops
- University Collaborations
- Resource Centre

KEY TOPICS OF INTEREST

- Corporate Governance 360
- Anti-Corruption Best Practices
- Diversity in Business Leadership
- Corporate Reporting Best Practices
- Ethical Leadership Development

KEY ACHIEVEMENTS*

15
Regional Insight Reports

316
High-Level Regional and International Speakers

6,846
University Students Reached Through Our Workshops and Case Study Competitions

35
Universities Engaged Across the Gulf Region

106
Events and Workshops Across the Gulf Region

7,183
Business Leader Participants in Our Forums

**approximate as of May 2018*

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OUR PARTNER COMPANIES (As of May 2018)

*Listed Aphabetically

Al Jomaih Group of Companies

ABDULRAHMAN SALEH AL RAJHI AND PARTNERS Co.Ltd.

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