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Money laundering: effectiveness of the corporate social responsibility (CSR) law in the UAE

Tareq Na'el Al-Tawil
College of Business Administration, Abu Dhabi University, Abu Dhabi, United Arab Emirates

Abstract

Purpose – The purpose of this paper is to examine the extent to which the corporate social responsibility (CSR) law will help combat money laundering in the United Arab Emirates (UAE).

Design/methodology/approach – The paper will first focus on examining whether money laundering and CSR are compatible. Such an analysis will then inform decisions on whether to include anti-money laundering in CSR disclosure requirements.

Findings – Key findings from the analysis have shown that the UAE CSR law does not explicitly mention money laundering as part of CSR disclosure requirements. Anti-money laundering (AML) and CSR are compatible and convergence, but money laundering is not yet an integral element of CSR disclosure requirements.

Originality/value – There are no clear mechanisms or provisions under the UAE CSR law on how money laundering can be included in CSR disclosure requirements, whether voluntary or mandatory. A pressing challenge now is whether the UAE should regulate AML/combatting the financing of terrorism disclosures under the CSR law. The main concern is that such a move could make mandatory disclosure another technical and regulatory requirement that UAE business must comply, which will be inimical to fostering a strong CSR culture.

Keywords Money laundering, CSR disclosure, Corporate social responsibility, UAE CSR law

Paper type Research paper

Introduction

Money laundering (ML) is one of the most serious economic crimes, with far-reaching implications for both the economy and security of a country. Specifically, ML generates enormous illegal profits that propagate criminal activities, including financing of terrorism, cybercrimes, human trafficking and drug trafficking (Alkrisheh and Jaffal, 2018). According to Alkrisheh and Jaffal, the trade of illegal drugs accounts for 50% of the revenues generated from ML activities (Alkrisheh and Jaffal, 2018, p. 483). Other profit-making activities that fuel and sustain ML include corruption in both public and private institutions, market manipulation, tax evasion, and investment fraud. The United Nations Office on Drugs and Crime has estimated that ML accounts for 2–5% of global gross domestic product annually, which translates to €1.87tn (Ugo Savona and Riccardi, 2019). As such, ML is a global problem that threatens the security and integrity of global financial systems and assets. Consider the example where less than 5% of financial assets lost to ML and related crimes are ever retrieved (Ugo Savona and Riccardi, 2019, p. 2). Detection, prevention and investigation of ML activities are of great importance to the economy, financial institutions (FIs) and humanity.

Effective reporting is central to the detection, prevention and investigation of financial crimes related to ML. The clandestine nature of ML makes it difficult for authorities to quantify the scale of this problem. ML entails using legitimate financial systems to legitimize and conceal sources of illegal money. Money laundering is a secretive crime by

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nature because the goal is to conceal the sources and flow of illegal money. The discreet nature of ML leads to underestimation of the exact amounts of money being transacted globally via this financial crime. Furthermore, individuals involved in ML activities usually use shell companies and false identities to launder illegal money, making it difficult for authorities to identify beneficiaries of criminal assets (Alkrisheh and Jaffal, 2018). On the other hand, unprecedented technological developments have now emboldened cybercriminals who are capitalizing on the anonymity of these technologies to engage in ML activities. Cybercriminals are increasingly misusing cryptocurrencies to launder proceeds from illegal activities. Blockchain technology has amplified challenges related to anti-laundering efforts because it is difficult to track crypto assets, such as Bitcoin (Sicignano, 2021).

The United Arab Emirates (UAE) is among countries profoundly affected by ML and related crimes. Money laundering is a critical issue for the UAE, considering that the financial action task force (FATF), a Paris-based global ML and terrorist financing watchdog, placed the country on its "grey list" in early 2022. Placement on the grey list meant that the UAE had failed to prevent global ML and terrorist financing. Thus, the FATF was closely monitoring the country for strategic deficiencies and bad practices with respect to international ML and terrorist financing (Barrington, 2022). The UAE is particularly in a challenging and vulnerable position because of a combination of factors. First, the UAE is a financial hub in both the region and internationally. The UAE has undergone massive economic transformations, elevating the country to become a global business center and financial hub. Thus, the meteoric rise of Dubai as an international financial center has inadvertently made the UAE the preferred destination for ML. A notable observation is how money launders outside the UAE, taking advantage of the robust FIs to hide their illegally gained money (Marley, 2022).

Second, the UAE's booming real estate sector and construction industry have exposed the country to increased cases of ML. The UAE has complex property ownership structures that both local and international investors use to obscure their identities when buying properties in the country. These structures also allow money launderers to legitimize their money in the UAE without worrying about disclosing the sources. Money launderers are increasingly taking advantage of the UAE's property market to launder money (Marley, 2022). Moreover, an increase in the use of digital financial services, particularly during the COVID-19 pandemic, has significantly increased the vulnerability risk for the UAE. Technology has provided new opportunities for ML activities. The UAE government has responded to the rising concerns over ML by enacting laws and policies. The UAE currently has a broad and robust legal framework for safeguarding the integrity of its financial systems from ML activities. Despite these efforts, there are persisting questions about the effectiveness of the existing laws in combating the growing scourge of money laundering.

The purpose of this analysis is to examine the extent to which the corporate social responsibility (CSR) law will help combat money laundering in the UAE. Money laundering is a criminal offense in the UAE, backed by multiple laws and regulations. Three notable UAE laws against ML include Federal Law No. 20 of 2018 [the anti-money laundering (AML) law], Cabinet Decision No. 10 of 2019 (the AML Regulations) and Federal No. 31 of 2021 (the Penal Code). The UAE also has multiple agencies that supervise the application of these laws, as well as investigating criminal offenses related to ML and reporting them for public prosecution. The UAE undoubtedly has a comprehensive legal and legislative framework for combating cases of ML. However, persisting cases of ML, high affinity of the UAE as a haven for financial crimes and high pace of technological advancements raise important concerns about the effectiveness of these laws. Placement of the UAE on the "grey list" despite the existence of robust and comprehensive regulations underscores the importance of conducting this analysis (Marley, 2022). An overarching goal of the analysis is to find out whether integration of corporate social responsibility as an anti-money laundering effort will address pressing concerns facing the country.

The primary objective of this paper is to find out if inclusion of ML as an element of CSR law can bolster anti-money laundering and combatting the financing of terrorism (AML/CFT) efforts in the UAE. A point of departure is examining how the UAE currently deals with the financial crime of ML. Such an analysis will lay a strong foundation for finding out whether CSR laws should be merged with the existing AML/CFT regulations or integrate ML in the CSR law. The UAE has comprehensive and punitive laws that promote AML/CFT efforts, although the country still features on the grey list of countries with high cases of money laundering and terrorist financing. UAE law emphasizes disclosure of suspect activities to inform proactive measures. Thus, the first option to consider is whether an inclusion of CSR principles will strengthen UAE law by making disclosure a corporate responsibility rather than a legal obligation. The second option is making ML an integral part of the UAE CSR law that came into force on February 1, 2018. The law imposes reporting requirements on contributions related to CSR activities and financial contributions (Smith *et al.*, 2018). Thus, it is crucial to examine whether ML should be integrated into the UAE CSR law.

Corporate social responsibility (CSR) and money laundering

Corporate social responsibility (CSR) entails being responsible for the impact that business operations have on society. The goal of CSR is to examine the function of businesses in the society with the objective of maximizing societal benefits of business operations and activities (Aarthi and Sahu, 2021). Globalization, liberalization and consumer consciousness have all increased public awareness of the social responsibility of corporations. Growing public debates about social responsibility, fueled partly by climate change, have forced corporations and management boards to integrate societal interests in strategic planning and management. Thus, CSR involves moving beyond legal requirements and competitive pressures to promote the welfare of both the people and environment (Aarthi and Sahu, 2021; Ellili and Nobanee, 2023). The strong link between social responsibility and financial sustainability has also contributed to the growing interest in CSR. Companies that espouse principles of CSR improve their brand recognition, image and reputations, which has a direct effect on profitability. A key question that arises is how the UAE can leverage the positive attributes of CSR to enhance the effectiveness of existing anti-ML activities.

Rationale for corporate social responsibility in the context of money laundering

Corporate social responsibility, as a management practice, has traditionally promoted responsibility to the economy, environment, philanthropy and ethical/human rights. A pertinent question that emerges is how CSR applies to money laundering based on its traditional definition. Money laundering can fall into all four categories because the flow of illegal money through the financial system is harmful to the economy and environment. Thus, FIs must implement counter-ML measures as an ethical and philanthropic obligation. For example, disclosure of ML activities is central to combating terrorism, human trafficking, drug trafficking and overexploitation of environmental resources through illegal logging, fishing and poaching. The cited examples clearly demonstrate how money laundering falls within the purview of CSR. Specifically, every business entity or corporation has an ethical and moral responsibility to prevent illicit activities related to ML.

Unfortunately, publicly available AML/CFT statements do not explicitly capture the aspect of CSR.

Corporations have developed AML/CFT mission statements and policy briefs that emphasize checkbox compliance with AML/CFT regulations instead of building a culture of compliance. A comparative analysis across jurisdictions has shown that countries, including the UAE, have adopted stringent AML/CFT laws and regulations. Companies operating in the financial sector have responded by developing in-house policies that align with both national and international standards. Corporate-level policies are different in that they all include public AML/CFT statements that demonstrate commitment to follow AML/CFT rules. Consequently, an enduring trend across the industry entails technical implementation of AML/CFT laws and legislation to the letter instead of cultivating a culture of moral and ethical responsibility. Corporate social responsibility becomes important at this juncture because it lays the foundation where corporations shift from the mere act of following rules to building a culture of compliance. The EU Corporate Social Responsibilities (CSR) directive acknowledges the need for a culture of compliance by making ML AN integral part of mandatory CSR disclosure duties (Rose, 2020).

Global best practices for AML/CFT initiatives emphasize due diligence and timely reporting/disclosure. FIs are usually alert to red flags based on FATF's framework of risk-based assessment (RBA). FATF is an international, intergovernmental agency that develops global standards for combating money laundering and terrorist financing. FATF has developed red flags or risk categories that help FIs to identify and mitigate the risks of ML and terrorist financing. The most common risks that FIs track include financial transactions involving customer risk, country/geographic risk, and product/service risk (Bennett, 2022). The red flags allow FIs to determine whether a specific transaction should be ignored or investigated further through a suspicious activity report. The FATF RBA industry standards also include due diligence, know your customer, and monitoring transactions. RBA has played an instrumental role in tracking the injection and flow of illegal fiat currency via legitimate financial systems. Therefore, disclosure is a crucial element of AML/CFT efforts (Bennett, 2022; Ellili and Nobanee, 2023).

Flagging and disclosure are integral elements of the UAE's AML/CFT framework, aimed at mitigating the ML and terrorist financing risks arising from the influx of capital and investments into the country. Licensed financial institutions (LFIs) perform their statutory obligations under the legal and regulatory framework, specifically the Central Bank of UAE's Guidance on Suspicious Transaction Reporting (the Guidance). The Guidance has established the standard for LFIs to notify authorities about a transaction based on suspicions on reasonable grounds, regardless of the amount in question. The Guidance does not impose a minimum threshold for reporting, and neither should LFIs have knowledge of the underlying crime as a requirement for reporting (Mrad and Eid, 2023). Consequently, the Guidance has imposed significant responsibility on LFIs to report to designated authorities all suspicious activities and transactions. LFIs are now under immense pressure to tighten internal AML practices and policies to be both AML compliant and law binding. The tight reporting requirements in the UAE align with international AML/CFT requirements and standards (Mrad and Eid, 2023).

The Central Bank also encourages LFIs to register and use the United Nations' (UN) goAML application to report suspicious transactions. The UN Office on Drugs and Crime developed the goAML app for use by member states of the Financial Intelligence Units (FIU). Thus, the Guidance requires that LFIs use the goAML to file both suspicious activity reports and transaction reports with the UAE's FIU. This requirement ensures that the FIU's reporting regime is consistent with the global system, which is a key FATF recommendation. The Guidance has effectively established a thorough strategy to identify and report suspicious activities and transactions (Sebugwaawo, 2019). On the other hand, UAE authorities have been pushing for the integration of artificial intelligence (AI) in both public and private sectors. LFIs have responded to this call by using AI-developed models for AML. Nonetheless, the Central Bank discourages LFIs from overly relying on automated monitoring systems. Instead, the Central Bank recommends human involvement in AML/CFT strategies and processes so that the people who hold key corporate positions are responsible for their actions (Sebugwaawo, 2019).

Disclosure of suspicious activities is the underlying theme in both UAE and international AML/CFT legislation and activities. Disclosure is a critical element of CSR, which could promote AML/CFT efforts. The pursuit of CSR means that FIs must now include corporate clients in combating ML. The UAE AML/CFT regulations, like in other jurisdictions, have placed the responsibility of combating ML on FIs and not their corporate clients. The responsibility is problematic when viewed from the definition of money laundering. Money laundering entails concealment of money obtained illegally by transferring the funds to legitimate businesses or foreign banks. Money laundering follows three successive stages: placement, layering, and integration. Money laundering does not necessarily involve all the three steps nor follow the steps in a sequence. On the contrary, these steps could be combined or repeated on multiple occasions (Masoud and Vij, 2021). The explicit nature of these steps has been instrumental in supporting AML/CFT efforts, although it is difficult for FIs to determine the intent or sources of the funds being “cleaned” through their systems.

Corporate social responsibility is crucial because of the limited regulatory scope of existing AML/CFT laws, both locally and internationally. Consider the case where corporate clients are better placed than FIs to know the sources of money being deposited in the banking system. A major consequence of the regulatory caveat is that corporations using financial services lack incentives to support AML/CFT initiatives. Consequently, the financial sector now carries the sole responsibility of solving the externality problem of money laundering (Rose, 2020; Col and Patel, 2019). Corporate social responsibility will play a key role in ensuring that corporate clients become part of AML/CFT efforts. However, CSR strategies have not demonstrated effectiveness in addressing larger undertakings. CSR has been effective in promoting active engagement and focusing on specific international issues, such as human rights and the environment. Another observation is that CSR has had the greatest impact in areas where neither regulation nor sanctions have been effective (Masoud and Vij, 2021; Rose, 2020). Money laundering is a notable international problem where the effectiveness of CSR could be tested.

Money laundering and corporate social responsibility: are they compatible?

A key question that emerges is examining whether ML and CSR are compatible concepts. A crucial step to answering this question is to examine the conceptual definition of CSR, which then lays the foundation for assessing compatibility between CSR and money laundering. CSR is a multifaceted concept with multiple definitions. Earlier works emphasized the scope of voluntariness for corporate actions as a measure of CSR. However, the concept evolved as CSR transformed from soft to hard law. The introduction of CSR as a regulatory tool, like in the case of the UAE CSR and EU CSR Directive, means that CSR is no longer about volunteerism but an element of corporate strategy (Rose, 2020, 2019). For example, the EU Directive defines CSR as a responsibility rather than a voluntary activity. As such, CSR occurs when corporations integrate environmental, social, human rights, ethical and consumer concerns into their core corporate strategy and business operations. The integration process involves collaboration with key stakeholders with the goal of maximizing the creation of shared value, as well as mitigating and preventing possible adverse impacts on society (Masoud and Vij, 2021, p. 379; Col and Patel, 2019, p. 1034).

Corporate social responsibility encompasses three core approaches: win-win, delegated philanthropy, and insider-initiated corporate philanthropy. An understanding of the three elements is necessary to examine how money laundering can be integrated into CSR. First, the win-win view focuses on the balance between CSR activities and firm profitability or financial sustainability. Companies that follow the first approach look at long-term prospects of profitability or financial gain from CSR activities (Cho *et al.*, 2015). Profit is undoubtedly the primary motivation for business operations. Growing consumer and environmental consciousness has now challenged companies to look beyond short-term profits. A focus on short-term profitability exposes companies to risks that could harm future prospects. Effectively, companies are increasingly engaging in CSR activities as a means of enhancing their public and brand image (Cho *et al.*, 2015, p. 13; Rose, 2019). An argument that follows is that a company committed to ML as a CSR activity secures its profitability and financial sustainability. Nonetheless, it is debatable whether money laundering has the same public appeal as human rights and environmental concerns.

Second, the philanthropic view arises from societal expectations and stakeholder demand. Proponents of philanthropic responsibility expect corporations to engage in activities that will lead to the betterment of society. An enduring feature of philanthropic responsibility is donating money from corporate revenues to fund social programs, such as schools, health centers and income-generating activities. Corporations usually establish trusts or foundations to run worthy causes in the community as a key pillar of philanthropic responsibility (Rose, 2020, p. 17; Col and Patel, 2019, p. 1034). The UAE CSR law has some elements of philanthropic responsibility through the CSR UAE Fund. The law mandates the business sector to make annual contributions to the Fund to support national priority initiatives. Players in the business sector have also viewed such contributions as a mere act of philanthropy, but the government is now working toward making businesses more socially responsible beyond donations to charity (Bénabou and Tirole, 2010). A key issue related to second element of CSR is whether ML should be treated as a philanthropic activity. The view of ML as a form of philanthropy negates the very essence of CSR.

Third, insider-initiated corporate philanthropy arises from the desire of board members or management to engage in philanthropic activities. Thus, stakeholders do not drive the third vision of SCR. Instead, company CEOs and executives engage in causes and other philanthropic activities based on their personal preferences and choices. Insider-initiated corporate philanthropy differs from the other two because it depends on whims and goodwill of the executives or board members. As such, this form of CSR has attracted heavy criticism because this approach does not serve the company or stakeholders/society (Rose, 2019; Ellili and Nobanee, 2023). Unlike delegated philanthropy, insider-initiated corporate philanthropy raises substantial issues related to corporate governance. For instance, insider-initiated corporate philanthropy could weaken managerial accountability because executives and board members have the leeway to choose causes that they will support. The main concern is that some of these causes may not necessarily benefit the company or society, such as supporting political think tanks. Furthermore, the executive may engage in multiple causes that amount to no cause in the long run (Cho *et al.*, 2015, p. 14; Bénabou and Tirole, 2010, pp. 1-2).

Overall, companies have different incentives and approaches to introduce and incorporate CSR strategies into their business operations. Foregoing discussions have presented the three most common CSR approaches: a win-win long-term perspective, delegated philanthropy on behalf of stakeholders and insider-initiated corporate philanthropy. An analysis of the three visions of CSR sets the stage for examining whether CSR is compatible with money laundering. The line between the three approaches to CSR is blurry because it is challenging to determine the true motivation behind a company's involvement in SCR behaviors. For example, companies could be engaging in CSR activities to placate regulators or maximize profits. A review of the literature has revealed three motives that drive prosocial behavior: material incentives, intrinsic altruism and social/self-esteem concerns (Rose, 2019, 2020; Cui *et al.*, 2018). The three motives and the cited example cast aspersions on the effectiveness of CSR initiatives. The goal of the three motives is to have some influence on society, even if incentives and approaches differ. Thus, the next section will examine the compatibility between ML and CSR through the analysis of UAE CSR law.

Analysis of corporate social responsibility law in the context of money laundering

A crucial question that this section seeks to answer is whether money laundering is a corporate social responsibility. Two conclusions are apparent when examining ML from the perspective of CSR. First, both CSR and AML initiatives seek to address a negative externality problem. CSR initiative focuses on mitigating the negative impact that business operations have on society, including the environment and human rights. Similarly, AML efforts seek to counter money laundering activities that arise from illegal businesses. Thus, the substance of CSR and AML is the same regardless of whether the goal is to protect the environment or deal with economic crimes (Rose, 2020, p. 22). Second, both AML and CSR rely on the responsibility of the private sector to combat the negative externality problem. On the one hand, the private sector engages in different philanthropic activities for the benefit of society and humanity regardless of the CSR vision being pursued. On the other hand, the private sector, especially FIs, is central to combating ML through disclosure of suspicious activities. Therefore, the role of the private sector is indispensable in both AML and CSR (Masoud and Vij, 2021, pp. 780–781; Rose, 2020, p. 14).

The two examples illustrated the convergence of AML and CSR, although AML is not yet an integral element of CSR. Money laundering does not seem to get the same level of attention as issues related to the environment, human rights and other societal concerns. One might argue that stakeholders are yet to acknowledge the need to safeguard financial systems in the wake of economic globalization. Global expansion of economic/financial systems has significantly decreased the transparency of these systems. Interestingly, globalization has now made it easier to raise awareness and fight for human rights and environmental issues because of the growing public consciousness. The irony here is that money laundering arises from illegal business, including human trafficking, drug trafficking, corruption, and illegal sale of natural resources (Rose, 2020, p. 20; Rose, 2019). These activities are already under the scope of corporate social responsibility, highlighting how AML and CSR are compatible concepts. Thus, it is necessary to examine how AML can fit into the UAE CSR law.

The UAE Council of Ministers issues a new resolution, dubbed the CSR law, that governs CSR activities in the UAE. The law came into force on February 1, 2018. The CSR law imposes strict reporting requirements on contributions that companies make towards CSR activities, as well as financial contributions to the CSR Fund. The law also has multiple incentives for companies to contribute to CSR initiatives (Harjoto and Laksmana, 2018; Smith *et al.*, 2018). The law applies to commercial companies authorized to work in the UAE, including banks, FIs and subsidiaries of foreign companies. The law also covers companies wholly or partially owned by the federal or local government. Other business entities and organizations may opt to be included in the CSR platform. The UAE Ministry of Economy launched a new smart platform (the Platform) for delivering the CSR framework. The purpose of the platform is to facilitate access to information about government strategy, as well as coordinate interaction with the state, commercial companies and private-sector entities involved in welfare and social responsibility in the UAE (Smith *et al.*, 2018; Rose, 2019).

The CSR law has established the basis for transforming organizational culture around CSR initiatives. Businesses in the UAE have also adopted the vision of delegated philanthropy as the core of CSR efforts. Consequently, businesses have often understood CSR as the same as donating money to charity or supporting philanthropic causes. Such an understanding has meant that the responsibility in CSR is to follow government regulations. The CSR law has started to change the narrative by making CSR an effective way of doing business beyond following rules and donating to charity. The CSR law has now created an environment that will challenge business leaders to assume a more socially responsible attitude toward business operations. The CSR law is increasingly tilting the vision of CSR from delegated philanthropy to the win-win approach (Bénabou and Tirole, 2010; Harjoto and Laksmana, 2018). As discussed earlier, the win-win vision strikes a balance between CSR activities and firm profitability or financial sustainability. Companies that espouse this vision prioritize long-term performance over short-term financial gains. An issue worth exploring is whether ML can fit within this mantra.

The UAE CSR law covers five core CSR contributions, but two of them are compatible with the aspirations of AML/CFT efforts. The first CSR contribution that can be included in the portal is contributing to solutions to challenges or problems that society is currently facing. Money laundering is one of the challenges confronting the UAE. The UAE government has adopted stringent measures to combat this issue with no avail. The listing of the UAE on FATF's grey list speaks to the country's poor performance in addressing money laundering (Masoud and Vij, 2021, p. 379). Therefore, an inclusion of AML in the CSR law will not only strengthen existing AML/CFT laws but also contribute to innovative solutions against the crime. The AML/CFT law as currently constituted is primarily reactive because it only compels banks and FIs to disclose suspected ML activities. Thus, these businesses are only meeting a legal obligation without taking any extra measures to deal with ML (Bénabou and Tirole, 2010, pp. 6–7). The first CRS contribution illustrates how businesses can actively engage in AML/CFT activities beyond disclosure.

The second CSR contribution is establishing a culture of social responsibility through strategies, as well as providing opportunities for humanitarian and community campaigns and initiatives. Another CSR activity is engaging in voluntary programs. The second CSR contribution is comprehensive, but a key highlight is fostering a culture of social responsibility. Thus, the first and second contributions are interrelated because they underscore the need for moving CSR activities and initiatives beyond meeting legal obligations and engaging in philanthropic activities (Cui *et al.*, 2018, p. 560). The UAE CSR law provides the framework for placing AML/CFT in its right place: corporate culture. The approach to AML/CFT, whether in the UAE or other jurisdictions, has always been about regulatory compliance. Consequently, regulatory compliance has often obscured the dimension of organizational culture. Integration of AML/CFT in the CSR law will allow UAE businesses to embed money laundering in their respective organizational cultures instead of ticking regulatory boxes out of the fear of sanctions and penalties (Cui *et al.*, 2018, p. 562).

AML/CFT laws have evolved from the realization that banks and FIs are vulnerable to individuals and groups seeking to launder illegal money. Thus, national and international AML/CFT laws require banks and FIs to maintain risk-focused and robust AML systems. However, these regulations, like in the case of UAE law, expect banks and FIs to promote a culture that supports these controls, but they lack the framework for achieving this goal.

The CSR law has responded to this issue by providing a model that could guide integration of AML/CFT into corporate culture. A CSR statement will be an ideal place where companies could embed a culture that demonstrates commitment to countering ML and terrorist financing. An explicit organizational culture with embedded AML/CFT will ensure that compliance is more than technical implementation (Rose, 2020, p. 22). The UAE CSR law indeed provides a framework for aligning money laundering with CSR. Nonetheless, the CSR law does not explicitly state how businesses can achieve this objective. Despite this limitation, the best place to start could be using the CSR corporate statement to show commitment to AML/CFT efforts (Masoud and Vij, 2021, p. 384).

CSR disclosure is another key area where The UAE CSR law also includes a modality for scoring CSR performance for UAE businesses. Specifically, the UAE has been ranking and rewarding companies for their CSR initiatives as a part of the CSR UAE Fund since 2019. The ranking has encouraged more businesses to actively track and enforce CSR performance. An important issue that emerges is how and whether AML/CFT can fit within CSR disclosure requirements. CSR encompasses legal, economic, ethical and discretionary categories of corporate obligations. Therefore, companies and businesses have a responsibility of attaining their economic mission, complying with legal requirements and engaging in extra-ethical behaviors that lack legal requirements but are demanded by diverse stakeholders (Hoi *et al.*, 2013). Conversely, persisting cases of money laundering and corporate scandals mean that many corporations are still prioritizing profits over corporate social responsibility. The UAE CSR law could streamline and strengthen existing AML/CFT regulations by aligning CSR with corporate financial fraud. Nonetheless, the CSR law lacks clear modalities for addressing corporate financial fraud.

Corporate financial fraud is at the center of money laundering and terrorism financing through banks and FIs. The effectiveness of the CSR law depends on the extent to which it reduces cases of corporate financial fraud. Political and ethical theories underline the centrality of ethics in business operations, highlighting the need for corporations to consider and promote the welfare and wellbeing of societies where they operate. An outcome of this argument is that socially responsible firms are more likely to ensure transparency when disclosing financial reports. These firms also report low levels of information asymmetry, and they are also less likely to engage in or promote financial impropriety (Rose, 2020, p. 14). Conversely, CSR is largely a symbolic activity despite having technical requirements that mandate compliance with legal provisions. Both the symbolic nature of CSR presents a leeway for opportunism whereby businesses engage in SCR for strategic reasons other than for perceived obligations or responsibilities. A notable example is where firm managers of boards of management pursue CSR activities for self-serving interests or to legitimize social status, strategic image or reputation (Hoi *et al.*, 2013, pp. 2037-2038).

Contradictory reasons for engaging in CSR activities challenge the applicability of the UAE CSR law to AML/CFT initiatives. A major assumption is that higher CSR scores suggest that a firm has a low propensity toward financial fraud. However, it is necessary to point out the difference between CSR disclosure and CSR performance. Consider the case where a firm has a higher CSR score because of consistent CSR disclosure, but the same firm conceals financial fraud in its accounting practices. The cited example brings back the question of motive for CSR disclosure. On the one hand, CSR law could encourage firms to promote a culture of CSR disclosure. On the other hand, the same law does not have clear provisions to govern disclosure of corporate financial and accounting fraud. Symbolism reinforces this concern because firms may choose to promote a culture of CSR disclosure to serve self-interests other than supporting AML/CFT objectives enshrined in law. Thus, a second assumption here is that SCR disclosure scores do not necessarily translate to higher

CSR performance (Pavone and Parisi, 2018). Corporate governance then becomes a priority when examining the compatibility between CSR and AML/CFT.

Corporate governance and social responsibility are interlinked concepts that could be useful in explaining the relationship between AML/CFT and CSR. Good corporate governance is an element of social responsibility because it enhances public confidence and faith in a corporation. A firm that espouses good governance is more likely to promote best practices that include social responsibility and accountability to diverse groups of stakeholders. Accordingly, corporate governance and CSR are akin to two sides of the same coin, given that one cannot operate without the other. For instance, corporations cannot promote social responsibility unless they exercise good governance. An implication here is that effective corporate governance is the first step toward CSR, whereby corporate governance is either a component or prerequisite of CSR (Sahut *et al.*, 2019; Cui *et al.*, 2018, p. 564). An enduring argument covered in the foregoing discussion is the need to move away from the technical and legal requirements of AML/CFT to foster a corporate culture of AML/CFT. Thus, one could conclude that corporate governance resolves the tension between CSR disclosure and CSR performance.

The UAE CSR law emphasizes CSR disclosure as the basis for supporting CSR activities, although the law does not have clear mechanisms for corporate governance. The vision of insider-initiated corporate philanthropy establishes the basis for examining the role of corporate governance in the context of CSR. Previous discussions have shown that insider-initiated corporate philanthropy has far-reaching implications for corporate governance. An example is when the executive or board members choose to engage in questionable CSR activities that could weaken managerial accountability. Thus, corporate governance can mediate the relationship between CSR disclosure and CSR performance. The CSR law has an established platform where UAE businesses should report their respective CSR contributions. The law emphasizes CSR disclosure at the expense of CSR performance. Hence, AML/CFT can fit within the framework of the UAE CSR law when examined from the viewpoint of corporate governance. Specifically, mechanisms of corporate governance are more likely to align AML/CFT efforts with CSR initiatives.

The bottomline: opportunities and challenges

The UAE CSR law has multiple opportunities for aligning AML disclosure with CSR disclosures. The law has already established a framework that businesses could use to include AML/CFT in their CSR disclosures. The CSR law requires UAE businesses to disclose their CSR efforts and contributions on the CSR Smart Platform as part of annual reporting. The CSR law also has incentives that encourage businesses to meet CSR disclosure requirements, specifically the UAE Impact Index and UAE CSR Label. The UAE Impact Index incorporates both environmental, social and governance and sustainable development goals performance measures. The UAE CSR Label is a recognition of best-in-class firms in terms of their contributions to the CSR UAE Fund (Rose, 2020, p. 22; Bénabou and Tirole, 2010, p. 7). Overall, the UAE CSR law incentivizes companies and businesses to engage in activities that support National CSR priorities. However, a problematic area is the veracity of information that businesses can disclose under the CSR law without clear legal provisions. The legal obligation undoubtedly enhances compliance because of the incentives, but it does not assure veracity of information.

The type of disclosure is a determinant of both the effectiveness and feasibility of including AML/CFT in the CSR law. Consider the case where the UAE AML/CFT legislative framework requires companies to share detailed private information about their financial and accounting practices in relation to money laundering. In contrast, the CSR law requires companies to only share information related to their CSR activities (Hoi *et al.*, 2013, pp. 2037-2038; Pavone and Parisi, 2018, p. 10). The level of disclosure and verification are different in both cases, including the level of verification. The relationship between disclosure and verification brings to the forefront the question of regulating AML/CFT under the CSR law. Regulation of disclosure duties is crucial because it allows courts and regulatory authorities to establish the level of compliance. The CSR law can indeed support AML/CFT disclosure, but there is no legal framework for assessing whether businesses will meet the threshold of ML disclosure requirements. The question of legislation is also important because the CSR law does not have a comprehensive legal framework that covers all types of disclosure, including money laundering (Rose, 2020, p. 24).

The UAE CSR law has a sound legal foundation for including money laundering in CSR disclosure requirements. An analysis of this law does not reveal any barriers to including activities related to money laundering as part of the CSR law. For example, an emphasis on environment, human rights, and social wellbeing demonstrates the interlinkage between CSR activities and money laundering. An argument here is that the CSR law should automatically oblige UAE businesses to incorporate risks of money laundering into their respective CSR strategies and contributions. Nevertheless, this argument fails to appreciate the ambiguity in the CSR law that will make disclosure of ML activities voluntary rather than mandatory. Currently, there is no provision in the CSR law that requires businesses to disclose ML risk. Such provisions are only found in the UAE AML/CFT regulations. Thus, inclusion of AML/CFT in the CSR law is a matter of corporate culture rather than legal obligation. Additionally, CSR disclosure requirements only apply to businesses, including banks and FIs, and not their corporate clients.

The UAE CSR law has insufficient grounds to include corporate clients in disclosure requirements for ML risks and activities. Thus, the call to include money laundering in the CSR law intends to create a paradigm shift from the reactive nature of AML/FTC Law to a proactive approach. An argument here is that proactive measures will ensure that corporate clients take responsibility for their role in perpetrating acts of money laundering. In this case, corporate clients will voluntarily disclose the sources of their money as part of the CSR culture. This move will make it easier for banks and FIs to track and report suspicious behavior. The shift will also allow FIs to move away from ticking boxes of regulatory requirements to strengthening corporate culture (Rose, 2020, pp. 22–23; Bénabou and Tirole, 2010, p. 6). The depicted scenario is appealing because it will create an environment where companies will compete to achieve higher scores on AML/CFT efforts like in the case of CSR contributions. Nonetheless, there is currently no public pressure and incentives that can compel corporate clients to engage in AML/CFT activities. In fact, even the CSR law only incentivizes UAE businesses and not corporate clients.

Inclusion of money laundering in the CSR law will bolster AML/CFT laws, but the process will be long and protracted. The achievement of this goal presents a dilemma for policymakers and regulars. First, legislating AML/CFT as part of CSR could inadvertently suffer the same fate where businesses will focus attention on compliance instead of strengthening their corporate cultures. Second, money laundering has not received immense pressure from stakeholders to compel corporate clients to support CSR initiatives. Importantly, the CSR law does not have adequate provisions to promote AML initiatives as part of delegated philanthropy. Therefore, the inclusion of AML in CSR law, although feasible, will take time before becoming part of corporate culture and legislative norms. A common assumption is that delegated philanthropy will motivate and incentivize corporate clients to voluntarily disclose sources of their money. Unfortunately, it is less likely that corporate clients will willingly provide information if their money is from illegal sources.

A combination of these issues presents contradictory scenarios where there is a clash between voluntary and involuntary disclosure.

Concluding remarks

The UAE CSR law demands mandatory disclosure of CSR contributions for executing economic, social and environmental development programs and project. Specifically, listing on the platform is compulsory for all companies covered under the CSR law. An issue that follows is whether the government should introduce money laundering and terrorism financing into the CSR law by regulation. As currently constituted, the UAE CSR law does not have disclosure requirements for AML/CFT initiatives. The law focuses specifically on financial contributions that UAE businesses make to the CSR Fund. The law also specifies a raft of both voluntary and mandatory CSR requirements. Thus, inclusion of AML/CFT in the CSR law by regulation will impose mandatory disclosure duties on covered UAE businesses. A practical concern here is that mandatory disclosure of ML and terrorism financing as part of the UAE CSR law would lead to inefficiencies. Such an action raises the same concern about meeting mechanical requirements in AML/CFT law. On the other hand, voluntary disclosure may not guarantee effectiveness in the absence of a legal framework.

The three CSR visions covered earlier bring into perspective the dilemma over mandatory and voluntary disclosure of ML under CSR law. First, companies engage in CSR activities to maximize profits. Second, stakeholders are the primary drivers of the second CSR vision, which is delegated philanthropy. Companies engage in delegated philanthropy to meet societal or regulatory expectations. Third, management personality has a profound influence on insider-initiated corporate philanthropy, which is the third CSR vision. An analysis of the three visions could be useful in examining whether disclosure of ML in CSR law should be mandatory or voluntary. For example, AML/CFT requirements do not align with the first and third approaches to CSR because companies and businesses neither earn nor maximize profits by fighting crime. Businesses and companies have no incentives to disclose CSR activities that include money laundering. As such, disclosure should be voluntary, considering that businesses have no financial incentive to disclose private information. Voluntary disclosure then becomes the only incentive that can motivate inclusion of ML in CSR disclosures.

The second CSR vision offers a suitable channel through which the UAE CSR law could incorporate AML/CFT into reporting requirements. Delegated philanthropy arose from both public and regulatory pressure imposed upon companies to be responsible for the social and environmental impact of their operations. A major concern is whether delegated philanthropy can also apply to money laundering. The issue is crucial because only public pressure can compel businesses to voluntarily disclose ML activities, including corporate fraud. Unfortunately, ML and terrorism financing have not received the same level of public awareness and consciousness as environmental and social problems do. The observation is paradoxical considering that ML and terrorism financing arise from activities that harm the environment and social fabric of the society. An underpinning argument here is that businesses will voluntarily engage in AML/CFT activities within the scope of CSR law if there is immense pressure from society. The UAE CSR law has established the necessary groundwork to support additional regulatory provisions that would mandate AML/CFT under CSR disclosures.

In conclusion, the UAE CSR law does not explicitly mention money laundering as part of CSR disclosure requirements. The observation means that businesses and corporations are yet to acknowledge the value of including money laundering in their respective CSR statements and initiatives. The perceived ambivalence attitude toward money laundering in the context of CSR persists despite increased regulatory awareness in the UAE. The UAE CSR law is also inadequate in this area, despite the country's poor ranking on the FATF ranking and its strategic position as an attractive market for ML activities. AML/CFT activities indeed align with CSR disclosure requirements under the UAE CSR law. Nonetheless, there are no clear mechanisms or provisions under the UAE CSR law on how money laundering can be included in CSR disclosure requirements, whether voluntary or mandatory. A pressing challenge now is whether the UAE should regulate AML/CFT disclosures under the CSR law. The main concern is that such a move could make mandatory disclosure another technical and regulatory requirement that UAE business must comply with, which will be inimical to fostering a strong CSR culture.

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Further reading

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Corresponding author

Tareq Na'el Al-Tawil can be contacted at: dr.tareqaltawil@yahoo.com