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PHILANTHROPY IN THE ARAB WORLD

Venture Philanthropy and Social Investment:
Are Arab Philanthropists and Conventional Investors
Converging on the Impact Continuum?

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PART ONE: WHY THE CONTINUUM AND WHAT DRIVES CONVERGENCE?

The 21st century has seen the clear emergence of a more strategic form of philanthropy. This is partly due to an increasingly connected world thanks to the digital revolution driving greater transparency (Brooke, 2016) and partly due to investors becoming more demanding about how their gifted capital is deployed. New-found scrutiny coupled with dissatisfaction with traditional grant-making is driving significant sectoral change. Philanthropists are looking for more innovative solutions using data and new operational models such as social enterprises, to improve their impact. Meanwhile, conventional investors are recognising that businesses also have a role in, and responsibility for creating social, and not just commercial value.

From traditional charities to mature corporate vehicles, barriers to collaboration and co-investing for social impact are falling as organizations unite to address pressing global challenges. From climate change to poverty alleviation, pluralistic partnerships are emerging to deliver system change and create a convergence of multi-sector actors under a term known as the 'Impact Investing Continuum', conceived by the F.B. Heron Foundation (Ragin Jr., 2014, pp. 312-313). Where traditionally developmental institutions worked in isolation from big business and philanthropists built their own silos, today there is a more collective approach to addressing the UN Sustainable Development Goals (SDGs). This means new opportunities for delivering sustainable social outcomes at scale and a possibility of exponentially increasing the volume of capital invested in this space.

Venture Philanthropy (VP) is one example of this new hybrid approach. VP involves taking an 'enterprise-based' (Shell Foundation, 2010) approach to solving entrenched social problems by adopting the same principles that the private sector uses for commercial value creation and applying them to social value creation. This means 'hands-on' technical support, moving from time-bound short-term projects to long-term systemic

programs and delivering permanent, rather than interim solutions: poverty eradication rather than simply alleviation.

VP is also about addressing 'gaps in the market': building solutions to unresolved problems based on real evidence and rich data rather than on surmised assumptions. It is ultimately about moving beyond 'cheque-writing' to catalyse real, measurable and scalable solutions for sustainable outcomes. And it is going 'mainstream' as more and more philanthropists consider its application and organizations such as the Asian Venture Philanthropy Network (AVPN) and its sister organizations, become sector leaders and a reference point for the concept (see Figure 1 below).

THE VENTURE PHILANTHROPY MODEL

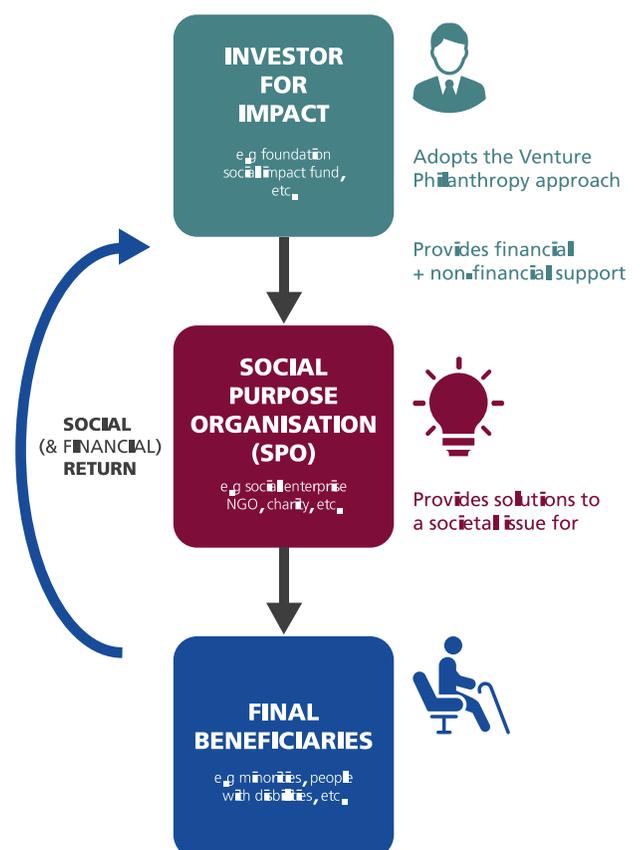


Figure 1. The Venture Philanthropy Model. Adapted from "What is Venture Philanthropy?" European Venture Philanthropy Association. Retrieved November 2, 2019, from <https://evpa.eu.com/about-us/what-is-venture-philanthropy>. Copyright 2018 by EVPA

This convergence is forcing all social purpose organizations (SPOs), from foundations to social entrepreneurs, to ask themselves some difficult questions about impact and transparency with an associated lexicon. How can we create 'net social asset value', how can we build 'economies of scale', how can new innovative technologies 'disrupt and disintermediate'?

SPOs now measure outputs as well as inputs, they adopt clear Key Performance Indicators (KPIs), they articulate a Theory of Change (ToC) and accept that assessing immediate impact is likely inferior to measuring long-term outcomes. Executives talk to Boards about learning from failure rather than obfuscating it. New metrics such as the Social Return on Investment (SROI) help philanthropy move beyond the 'feel good factor' and allow for a more scientific way of measuring their impact that is better aligned with bottom-line based entities (Folger, 2019).

Equally indicative of the convergence is the kind of talent being attracted to the sector. Traditionally drawn from the development sector, today foundations seek to hire ambitious business studies graduates who bring commercial acumen and a certain disillusionment with Gen X's old way of thinking and a commitment to an entrepreneurial and tech-savvy culture. Where foundations once sought development expertise, now they seek financial nous (1) and an understanding of where value lies. Catalytic philanthropy is the new norm.

Since Crutchfield, Kania and Kramer (2011) published their seminal piece on how foundations can deliver more social value by going beyond traditional philanthropy, the debate has gained momentum. As Crutchfield et al say in the book "Donating is an important starting point but not the end point... To achieve the highest possible level of impact with their philanthropic resources - to create real results - catalytic donors...shift their stance from that of passive grant maker to that of proactive problem solver...they act as catalysts for change by leveraging the power of each of society's sectors – public, private, non-profit, and individual." Blending of profit with purpose, say the authors leads to adaptive and

continuous learning.

Fiennes(2012)similarlyproposesmoreprogressive ways for improving impact advocating that third sector organizations consider new ways thinking and learning. "We should open our minds to learning from many disciplines – from any discipline. Donors and charities face some of the most difficult challenges on Earth, and hence need all the wisdom and insight they can get. The observed over-reliance on one discipline is patently insufficient. People involved in these challenges should read and listen widely, for relevant learning lurks in surprising places."

As a trillion-dollar capital market, the philanthropic sector is high on the radar screen of SDGs actors bringing new partnerships between previously siloed actors. Bishop and Green (2008) note that "the fiscal fallout of the financial crisis of 2008...means that public budgets and government ambitions are going to have to be scaled back...A new approach to solving social problems is needed, based on innovative partnerships between business, non-profits and government."

This new paradigm shift is not about turning every social challenge into a 'Market World' opportunity as Giridharadas' (2018) accusations suggest. While it is important to recognize the source and power of philanthropic capital and mitigate against monopolistic behaviour, it is also important to recognize that traditional philanthropy was often reactive, bureaucratic and quite simply too often ineffective. Convergence can help improve impact by adopting all that is good about commercial innovation, scalability and disruption for system change. John Elkington (2015) applies the 'Shark-Fin' model (see Figure 2) the exponential speed of change

(1) Financial instruments in the sector are moving beyond grants to include Social Impact Bonds, mezzanine finance, convertible debt, DAFs and loan guarantees. While 'Grant-making', is still a critical instrument for buying down risk it is sometimes perceived as 'old school' and not part of the current dynamic paradigm shift.

SHARK'S FIN MODEL OF CHANGE

Source: Larry Downes and Paul Nunes, featured on Wired.com on January 3, 2014 (19)

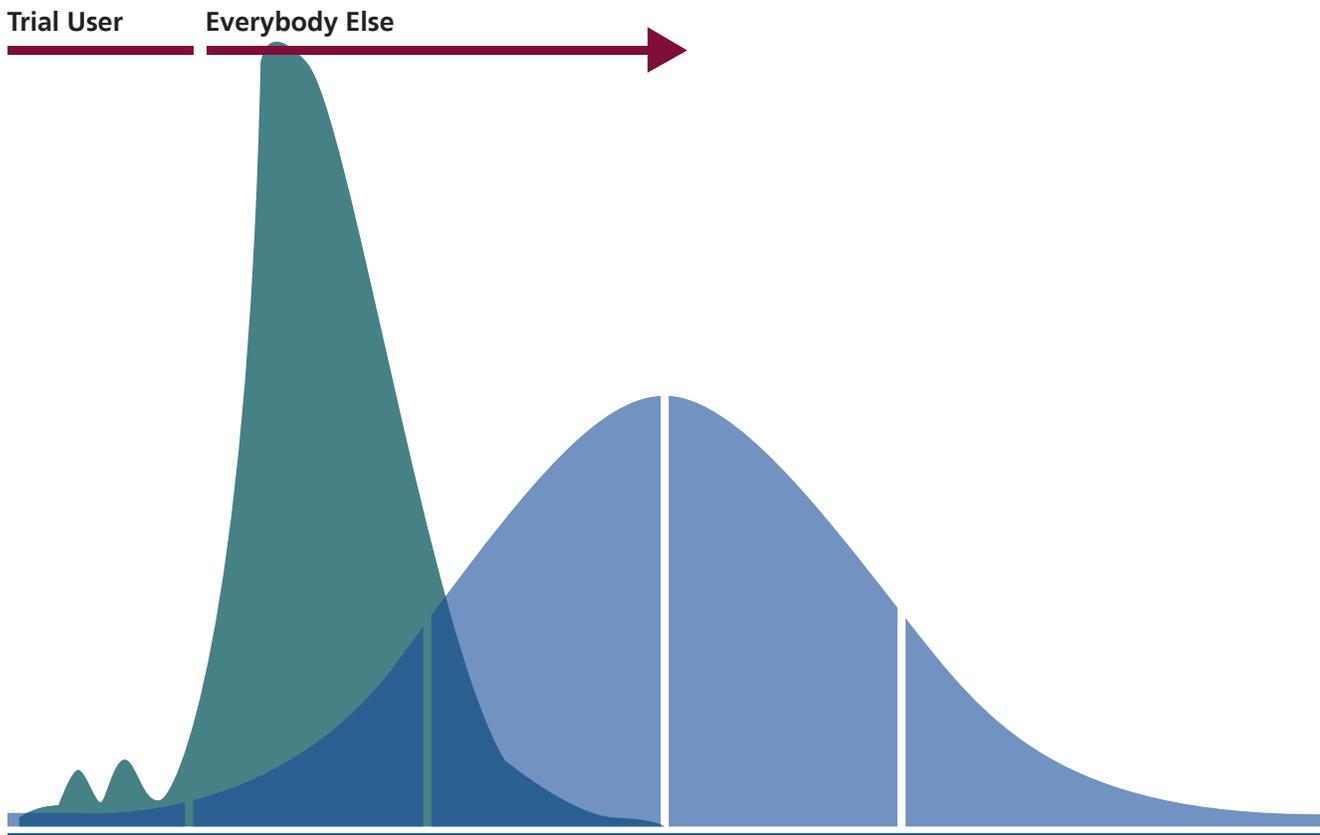


Figure 2. Shark Fin's Model of Change. Adapted from "The Faster a New Technology Takes Off, the Harder It Falls" by L. Downes & P. Nunes 2014, Wired. Retrieved November 6, 2019, from <https://www.wired.com/2014/01/why-its-time-to-ditch-the-bell-curve/> Copyright 2014 by L. Downes & P. Nunes.

Indeed, a revolution in philanthropy through this kind of convergence with entrepreneurial thinking can have radical implications. Bishop and Green (2008) argue that: "as governments cut back their spending on social causes, giving may be the greatest force for societal change in our world...[the time has come for philanthropy to]...focus on leveraging the intellectual talents, time, treasure and networks of donors to support public policy advocacy and systems change."

This work will examine the presence of the impact continuum in the Middle East and North Africa (MENA). It will assess whether the convergence that unites traditional philanthropy and new structures such as social enterprises, with formal financial capital and conventional investors, exists in MENA? Are the Environmental Social

and Governance (ESG) metrics of progressive corporations now morphing into more ethical investing in the Arab world? Is impact investing growing in the MENA context (2) ?

As developed markets use the continuum as a framework for defining how private capital can best solve social problems, preliminary research suggests this process is still nascent in MENA: how can the Arab region capture the convergence dividend?

(2) Impact investing does not solely focus on providing financial resources for a financial return but also aims at a positive social and environmental impact. The definition remains broad with thegiin.org stating that impact investments are "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return below market rate and should satisfy three key measures: Intentionality-clearly articulated across financial and social goals; Measurement: impact across both objectives should be measured and Transparency whereby the organisation should share information on its progress and performance

PART TWO: THE CONTINUUM AND CONVERGENCE IN THE ARAB WORLD

MENA continues to face some of the world's most deeply entrenched socio-economic challenges: the lowest level of female labour force participation (Assaad et al., 2018) and the highest level of youth unemployment (World Bank, 2019). As Badr Jafar (2017) notes: "In MENA literacy rates have risen from 59 percent to 78 percent in just two decades. This is a welcome development, but can we really be satisfied when the level of youth unemployment in the region has simultaneously risen to nearly 30 per cent?"

While the region's geopolitics remain in a state of constant flux, the effective deployment of philanthropic capital – in a way that dovetails with broader conventional investment activity – could play a significant role in addressing widespread socio-economic issues. According to the Coutts Million Dollar Donor report, private donations from within Gulf Cooperation Council (GCC) states reached nearly \$34 billion in 2015 alone (Coutts, 2016).

The opportunity lies, however, beyond simply the sheer size and growth of the philanthropic market. The regional discourse is aligning with global convergence trends. The Arab Foundations Forum (AFF), a regional network of philanthropists, regularly hosts events focused on SROI, ToC, the construct of social enterprise, impact investing and innovative finance – all subjects that until relatively recently would have been subsumed by discussions on simply how to fund raise. Regional professionals working in the sector increasingly recognize that social change requires new ways of thinking – stasis is not an option.

Evolving a continuum can deliver multiple benefits. According to Mettgenberg-Lemiere et al. (2018) it helps all actors to "become increasingly synergistic and complementary" and able to leverage "a more complete portfolio of financial and non-financial contributions" that are better equipped to service Social Purpose Organizations (SPOs) who require different kinds

of funding and non-financial support throughout their lifecycle on their journey to scale." It also helps create "a vibrant ecosystem...combining grants, debt and equity across multiple investments...to achieve deeper social impact". What can the Arab world do to encourage this phenomenon?

There are significant structural differences from philanthropy in the GCC to that of the rest of the Arab world. Oil-rich rentier GCC members have much higher per capita income and stronger GDP growth³. GCC Philanthropy is also less about mobilizing private capital to shore up declining public spending and more about building influence and reputation for private family offices. However, as Farouky (2016) acknowledges, despite this uneven wealth distribution, the sector has common structural challenges:

- A lack of strategic planning that goes beyond five years
- A lack of a forensic accounting of crises and examination of the issues that lead to crises
- An egregious lack of data, knowledge-sharing and a will to collaborate
- A weak infrastructure – be it on the government level, or other support institutions
- A lack of support for cutting-edge and innovative means of philanthropic giving

In light of this structural comparability, this work will undertake a comparison of two equally leading markets in the space of social investment and private start-up capital: the United Arab Emirates (UAE) and Jordan. Notwithstanding their wealth disparity (Jordan's per capita income is around US\$4,200 while the UAE's is over US\$43,000 (World Bank, 2018)), both countries were early movers in acknowledging the need to unite the ecosystem and to recognize the opportunity of greater convergence, even if they have yet to materially replicate more mature and integrated markets.

Ecosystem Convergence in the UAE

The UAE, despite its relative wealth, was one of the first Arab countries to acknowledge and champion social enterprise: perhaps the most useful proxy for assessing convergence and the impact continuum. For some ten years, the UAE has been home to pioneering Arab social entrepreneurs and early government efforts to understand and encourage this construct. Indeed, given the UAE's vocal and active entrepreneurial community, synergies between conventional and philanthropic investing have been recognized for some time.

The consummate regional entrepreneur Fadi Ghandour, based in the UAE, has long noted that the region's private sector can only flourish if it "comes out of its self-imposed marginalization and embraces the fact that its wellbeing is intertwined with that of society at large. It is no longer enough for the sector to content itself with the act of charity. Its main mission now has to be that of helping shape a new entrepreneurial society that pushes us all forward," says Ghandour (2017) noting that MENA needs to create 60-80 million jobs by end-2020 just to maintain the current 25 per cent unemployment rate.

Ghandour has been a significant catalyst behind the early stages of multi-sector collaboration notably through the creation of WAMDA, an integrated platform that aims to accelerate enterprise ecosystems, and various related VC funds and ESG driven platforms. Even he is quick though to acknowledge that the tools for deep convergence in MENA are missing.

Various efforts have been made in the UAE to underwrite ecosystem development. In 2016, Emirates Foundation, the national foundation of the UAE focused on youth development, created a network to multi-sector actors interested in social impact. The Foundation also created a Social Enterprise award for budding social entrepreneurs. The network comprised law firms supporting HNWI, government agencies incubating start-ups, policy institutions interested in a draft law for social enterprise, angel investor networks, representatives from VC and other actors seeking better sectoral collaboration

and coordination. While the network was very positively received and participants were broadly committed to rendering the ecosystem more cohesive, a lack of dedicated resources or external enabling environment meant that traction was limited. Moreover, legal efforts to build a dedicated law were generally thwarted due to the complexities of building Emirate-specific laws rather than a federal-wide approach.

A few years earlier, champions of social enterprise launched the Social Enterprise Week – one of the very first efforts to build an enterprise ecosystem that united philanthropists, social entrepreneurs and more conventional financial institutions. This project also gained momentum and significant participation for a couple of years but failed to secure sufficient resource commitment to continue as a truly viable and sustainable entity. It did, however, lead to the birth of various dedicated initiatives including the C3 incubator, which received its own social enterprise certification with a Social Enterprise Mark. Its founder Medea Nocentini (2016) is keen to point out that there is some convergence on the impact continuum and that: "Investors in the UAE are sensitive to social enterprises' missions and goodwill. In every incubator, accelerator or VC portfolio you will find many social entrepreneurs." But she also notes that "funding opportunities solely dedicated to social enterprises are still rare."

One of the core challenges is the lack of a Social Enterprise law and the broader lack of legislation conducive to start-up enterprises. The UAE did not legalize bankruptcy until 2016 (Escritt & Craggs, 2017) – clearly an issue when seeking to deploy what is essentially high-risk capital. Some efforts are underway to improve the situation. The Pearl Initiative's Philanthropy Program promotes improved governance standards in the Gulf's philanthropic ecosystem and is supported by the Bill & Melinda Gates Foundation and the King Khalid Foundation in Saudi Arabia. Improved governance clearly goes hand in hand with better regulation and legislative frameworks. However, even this initiative is still in the very early stages of development and catering primarily to foundations rather than a broader impact ecosystem that spans the full impact range (see Figure 3 below).

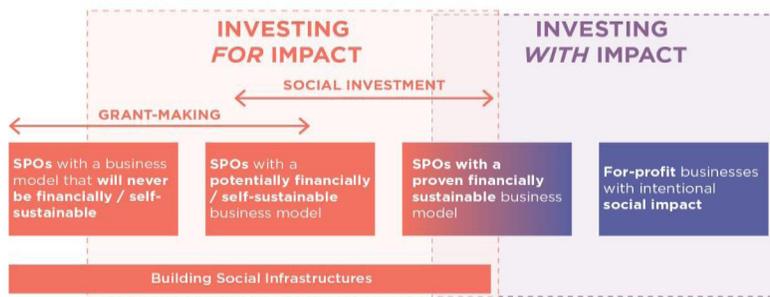


Figure 3. Adapted from: "Different types of business models for the two impact strategies" by A. Gianoncelli & P. Boiardi, 2018, EVPA. Retrieved from <https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-evpa-impact-strategy-paper>. Copyright 2018 EVPA

While some additional momentum is coming from conventional actors, it too is, in the main, relatively fragmented. The angel investor community in the UAE, as embodied by the Women's Angel Investor Network (WAIN) has helped build investor acumen in the social investment community. WAIN's work and notably the development of significant deal flow helped inform the creation of Mindshift Capital, a women-run venture firm investing in women-led companies. The founder of both, Heather Henyon, a former finance professional, has been particularly instrumental in connecting conventional finance with more developmental oriented initiatives. And while Mindshift is a commercial play, given its focus on female headed enterprises, it inevitably moves down the impact continuum since most of its investees are addressing significant regional social challenges that they have personally faced. Moreover, the nature of Mindshift's partners is such that they take an active, collaborative role in the growth of their portfolio companies and also contribute to the wider ecosystem with training for potential female angel investors.

Other investor networks sit further down the continuum. Dubai Angel Investors comprise experienced investors from the region and while not currently assessing social impact, are still contributing to a broader ecosystem since their members are mostly from the region with a direct interest supporting its development beyond purely financial gain.

Endeavour takes a more explicit approach to social impact and is a non-profit organization that support high-impact entrepreneurs. One of its founding board members Muna Al Gurg (2017) explains that its "beneficiaries are not run of the mill businesspeople but individuals

with the potential to become role models and inspire their colleagues and peers, and entire communities too...we seed young business leaders with the potential to transform the economy of entire nations." Endeavour too recognizes the importance of convergence. As Al Gurg (2017) notes: "In this increasingly capitalist world...let us not be applauded into thinking that personal gain is the only goal. Making a difference is about more than that."

Some regional actors have also been instrumental in adopting the innovative finance that accompanies hybrid funding models – the ultimate manifestation of convergence. The Magrabi Foundation for example, an active thought leader in the UAE although based in Egypt, was one of the first Arab foundations to launch a Development Impact Bond (DIB). Its Cameroon Eye Institute created a DIB which uses cross-subsidization pricing, high volume, and revenue diversification to provide quality cataract surgery to the poor.

Other entities are explicitly connecting the dots. Sheraa is an incubator established within an educational community that unites academia with start-ups, entrepreneurs and the conventional investor community. While its aim is to support young entrepreneurs, it has inevitably become something of a role for ecosystem-wide work and is now an advocate policy reform to support social impact and growth in the private sector. Its founder, Najla Al Midfa, embodies the hybrid model having worked in senior roles in both public and private capacities to promote enterprise and innovation for long-term system change. Sheraa's vision and mission are aptly aligned with the convergence goal: "Sheraa aims to cultivate a pipeline of future change makers by fostering a culture of experimentation

and critical thought... [and engages with the broader entrepreneurial community] ... to build a strong and globally connected ecosystem (Al Midfa, 2018)

While all these initiatives are commendable, they do not represent a fundamental institutional transformation that is guided and encouraged by government policy. Instead, they happen in isolation and in a random fashion that is driven by the passion and drive of the individual leading the organization rather than a system wide movement. As such they do not currently meld into a cohesive ecosystem nor do they generate the kind of economies of scale, co-investment and partnership opportunities that a truly converged sector might: as yet thus a hint of convergence rather than a systemic approach to building a robust impact continuum.

Ecosystem Convergence in Jordan

Jordan's experience of the impact continuum reflects that of the UAE despite, as mentioned earlier, very different socio-economic and political structures. It is broadly characterised by the efforts of individuals and specific institutions, rather than the result of a holistic policy that can create economies of scale, maximise social impact and sustainable system change.

Jordan is host to regional thought leaders in the space of social investment and philanthropy. It is the birthplace of the AFF, the first region-wide network of foundations and entities working in the third sector. The AFF itself has proven that multi-sector actors are willing to coalesce around a common cause with its Youth Coalition which aimed to unite foundations, impact investors, VCs, the private sector, academics, aid organizations and international NGOs to collaborate in the area of job creation with the ambitious goal of fast tracking SDG8 which aims at improving access to employment.

The AFF found that multiple organizations from multiple sectors were focused on job creation for young people. There was not, however a forum for them to share their experiences, cross fertilize projects and cross reference resources. Injaz for example, a locally based NGO, is doing excellent work to build young entrepreneurs and GroFin,

a social enterprise, is offering flexible and hands-on financial support for the country's Small and Medium Size enterprises.

But they are not intrinsically linked to each other nor to a broader ecosystem. The Youth Coalition aimed provide the 'glue' to link these actors and aim to avoid waste, deliver focused efforts and significantly increase impact. The Coalition gained initial traction with positive feedback from the market. However, in a move indicative of the broader external operating environment, the project was put on hold after project funding was delayed due to government intervention. Without supportive government policies that create incentives for collaboration, relying on individual-specific or institution-specific creating scalable outcomes will be hard.

Ruwwad for Development is another good example of private meeting public good. Inspired by Fadi Ghandour, this initiative also takes an ecosystem-wide hybrid approach. As Ghandour (2017) explains, "I became convinced that a different path is possible that we, business entrepreneurs, are capable of building a new paradigm of social engagement [which] brought me together with a group of like-minded Jordanian entrepreneurs to imagine a dynamic space that provides young people with the opportunities and tools they need...this initiative is rooted in the unshakable conviction that solutions to problems within a community can only be engineered by the active participation of its members [and]...sustained by the long-term strategic engagement of private sector entrepreneurs."

Ghandour embodies this form of private sector collaboration but too often, it is absent without this kind of individual leadership. Ruwwad has achieved significant results; its Micro Venture Fund is the first micro-equity fund supporting marginalized communities in Jordan and through joint funding initiative with the United National Development Program, provided microentrepreneurs with up to \$9,000 in equity, with the aim of creating three jobs per business. Within two years the program had launched 140 micro businesses in local communities creating 420 jobs and with 50 percent of the businesses showing positive cash flow from the first year of operation. Impressive results but sadly not nearly

enough to address Jordan's nearly 40% youth unemployment rate (World Bank, 2018).

Jordan does have a historically active private sector – no doubt more so than those of the GCC where public sector activity dominates. Indeed, the government has made moves to proactively support private investment notably with the creation of the Jordanian Investment Commission in 2014 and the Investment Window which promotes ease of doing business tools. However, Jordan like the UAE has yet to recognize social enterprises from a legal perspective and offers little therefore to encourage hybrid finance and investment for social impact.

Moreover, the third sector is heavily regulated and as the experience of the AFF has shown, challenged by a rather uncondusive governance framework.

As Halabi, Kheir and Cochrane (2017) explain in WAMDA's Social Enterprise Report: "Under the current legal system, societies (associations), closed societies (foundations) and private societies (non-profit companies) have to register with the Ministry of Social Development and are prohibited from pursuing any political agendas. In theory, they face no legal barriers to speech and/or advocacy, but in practice, vocal human rights organizations encounter government repression. Societies struggle when it comes to receiving foreign funding and collecting public donations." Such tight government control and restrictions do little to encourage the third sector nor to fuel convergence for more impact. This is particularly damning for a country that faces serious resource constraints given significant refugee immigration from Syria and Iraq. Overly arduous government monitoring is stymying efforts to source additional capital to finance social impact exactly at a time when the public sector is seeing spending budgets capped.

This approach belies the much more dynamic culture of the formal financial sector where innovation, dynamic youth leadership and global thinking have created some impressive financial institutions that could shine a light on hybrid models, bring a new level of business acumen to the third sector and deploy their expertise in value creation to philanthropic capital.

BeyondCapital is a case in point. It is a Jordanian entity that promotes the entrepreneurial ecosystem in Jordan through comprehensive support for entrepreneurs, finance entrepreneurs and angel investors. It leverages capital, expertise and access to go beyond pure finance to help foster ecosystem development. Indeed, it is itself an example of convergence since it is a JV between Endeavor Jordan, Silicon Badia and USAID which provided \$10mn in funding.

Jordan also continues to be a leader in VC. According to Venture Magazine (2019) it is driving a large part of the growth of VC in the region: Jordan "represents roughly two percent of the region's population... [but]... eight percent of startup investments last year registering an increase that was second only to Egypt's. Amman-based fund, Oasis500, was among the most active investors." Indeed, this dynamism has helped secure bilateral aid funding: "Jordan's leading regional position among early-stage investors owes, in no small part, to the strength of its funds," says Dr. Wissam Rabadi, Chief of Party of the USAID Jordan Competitiveness Program (JCP) which has worked with Oasis500 to boost the number and diversity of startups in its portfolio. The seed fund has launched 43 start-ups, attracting more than \$4 million in investment and creating 110 new jobs – again, not enough for scale or system change but with conducive government policies a potential catalyst for broader sector-wide impact. Jordan has also pioneered investor legislation with the ratification of new regulations operationalizing the 2018 Venture Capital Law which allows for the establishment of VC funds in line with international best practice and lower barriers to entry.

As in the UAE, Jordan has demonstrated pockets of excellence that bode well for convergence. However, further development is still stymied by an antiquated approach to third sector regulation. These significant and impressive havens of intelligence and innovation could provide strong inputs to a streamlined and effective impact continuum.

But they remain fragmented and isolated rather than part of a holistic comprehensive and approach.

PART THREE: POLICY IMPLICATIONS AND CONCLUSION

Notwithstanding the clear presence of progressive thinking, competitive talent and some sheer determination to make things happen, MENA still lags other developing regions where collaboration, co-investment and cooperation support convergence and greater impact from philanthropic funds and social investment. Using impact investing as a proxy for continuum convergence, this lack of traction is clear. While MENA's impact investing community is experiencing the strongest global growth of all markets surveyed by the Global Impact Investing Networks Annual Impact Survey with a CAGR of 43% its overall market share of impact assets under management is disproportionately small at 2% (Mudaliar et al., 2019).

Both impact investing and the growth of social enterprises are held back by what Paris and Abdo (2017) identify as three core issues: 1) Challenges related to policymaking and governance; 2) A need for greater institutional and operational support; and, 3) A lack of social and cultural awareness and recognition of their work. Applying these to the broader question of convergence and the impact continuum can help identify some potential solutions.

1. Policymaking and Governance:

No single Arab country has ratified legislation to support the construct of social enterprise despite numerous efforts – notably in Jordan and the UAE – to draft a dedicated law. According to Halabi, Kheir and Cochrane (2017), this lack of a conducive regulatory framework and the lack of expertise inside governments about the role, structure and purpose of social enterprises undermines impact.

Overly burdensome bureaucracy and interference on the part of government entities “can... provoke political sensitivities among government members, as enterprises are placing themselves in direct competition with public services or government-linked NGOs.” As a result, enterprises seeking to receive government approvals, especially in terms of establishing

NGOs, face “remarkably time-consuming regulatory requirements, which are often ad hoc, unpredictable and dependent on the arbitrary decisions of government bureaucrats (Halabi, et al., 2017)” It is also very difficult to establish a foundation in the Arab world with establishment criteria either merged or obfuscated by existing commercial or not-for-profit rules.

This lack of a conducive regulatory framework means that many social enterprises operate informally which further exposes them to regulatory scrutiny and ironically maligns their ability to support the very development agenda of the governments seeking to curtail their activities. Social enterprises face the same significant start up challenges as their commercial enterprises face and yet with the added challenge of having less access to capital (see Point 2 below) and less market acceptance (Point 3)

Some argue that in the absence of income tax in the GCC, dedicated legislation serves little purpose. However, this ignores the challenges of operating in a marketplace not fit for purpose. Even if social enterprises don't pay income tax, the added burden of delivering social impact above and beyond financial viability means they need to operate differently: they may want to hire volunteers, source grant funding through foundations, keep governance structures light and raise finance from the general public through crowdfunding. All of these are either not yet properly regulated in Arab markets or outrightly suppressed.

Specific Recommendations:

- 1. Develop a dedicated Social Enterprise Law for the Arab region**
- 2. Revisit current overly onerous supervision of philanthropic capital flows**
- 3. Facilitate the establishment of foundations entities with special fiscal status**

2. Institutional, Financial and Operational Support

The lack of finance is a core challenge that stymies hybrid models despite a growth in investment in the region as capital markets mature. It is a particularly consistent concern for social enterprises during the early stages of development. "Over two-thirds of the issues related to capital raised by SEs and SE support organizations have to do with financing and investor relations...SEs say that attracting institutional investors is an overly-complex process, because the latter are principally interested in return on investment rather than social impact, which a purely commercial enterprise is better suited to deliver. In turn, institutional investors want to see risk and return metrics, which less developed social enterprises have yet to develop. Ultimately, social enterprises looking to attract funding often try to sell social and financial metrics by promoting their scalability, precisely because the level of need in the region is so high (Halabi, et al., 2017)".

Like most start-ups, failure is often triggered by the lack of technical expertise. Dedicated incubators could support start-up social enterprises with technical skills and mentoring. While some incubators exist in the region, they are few and far between and often not linked to the broader ecosystem. The latter is poorly developed for conventional start-ups and hence even more challenging for social enterprises, many of whom may struggle to even open a bank account.

Similarly, bankruptcy laws in the region would help build risk appetite for investors and reassure formal bank and finance institutions that engaging with social enterprises is encouraged rather than feared by regional regulators. Sector actors also argue that there is a need to encourage risk capital through most sophisticated market structures and norms such as mature equity structures, vesting options and the like which are currently not the norm.

Only with further broader market maturation can the impact continuum emerge and bring with it a convergence of financial instruments, managed risk-appetite and opportunities for co-investment in social projects that goes beyond grant funding.

Specific Recommendations:

1. Facilitate bankruptcy across the region as a means of driving enterprise and innovation
2. Encourage governments to support the evolution of technical and operational infrastructure as exists in other markets*4, to developing metrics and funding options
3. Revise regulatory frameworks to de-risk start-up/philanthropy engagement with banks

3. Lack of Social and Cultural Awareness

Philanthropy in the region is indeed growing. The Kingdom of Saudi Arabia has ambitious plans for various global foundations with multi-million (if not billion) dollar budgets/endowments (anonymous interview, March 2019). Capital is coming into the sector and the disproportionately youthful population is well placed to provide a level of dynamism and entrepreneurialism that its 'boomer' predecessors may have smirched. Indeed, HNW philanthropists are still assessing how to move from old school 'spray and pray' grant disbursement models to ones where impact can actually be measured.

Building a cohesive policy framework, networks for collaboration and co-investment and addressing the current sectoral fragmentation created by institution and individual-centric philanthropic initiatives is still a big problem. And it is one where governments need to play a role. Currently regional governments remain much too wary of the opportunity that is the impact continuum. Philanthropic capital is still tainted

(4) Good examples in Europe and the US which the Arab world could replicate or scale up include Goodfinance.org.uk which helps improve access to information on social investment for charities and social enterprises, theimpactmanagementproject.com, thenavigatingimpact.thegiin.org and the UK's newly formed Impact Investing Institute, which serve a similar purpose helping to identify best practices for impact measurement and sector development.

with the crises of cross-border capital flows funding insurgence and opposition. International third sector capital funding regional not for profits is viewed with suspicion. Any kind of marriage between concessional and commercial capital is seen as subterfuge and a blasphemous attempt to use social investment as a mean to gain business advantage.

These perceptions and the lack of a conducive legislative and regulatory environment to support better and more flows of philanthropic capital and the emergence of hybrid models is significantly holding back social investment in the Arab world. This situation is further exacerbated by the reduction in public spending that is hitting so much of the Arab world as conflict continues to blight the region, military spending grows, and oil price volatility continues apace.

Even the oil rich Gulf states are imposing austerity on their public spending with even the reform-averse Saudi Arabia now driving progress based on the need to generate more private investment, stronger public sector revenues and a more productive labour force. Maturing and encouraging the growth of philanthropic capital and a more mature impact continuum can serve the region well. Why do governments still insist on restricting cross border investments when it comes to foundations and non-profits?

This limited understand of the opportunity of convergence and indeed of impact is perhaps the region's biggest challenge. While other more mature markets see impact as the end result – an outcome rather than a means to an end – in the region 'impact' is still often synonymous with the operational process of assessing program outputs rather than a broader terms describing a distinct, aligned sector that is increasingly a movement and even a community.

Regional practitioners and policy makers are still getting to grips with the swathe of terms and lexicon that afflict the sector most of which translate poorly into Arabic. As one participant at a recent workshop on impact organized by the Asia Venture Philanthropy Network (AVPN) and held in Dubai, remarked: "Impact is still seen as Monitoring and Evaluation and not as

a broader ecosystem. Impact investing is still an abstract buzzword with people only now starting to grasp concepts such as a Theory of Change." The same individual added that during a recent workshop in the Gulf, "Participants were struggling to define inputs...we never got to outputs, let alone outcomes!"

This situation is a far cry from the pioneering work happening globally where large institutional investors such as L&G, Schroeders, UBS and BlackRock are creating impact funds and sending impact investing mainstream. As Cliff Prior (2019), the CEO of Big Society Capital, explains: "If surveys are to be believed, almost two thirds of adults in the UK would like to invest and save their money in line with their values". He also notes that a recently published survey by the UK Government Department for International Development (DFID) showed that seven in ten people say they want their savings and investment to avoid harm and achieve good for people and the planet (DFID, 2019)

Asset managers are also increasingly engaged in the conversation with alternative asset managers such as Resonance helping to bridge their conventional counterpart with pioneering social investors. France – a little recognised early pioneer of this trend – has had very significant success with this model and 1.2 million (5) French citizens now opt for "Fonds de Solidarité" (Solidarity Funds) which unite financial resources with needy communities with little or no access to welfare), equating to over Euro 10 billion in impact investing. Such phenomena are little known or understood yet in the region and yet provide an excellent opportunity for MENA to leapfrog legacy systems and scale up proven global structures and vehicles to accelerate both convergence and a radical improvement in social impact.

(5) Cited by Cliff Prior, CEO of Big Society Capital, at 4-5 December Impact Investing Conference, London, UK

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