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# Unleashing the power of the social enterprise sector in Saudi Arabia

**منشآت**  
monsha'at  
الهيئة العامة للمنشآت الصغيرة والمتوسطة  
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## ABOUT THE AUTHORS

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**Esam S. Althukair** is the Vice Governor of Entrepreneurship at Monsha'at, the Small and Medium Enterprises General Authority. He is in charge of three departments: the Hubs Department, the Innovations Department, and the Planning Department, which includes culture, women entrepreneurs, and social entrepreneurship. He has more than 17 years of experience in the banking, entrepreneurship, and investment sectors.

**Mohammed A. Alariefy** is the General Manager of Entrepreneurship Planning at Monsha'at. He leads the effort to create projects that will enable key entrepreneurship ecosystem players to develop entrepreneurship mind-sets and ensure entrepreneurial culture awareness in Saudi Arabia, with a focus on including women entrepreneurs and social entrepreneurship. Previously, he worked for global consulting firms advising leading corporate and government organizations, where he led strategy formulation and solution implementation.

**Ashymaa A. AlJalal** is a Social Entrepreneurship Specialist at Monsha'at. She has developed a robust suite of programs that contribute to promoting a vibrant social enterprise ecosystem in Saudi Arabia. She has been working in the entrepreneurship field since she started her career and gained her experience as a business developer, analyst, and project manager in the private, not-for-profit, and government sectors.

Rabih El Chaar, formerly of Strategy&, also contributed to this report.

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## EXECUTIVE SUMMARY

**Saudi Arabia has embarked on an extensive program of economic transformation through its Saudi Vision 2030 development plan. As part of Saudi Vision 2030's goals, the country aims to boost entrepreneurship, promote the founding of more small and medium-sized enterprises (SMEs), and support the development of the not-for-profit sector. A promising way to reach these goals is to encourage the social enterprise sector. This sector sits between philanthropy and private enterprise, using commercial methods to address social needs in innovative, financially sustainable ways.**

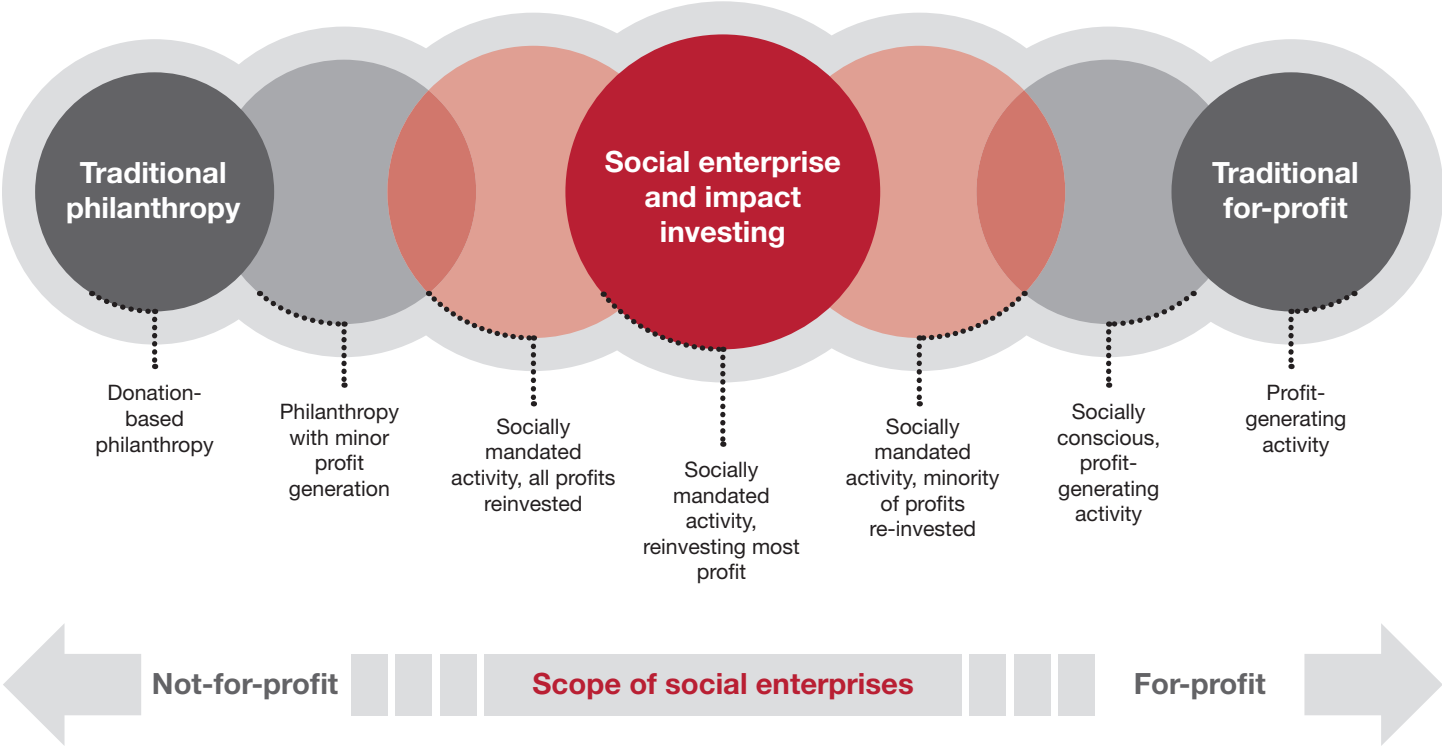
In developed economies, the social enterprise sector leads to economic activity. In the U.K., the social enterprise sector accounts for 3 percent of GDP.<sup>1</sup> Globally, social impact investing was worth US\$502 billion by the end of 2018, according to the Global Impact Investing Network.<sup>2</sup> Although the social enterprise sector is in its infancy in Saudi Arabia, it presents a significant opportunity. We estimate that financially sustainable social enterprises in Saudi Arabia could contribute an additional 2.5 percent to GDP per year and create more than 250,000 jobs by 2030.

To promote the social enterprise sector, the government should create an ecosystem in which these kinds of organizations can thrive. This means clearly defining social enterprises, and understanding their challenges and their need to be financially sustainable. The government can provide support in five areas that will enable people to start social enterprises, grow them, and then scale them up: awareness and promotion, infrastructure, funding, access and networks, and education and training.

# SOCIAL ENTERPRISES AND THEIR GLOBAL IMPACT

The social enterprise sector has had a tremendous impact globally over the past 20 years. The sector has led to appreciable economic gains and employment in multiple developed economies such as Singapore, South Korea, the U.K., and the United States. Social enterprises straddle the line between philanthropic pursuits and for-profit private enterprises. They make use of commercial methods to address social needs in innovative, financially sustainable ways (see *Exhibit 1*).

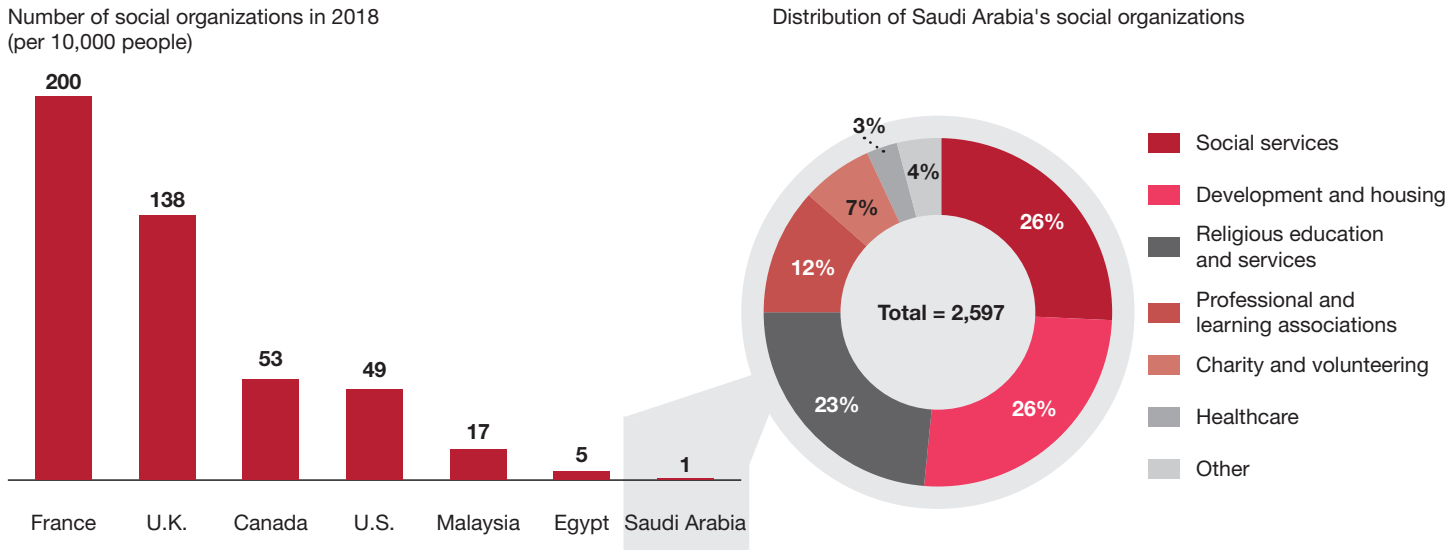
**EXHIBIT 1**  
**The spectrum of enterprise**



Source: Reproduced with permission of Ethmaar International and Tasamy for Social Entrepreneurship; Strategy& analysis

Although the social enterprise sector is just starting in Saudi Arabia, it holds enormous potential. At present, there are few financially sustainable social enterprises operating in Saudi Arabia. Indeed, the same applies to not-for-profit social organizations more generally. There is just one not-for-profit social organization per 10,000 people in Saudi Arabia compared with around 50 in Canada and the U.S., and 200 in France<sup>3</sup> (see *Exhibit 2*).

**EXHIBIT 2**  
**Saudi Arabia has room for growth in social organizations generally**



Source: "Saudi Nonprofit Trends Report 2018," King Khalid Foundation, 2018; Ministry of Labor and Social Development NGO database

The economic potential of social enterprises is clear from the experience of developed economies. In the U.K., the social enterprise sector contributes 3 percent of GDP and accounts for 5 percent of the labor force.<sup>4</sup> The sector also empowers women, with women leading 38 percent of social enterprises in the U.K., compared with 19 percent of SMEs and 3 percent of the top 100 companies on the London stock exchange in 2015.<sup>5</sup> Based on the experience of developed economies, we estimate that if Saudi Arabia were to properly promote and support the social enterprise sector, it could contribute an additional 2.5 percent to GDP per year and create more than 250,000 jobs by 2030. The result would be a wealth of organizations that can deliver services in such sectors as education and healthcare in a more efficient and inclusive manner than the government.

Moreover, the development of a thriving social enterprise sector could set an example for other Middle East countries and beyond, influencing how they address social needs. Saudi Arabia is the largest economy in the Middle East with a GDP of \$793 billion in 2019, and plays a central religious role among Muslim countries as it is the site of Islam's two holiest shrines.<sup>6</sup>

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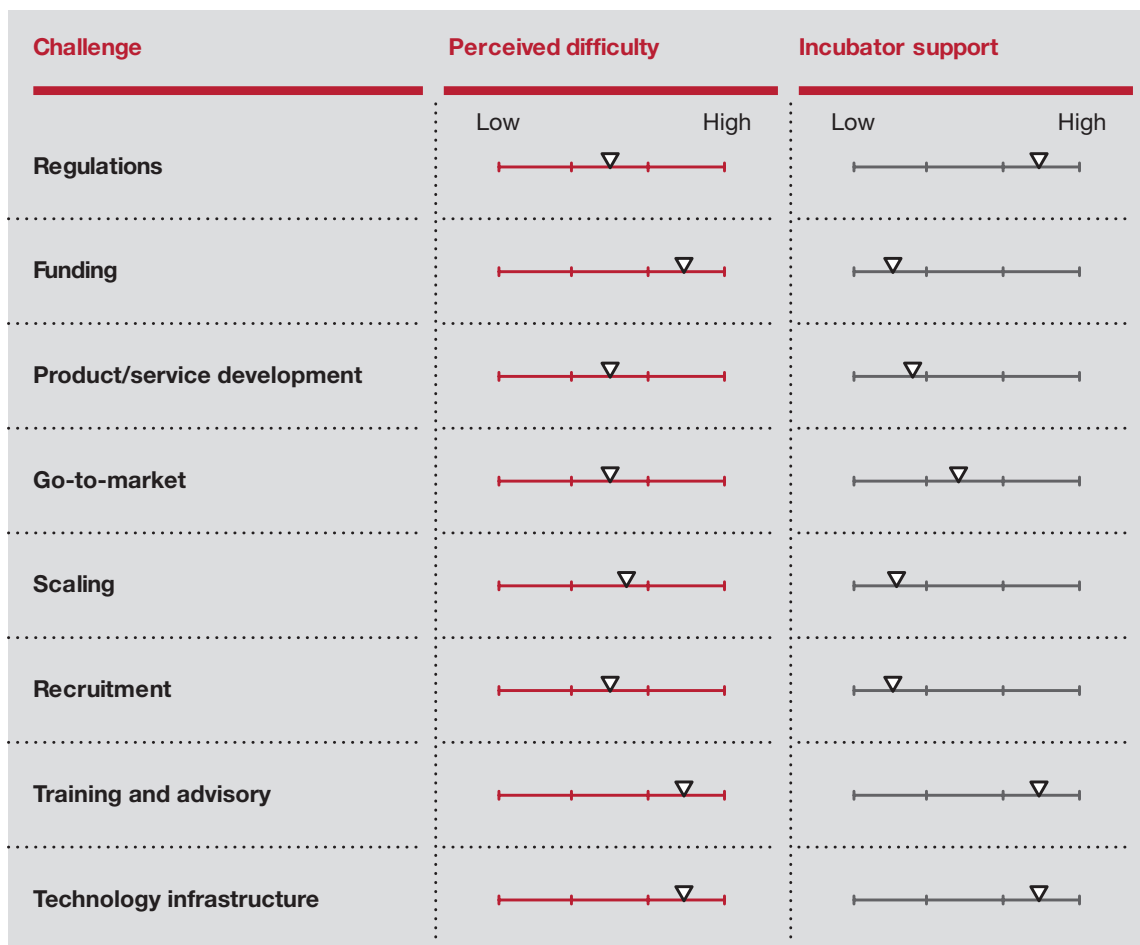
## UNDERSTANDING THE NEEDS OF SOCIAL ENTERPRISES IN SAUDI ARABIA

Social enterprises exist to meet social needs. At present, there are few Saudi social enterprises that are financially sustainable. They are active mainly in the provision of housing, religious concerns, and social services. However, these are just a handful of the areas of potential operation for social enterprises. The social needs that social enterprises can help to meet fall into seven main categories, according to Monsha'at:<sup>7</sup>

1. **Social services:** This involves providing services to society's vulnerable segments (e.g., the elderly, orphans), emergency and rescue services, or subsidies and other support for existing services
2. **Healthcare:** This involves running hospitals, medical centers, rehabilitation centers, alternative medicine centers, and health emergency services
3. **Education and research:** This includes support programs to improve education attainment, and academic research into social enterprise issues
4. **Environment:** This involves organizations active in pollution prevention, environmental sustainability, and nature conservation
5. **Religion:** This involves upkeep for mosques, supporting Quran study associations, and providing assistance to pilgrims visiting Saudi Arabia for the Hajj and the Umrah
6. **Development and housing:** This involves economic development; vocational training; and housing support, maintenance, and operations
7. **Culture, sports, and entertainment:** This involves promoting and funding the arts and culture sectors, enabling people to participate in sports and entertainment<sup>8</sup>

Before Saudi Arabia can have an ecosystem of social enterprises able to provide these services, it is important to understand the current state of social enterprise sector development and the challenges these organizations face. Strategy& and Monsha'at, the SME-focused authority under the Ministry of Commerce and Investment, therefore conducted a survey in March of 2019 of 34 government bodies and people who identify themselves as social entrepreneurs. We found that in Saudi Arabia most social enterprises are in the early stages of development and are not financially sustainable. Survey respondents told us that the greatest challenge is the lack of regulations. They also cited other significant challenges to unlocking the sector's potential: ambiguity of legal structure, lack of funding, and difficulty in talent recruitment and retention (see *Exhibit 3*).

**EXHIBIT 3**  
**The social enterprise ecosystem in Saudi Arabia faces funding, regulatory, and training challenges**



Source: Monsha'at and Strategy& survey



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## GROWING THE SOCIAL ENTERPRISE SECTOR IN SAUDI ARABIA

The government should encourage “developers” to take the lead in fostering the sector’s health and viability. For example, in the U.S. the Social Enterprise Alliance acts as a developer by fostering a supportive environment and encouraging investors to finance social enterprises, as does its British equivalent, Social Enterprise UK. These bodies also actively promote social entrepreneurship, connect social entrepreneurs to investors, and advocate for social entrepreneurship with policymakers.

In Saudi Arabia, such developers could include existing incubators and accelerators. Monsha’at can play the role of supporting sector promotion, capability building, financial support, and research and advocacy. Although developers play a vital role nurturing the sector every day, the government also needs to adopt a development strategy with a clear set of objectives, focusing support on five areas to help social enterprises start, grow, and scale up: awareness and promotion, infrastructure, funding, access and networks, and education and training.

### 1. Awareness and promotion

The government and the private sector should collaborate to raise awareness of the sector and explain its unique business model. A critical part of this involves defining social enterprises clearly to avoid confusion and encourage participation. Social enterprises can be difficult to understand because they straddle the line between traditional philanthropic pursuits and for-profit private enterprises.

An organization is a social enterprise if it meets the following criteria:

- Aims for financial surpluses after accounting for all revenues and costs, irrespective of whether it is a for-profit or a not-for-profit enterprise (see “*For-profits versus not-for-profits*,” page 8).
- Prioritizes a social need as its core business aim over maximizing profits
- Adopts socially innovative business models that improve efficiency, effectiveness, and inclusiveness

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# For-profits versus not-for-profits

Social enterprises always serve a socially conscious goal in an innovative and financially sustainable way. The selection of business models to achieve that goal is varied, ranging from what looks like a traditional not-for-profit to a publicly traded company with shareholders. One example is Aravind Eye Hospitals, founded in India in 1977 to eradicate cataract-related blindness. Cataracts were a major source of blindness in India, with at least 4 million cases reported every year.<sup>9</sup> Aravind Eye Hospitals is organized as a not-for-profit enterprise. It achieves financial sustainability with a cross-subsidization business model. It uses profits from treating affluent patients to fund treatment for low-income patients. There have been 56 million outpatient visits, and the hospitals have undertaken over 6 million surgical interventions since the organization's inception.<sup>10</sup>

Other social enterprises have a structure that resembles for-profit companies, with shareholders and distributed profits. Etsy, for example, is an e-commerce website that focuses on selling handmade, artisanal, and vintage items. It aims to build a sustainable supply chain and inclusive marketplace. It was founded in 2005, became B-certified<sup>11</sup> in 2012 when it had \$195 million in revenues and was running a loss, and then went public on the NASDAQ in 2015. Etsy now has a market capitalization of \$6 billion, \$548 million in revenues in 2019, and 874 employees.<sup>12</sup> Another example is Laureate Education, which was founded in 1999, became B-certified in 2014 with \$4 billion in revenues, and was running a loss. The company went public on the NASDAQ in 2017. Laureate Education now has a market capitalization of \$4.4 billion, \$2.4 billion in revenues in 2019, and 60,000 employees.<sup>13</sup>



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Although developers play a vital role nurturing the sector every day, the government also needs to adopt a development strategy with a clear set of objectives.

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Awareness and promotion activities include running marketing campaigns, boot camps to teach and sharpen software skills, and competitions such as hackathons in which computer programmers and others involved in software development collaborate intensively to solve problems. For example, the U.K.'s Social Saturday promotional campaign, which ran from 2014 to 2017, increased public awareness of social enterprise as an activity.<sup>14</sup> In Saudi Arabia, Monsha'at could launch media campaigns to raise awareness and cooperate with prominent social enterprise advocates to introduce awards for top social enterprise startups. Such campaigns could also help with talent acquisition and retention by alerting people to careers in the social enterprise sector.

## **2. Infrastructure**

Social enterprises need supporting infrastructure in terms of technology, physical spaces, and laws. Social enterprises require robust connectivity and proper cybersecurity if they are storing information about welfare cases. Another infrastructure requirement is the right working environment in which to thrive. This can mean flexible working facilities, such as co-working spaces,<sup>15</sup> along with incubators and accelerators.<sup>16</sup>

The government also needs to draft appropriate and flexible regulations to provide the framework for social enterprises and enable them to grow. This includes the right legal framework in terms of accreditations, intellectual property protection, and copyright laws. For example, accreditation has been effective at creating credibility among social enterprise sector participants. In the U.S., B Lab certifies that social enterprises are correctly balancing profits and social purpose.

The U.S. also has specialized incubators and accelerators dedicated to training and mentoring social enterprises. CivicX, for example, provides 10 weeks of mentoring, peer support, entrepreneurial education, and investment. It invests \$50,000 per enterprise either in equity or through a revenue-sharing agreement. Since its founding in 2012, CivicX has graduated 135 companies that serve 5.3 million people. These organizations have had 154 percent increases in revenue overall, 109 percent rises in philanthropic revenues, and an 80 percent growth in for-profit investment.<sup>17</sup>

## **3. Funding**

Adequate funding is absolutely critical for social enterprises. This funding includes private-sector grants, donations, sponsorships, and public-sector subsidies and tax exemptions for organizations at all stages of growth. In this area, Monsha'at can cooperate with private incubators and investors, along with government funding programs, to allocate specialized resources and finance to social enterprises.

In countries such as the U.K. and the U.S., specialized social impact investors have successfully used a range of investment instruments such as equity, debt, convertibles, social impact bonds (SIBs), and blended financing. SIBs were introduced in the U.K. as a way for investors to pay for a project at the start, and then receive payments based on the project's results. These countries also have popular crowdfunding platforms that social enterprises use to raise funds. For example, Kickstarter raised \$4.8 billion between 2009 and early 2020.<sup>18</sup> Although not solely focused on social enterprises, these platforms are potent fund-raising channels as they attract considerable Internet traffic.


#### 4. Access and networks

Social enterprises need access to data and research, market intelligence, and customers. They also require a network of support organizations and partners for education, funding, and promotion. Most countries with a robust social enterprise sector have a government or private organization that takes the lead in facilitating this access and networking (see *Exhibit 4*). For example, the Singapore Centre for Social Enterprise (raiSE) supports social enterprises through provision of funding, promotion, networking, and training. It also sets best practices for all participants in the social enterprises ecosystem. In Saudi Arabia, Monsha'at could play this role by taking advantage of its existing network of stakeholders and other players.

#### EXHIBIT 4

#### Social enterprise sector developers are generally government or not-for-profit organizations

Country	Name	Established	Type	Mission
U.K.	Social Enterprise UK	2002	Private, community interest company	National body for social enterprises
U.S.	Social Enterprise Alliance	1998	Private	Catalyst for the development of the social enterprise sector
Singapore	Singapore Centre for Social Enterprise (raiSE)	2015	Private	Sector developer and membership body for social enterprises
India	Ministry of Micro, Small and Medium Enterprises	2007	Government	Promotes growth and development
Malaysia	MaGIC Malaysian Global Innovation and Creativity Center	2013	Government (part of the Ministry of Entrepreneur Development)	Builds a sustainable entrepreneurship ecosystem
Egypt	Realizing Innovation through Social Entrepreneurship (RISE)	2013	Private	Research and practical support

 Entities with oversight of the whole entrepreneurial sector

Source: Strategy& analysis

#### 5. Education and training

Education and training are vital as they help social enterprises to improve skills and build commercial, financial, managerial, and technical capabilities. Among the organizations that can help social enterprises are universities. They can institute specialized curricula and centers that can equip students with social entrepreneurship and social impact skills. For example in the U.S., the Center for the Advancement of Social Entrepreneurship at Duke University offers specialized courses on social entrepreneurship. The center also serves as a hub for research and practitioner engagement with a specific focus on social entrepreneurship.

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## CONCLUSION

Social enterprises can play a key role in achieving Saudi Vision 2030 objectives because they can promote economic activity and employment in areas such as education, the environment, healthcare, and social services. Although the number of social enterprises in Saudi Arabia is small, with the right attention and support this core group can expand quickly and set an example for the entire GCC region and beyond. Monsha'at is well positioned to cooperate with private incubators and investors, and government funding programs, to support sector promotion, capability building, financial support, and research and advocacy.

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## ENDNOTES

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