SOCIAL ENTERPRISE DEVELOPMENT IN THE MIDDLE EAST AND NORTH AFRICA

A Qualitative Analysis of Lebanon, Jordan, Egypt and Palestine
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The field of social enterprises in the MENA region is burgeoning. Socially conscious, active and spirited entrepreneurs are finding new and innovative ways to break into the social sphere and change the rules of the game across different sectors. Unsurprisingly, this development is also accompanied by the trials and prospects particular to operating within and across geographies. Many of the challenges social entrepreneurs face are similar to those encountered by strictly commercial entrepreneurs: market structures are anything but transparent and the ease of doing business is hampered by bureaucratic intransigence surrounding registration, licensing, starting a business and enforcing contracts. However, social entrepreneurs face a whole set of additional challenges, conditions and opportunities, which are unique to enterprises looking to make a positive social change in the region.

PROFILE OF THE SOCIAL ENTREPRENEUR

There are some remarkable commonalities among social entrepreneurs in the MENA region. Firstly, they are overwhelmingly young, ambitious and male, with over 70 percent of those interviewed under the age of 35 and only 28 percent female. These entrepreneurs typically formulate their ideas for a social enterprise during some form of engagement with community problems or as a result of personal experience or affliction caused by a social problem they seek to address. Entrepreneurs also predominately come from middle to upper socioeconomic backgrounds, which provides them access to tertiary levels of education, something which other studies on social entrepreneurs in the region have also concluded. In fact, 81 percent of the entrepreneurs who participated in this study have attained graduate degrees and many meet during their studies.

The founders of social enterprises are also personally and financially committed to their goal of realizing social change. This study found that it was customary for founding members to commit much of their time and personal savings to start up a social enterprise, without receiving any form of compensation. Indeed, at start-up a total of 36 percent of social enterprise founders had committed their own money to fund the initial phase of building a business.

CONCEPTUALIZATION OF SOCIAL ENTERPRISES

Social entrepreneurship is a fluid and rapidly evolving concept that is continually adapting to fit the market landscape in which it operates; the MENA region is no different. As such, the enterprises that participated in this study also define the concept along a spectrum: at one end, there are those that define the social enterprise as a purely commercial entity, which is profit driven and solely accountable to its shareholders. On the other end are non-profit actors who are almost exclusively concerned with addressing a particular social ill and are accountable only to their donors.

Between these two conceptual poles lie several common themes which help to frame how social enterprises are being conceptualized and shaped in the region. Three broad categories were identified: Embracive actors, those who identify the social enterprise as a broad concept encompassing outfits that contain commercial elements and seek to address a social ill; Restrictive actors, which place specific conditions on what qualifies as a social enterprise; and Rejectionist actors, or those that reject the concept of the social enterprise altogether.

In regards to the wider population, study participants felt that there is relatively low awareness of the social enterprise concept outside of the ecosystem in their respective countries. The main reason cited was limited access to the ecosystem, particularly because it presently caters to persons who reside in urban centers and have access to education and foreign language skills.
SOCIAL IMPACT

Social enterprises comprise an element of social impact, and all study participants agreed that this is what differentiates them from purely commercial endeavors. However, disagreement reigns over what qualifies, and how, as having a positive social impact. At the core of this division is the difficulty differentiating between a social impact and the ‘positive’ effect that all enterprises inherently possess by of generating income and employment within the communities where they operate.

Yet, it is evident that measuring social impact is important to social enterprises. Some 63 percent of study participants measure social impact in some form, while 14 percent say they are starting to measure their impact. However, systematic and institutionalized reporting and monitoring of social metrics is not prevalent among social enterprises. This is in part due to a lack of consensus over what to measure, due to divergent and subjective interpretations of what constitutes impact. And while both large and small social enterprises understand that publishing results of social impact to enhance credibility as a business, they tend to focus external communications on targeting customers through public relations material rather than publishing results, particularly financial outcomes.

What is more, social impact metrics employed by social enterprises overwhelmingly betrayed a total lack of understanding of what in fact constitutes impact. When asked how they measure impact, interviewees’ descriptions focus on measuring outputs and outcomes, rather than systemic change over a sustained period of time. In addition, the majority of participating social enterprises have not had the time to achieve the scale required to affect systemic change, which could constitute impact. In fact, just over a quarter (26 percent) of SEs identified in the region during this study have existed for over five years.

Collection and measurement of impact among social enterprise support organizations that participated in this study was generally more meticulous and systematic. Typically, regional support organizations employ a series of key performance indicators that they can use to measure success, such as the number of enterprises graduated from their different programs or total funding amounts raised for supported SEs. However, the main driver for this impact measurement was not an innate understanding of the need to report impact, but rather that donors want to see evidence of impact on the entrepreneurial space.

INCEPTION & REGISTRATION

During the start-up phase, social enterprises make key decisions about structuring their business models and, in turn, how focused these models are on the social and financial sides of their business. One of the first major hurdles during establishment is developing an intricate understanding of the social issues that participating enterprises seek to address. According to these enterprises, this process begins with defining the scope of the problem they wish to address and then engaging the community or target market to integrate their offering with the needs of the latter.

This process also entails that social enterprise research their market and targeted social problem. The amount and form of research conducted is generally indicative of how well business models fit the market landscape. Our study found that the research process is also gradual: some 23 percent of interviewed SEs engage in preliminary research and subsequently launch their business model as a pilot project, before re-developing their model. That said, an over-reliance on secondary sources is regarded as ultimately problematic, since for many sectors/social issues across the region, secondary information is not readily available. As such, enterprises looking to penetrate a market sometimes need to engage in costly and time-consuming primary research for which they lack resources.

Over 70% of those interviewed were under 35 years old, only 28% were female.
Since there is no legal registration status for social enterprises in the region, entrepreneurs tend to choose either the easiest (least bureaucratic) or the cheapest (lowest starting capital) options for registration. The ease of establishing either an NGO or a commercial enterprise varies from country to country in terms of cost and procedures, but companies appear to be the preferred form of registration. In fact, a total of 86 percent of those interviewed registered their organizations as companies, 59 percent of which favored the limited liability company.

In terms of governance, most regional social enterprises and support organizations – 68 percent of study participants – have instituted a board of directors (BOD). During the inception phase, the first BOD is usually composed of initial co-founders and primary employees. At this stage, in order to develop the different business functions and generate sales, social enterprises are heavily reliant on the knowledge, decisions, personal connections, efforts and networks of their BOD.

In general, social enterprises and support organizations view the for-profit business models as more sustainable and flexible, mainly because non-profit models are necessarily dependent on donor agendas, which are neither constant nor reliable.

**SUSTAINING THE ENTERPRISE**

As social enterprises develop past the start-up stage they experience many of the same challenges in becoming sustainable as traditional companies. The greatest challenges that social enterprises say they face concern financing and regulation (27 percent of participants).

Funding, in particular, poses a consistent concern for social enterprises, especially during early stage development. Indeed, over two-thirds of the issues related to capital raised by SEs and SE support organizations have to do with financing and investor relations (67 percent). Many of the interviewed 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.

The disinterest displayed by many institutional investors also pushes social enterprises to seek out donor funding, even if this funding is driven by donor agendas and timelines, rather than the growth plans of enterprises. Interestingly, rejectionist social enterprises have managed to secure institutional funding and engage in equity financing (43 percent) more than their restrictive (28 percent) and embracive counterparts (29 percent). This creates a conundrum for social enterprises, because it indicates that the more an enterprise focuses on the financial side of their operations, rather than placing weight on social impact, the more likely they are to attract institutional investment.

Partially as a result of institutional investor disinterest, social enterprises across the region turn to donor funding as a major revenue source. Funds available for organizations working on social ills are dominated by different types of donor organizations in each locale, including international agencies and companies engaged in corporate social responsibility. The manner in which donors allocate funding, however, creates sustainability issues, as it often comes in the form of short-term project funding, which constitutes revenue rather than investment. In turn, social enterprises say they must focus on donor agendas and relatively quicker outcomes to attract liquidity, rather than investing time and resources into longer-term sustainability,
performance, efficiency and scalability planning. Indeed, donor funding was the main source of revenue for 36 percent of interviewed social enterprises, which is almost equal to the number who depend on institutional investment (37 percent). Comparatively much smaller, only 14 percent of SEs mention corporate social responsibility (CSR) as a source of donor revenue. SEs generally feel that the nascence of CSR in the region contributes to the financing segment’s prioritization of public relations outcomes over investment in social impact.

As social enterprises develop, they rely less on funding and more on reinvestment of profits. With only one exception, participating SEs have not yet reached the stage of paying out dividends to shareholders, instead prioritizing the reinvestment of profits into the business. Indeed, reinvestment is common to all study participants and constitutes the main financial tool for growth (42 percent), followed by grants (30 percent) and equity financing (16 percent).

Likely due to the nascence of the social enterprise sector in the region, over two-thirds of participating SEs did not have financial projections for past financial periods (68 percent). For SEs that do devise measures of financial success, their first and primary objective toward sustainability is to achieve a positive cash flow. Once this has occurred, SEs begin to display greater maneuverability in allocating resources to different aspects of their business. Of participating SEs which did devise projection targets, around 70 percent were meeting them for years past (See Figure 17). This indicates that once SEs are at a level where they can start to predict cash flow from operations, they are also generally able to plan ahead and achieve their goals.

From an organizational perspective, as the social enterprise grows, a separation of responsibilities takes place. This process generally takes place in tandem with greater specialization of staffing, meaning recruitment moves away from general to specialized positions befitting a more structured organization. However, across all countries and sectors, enterprises say they maintain flat and loose organizational structures during the start-up phase. As they enter the growth and sustainability phases, these enterprises say they attempt and largely succeed in maintaining loose structures at the management level.

That said, one of the greatest challenges facing SEs in their development is attracting the right kind of human resources. Participating SEs say they often do not possess the resources to invest in expanding human resource capacity to operate at scale. At the same time, SEs and support organizations feel there is a generally low supply of expertise, such as practical, soft and on-the-job skills. As a result, SEs feel they often lose out to multinationals who can afford greater compensation.

Accordingly, social enterprises that took part in this study adopt a variety of strategies to deal with human resource shortages. For one, several SEs rely on more casual labour, such as project-based staff or consultants. To counterbalance the compensation power of multinationals, social enterprises adjust their hiring packages to offer prospective team members incentives such as stock options or even equity. Finally, social enterprises also hire lower skilled and cheaper labor, in order to train them up to the required level, even if the results are not always as desired.

INNOVATION & DISRUPTION

Social enterprises say they face a constant uphill struggle to transform entrenched cultures and practices in their respective fields or sectors. This resistance to change comes in many shapes and forms, such as local communities, in which social problems exist lacking access to information, as well as alternative, innovative and more efficient modes of value production, to online adoption issues with regard to payments. In fact, the
The process of disruption – i.e. the attempt to alter the manner in which challenges facing society are addressed – initially constitutes awareness raising, as SEs say they need to address lifestyles issues, in order to make social impact. Across sectors and countries, SEs describe low community awareness of the need to tackle a pressing social problem and the strategies put forward by SEs. As a result, SEs express frustration with their operating environment, because a lot of effort goes into re-education along the value chain of their industries, during which income generation suffers.

To affect and change attitudes, social enterprises rely on providing consumers or beneficiaries with innovative products and services. Overwhelmingly, however, the innovative element common to SEs concerns their business model rather than their product, with over two-thirds (68 percent) of interviewed SEs saying they have innovative business model rather than an innovative product. These models commonly occur in two major forms: either social enterprises from different sectors employ international business models that have proven viable elsewhere and tailor them to a local context, or they take local business models and built innovations on top of them, such as across industry value chains. The one-third of participating SEs which engage in home-grown research and development are perhaps the best examples of how SEs can make a qualitative difference in their sectors. SEs which create their own technologies and replicate them in their markets are noticeably more successful, due to the fact that their products and models are specifically tailored to target markets. These enterprises also claim that their operating costs are lower, because they do not have to pay premiums to purchase finished products from suppliers.

Continuous innovation among social enterprises is also driven by the need to consistently adapt business models through feedback loops. While participating social enterprises do use feedback from clients to drive improvements, very few commit resources to institute formal feedback mechanisms, which could streamline the information flow from stakeholders back into their enterprises. Indeed, much of the feedback SEs receive arrives in the form of qualitative information, and only online enterprises describe having the innate capacity to collect information in the form of quantitative or multi-stakeholder evaluations.

**REGULATION**

Among the many challenges facing social enterprises, the level of government bureaucracy and interference is certainly one of the most pertinent. Because enterprises are dealing with social sectors and reform, which is the purview of government, many need to engage with state institutions on a regular basis. According to social enterprises, this can in turn provoke political sensitivities among government members, as enterprises are placing themselves in direct competition with public services or government-linked NGOs. Thus, enterprises seeking to receive government approvals, especially in terms of establishing NGOs, face numerous hurdles. These can manifest in remarkably time-consuming regulatory requirements, which are often ad hoc, unpredictable and dependent on the arbitrary decisions of government bureaucrats.

In addition to regulatory stumbling blocks, social enterprises that are potentially disruptive to their industries often operate in contexts where regulatory frameworks are outdated or non-existent. As a result, such enterprises often commence operations informally or while attempting to acquire licensing that is not specifically suited to their operations. However, this practice exposes them to regulatory scrutiny and potential harm. Such is the case for SEs in general because the region lacks any kind of legal structure or tax incentives suited to the SE segment. In turn, enterprises face the same regulatory requirements as commercial enterprises or NGOs, without the attendant privileges.
Like social enterprises globally, SE support organizations are relatively new to the MENA entrepreneurship support ecosystem. According to support organizations interviewed for this study, the focus on SE development is one of the more recent additions to many organizations’ support portfolio. Yet, these same support organizations say that their experience working with start-ups has permitted them to transition to working with social enterprises that face many of the same challenges.

However, support organizations bemoan that outreach to new potential social entrepreneurs remains an obstacle, as they have trouble communicating principles of entrepreneurship – let alone social entrepreneurship – to young people before they enter the job market. Furthermore, support organizations also feel that the ecosystem remains generally restricted to population segments, who can access their support – generally those with access to higher education and foreign languages. Once inside the ecosystem, support organizations say it takes social entrepreneurs considerable time to gauge and assess the types of support available to them.

Support offered to SEs by support organizations typically fall within three loose phases: first, start-up support helps new social enterprises develop their business models and prototype; secondly, incubation and acceleration help to transform prototypes and business models into minimum viable products; and finally, funding support either directly or indirectly facilitates access to funding or financing networks.

All of this support is time bound, albeit by different criteria depending on the kinds of programs on offer. While there is no standardization, social enterprise support organizations claim to be inclusive in their selection, at least in the earlier stages. Moreover, depending on the program support type, social enterprise support organizations screen entrepreneurship candidates in different ways. Staff at these organizations say that candidate assessment ranges from a day for basic training courses to months for mentorship and growth stage acceleration.

Social enterprise support organizations themselves face many of the same issues that SEs do with regard to registration and the nature of donor financing. In fact, SE support organizations, who participate in this research, say that they tend to have rather rigid support structures dictated by donor funding requirements, as well as monitoring and evaluation processes.

According to support organizations, the main support mechanism that requires development is adequate funding for SEs, particularly during the start-up phase. Support organizations say that very few venture capital firms or institutional investors will consider dealing with SEs during early stages. Sector-specific support is another area that receives insufficient focus, specifically in terms of structuring a sector-specific business, due to different legal, regulatory and technical requirements. This is, however, being addressed to some extent through mentor models and matching SEs with sector-specific experts.

Finally, one area of opportunity that is left unexploited is the potential coordination of support services and shared candidate pools among support organizations, many of which currently offer similar or overlapping programs. Indeed, SE support organizations are aware of these issues but say that they must offer an array of support services in order to report against report short-term key performance indicators (KPIs) required by the donor organizations which fund them. In addition, these organizations must also report against longer-term KPIs related to graduating sustainable enterprises, something which de-incentivizes the sharing of potential success candidates among organizations.

Among the many challenges facing social enterprises is the level of government bureaucracy and interference.
RESEARCH APPROACH & METHODOLOGY

OVERARCHING METHODOLOGY

Data collection and analysis took place over a period of 4.5 months from March 14 to July 31, 2016. A research team consisting of three researchers from Triangle Consulting (Triangle) collected primary data. We adopted a phased approach, made up of three overlapping and integrated phases that are summarized as follows:

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<tr>
<th>INCEPTION</th>
<th>LITERATURE REVIEW</th>
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<td></td>
<td>• Study kicks off with a review of global and regional literature</td>
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<td>• Review encompasses a mapping of SE actors across the four targeted countries <em>(the Actor Mapping)</em>.</td>
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<th>INTERVIEW GUIDE DEVELOPMENT</th>
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<td>• Based on data from the preliminary literature review, Triangle and ATC devise two semi-structured interview guides; one for SE support organizations and another for SEs.</td>
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<th>KIIS WITH SE SUPPORT ORGANIZATIONS</th>
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<td>• Since we adopted a snowball sampling approach, interviewed support organizations are asked to recommend additional actors to be included in the study.</td>
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<th>FIELD RESEARCH</th>
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<td>KIIS WITH SE SUPPORT ORGANIZATIONS AND SES (ONGOING)</td>
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<td>TRANSCRIPTION</td>
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<td>• KIIs are recorded and transcribed (word-for-word) to extract verbatim quotes and accommodate coding analysis.</td>
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<th>ANALYSIS, SYNTHESIS &amp; WRITE UP</th>
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<td>CODING &amp; ANALYSIS</td>
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<td>• Relying on the grounded theory method, also known as Glaser-Strauss method to analyze data. In other words, gathered primary data is extracted, coded and marked for analysis by a team of researchers, under the guidance of a team leader. (See Annex C for the coding methodology).</td>
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<th>REPORT WRITING</th>
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<td>• The findings of that analysis are synthesized in a final report and presented to ATC, who contribute to the review and validation of the findings and recommendations.</td>
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SAMPLING STRATEGY

We purposefully employ a non-random sampling strategy to accommodate the nature of the nascent yet growing social enterprise sector. This adheres to ethical standards of qualitative research, primarily the ‘Do no harm’ principle, which applies throughout the course of the research. Accordingly, with the exception of case studies, the subjects, enterprises and organizations participating in this study remain anonymous.

We focus on three specific sectors across four MENA countries, namely:

- Healthcare
- Education
- Environmental

These three sectors were selected given their significance to a more prosperous and sustainable MENA region. Countries of focus were chosen, because they are currently witnessing a series of complex development challenges, and more importantly, an upsurge in novel solutions to meet these challenges.

The study focuses on social enterprises, as well as social enterprise support organizations. Using a snowball sampling method, we recruited and interviewed a total of 31 Key Informant Interviews (KII).

DEFINITIONS

The interviewees are divided into two main subgroups: Social Enterprises and Support Organizations.

SOCIAL ENTERPRISES

The developed set of criteria with which we approached SEs, include:

1. Work in a sector where there is a pressing social challenge or inefficacy, ranging from traffic and pollution to labor productivity.
2. Have the potential to be financially viable and to scale up.
3. Address gaps in public sector services or traditional development initiatives that have failed to meet their objectives or are conspicuously absent.
4. Adopt an innovative approach by creating a new product or service, developing a new production process, or finding a new market in their countries or across the MENA region.
5. Aim to catalyze systemic and sustainable social change.

To avoid excluding potential interviewees and their perspectives, we targeted financially stable organizations that adopt non-profit, for-profit as well as hybrid approaches, which we broadly define as follows:

1. **Innovative non-profits**: non-profit organizations that create a new product or service, develop a new process to address a pressing societal challenge.
2. **Social enterprises**: companies that create a new product or service, develop a new production
process, or find/enter a new market to address a pressing societal challenge, and adopt a financially viable business model. Financially viable SEs were defined as those which aim to break even and generate profit that is often reinvested in the effort, channeled to target communities.

3. **Hybrid organizations**: organizations that mix non-profit and for-profit models to create a new product or service, develop a new process to address a pressing societal challenge. These organizations can be incorporated as both company and a non-profit.

4. **Non-incorporated organizations**: Organizations were included in the scope of the study if they have or are testing a minimum viable product (MVP). They may also be about to incorporate or in the process of figuring out which incorporation option to adopt.

**SUPPORT ORGANIZATIONS**

We defined SE support organizations as organizations in the private, public and civil society sectors that support SEs in the targeted countries, through:

1. Incubation, mentoring and training.

2. Investment in the form of angel investments, seed funding, venture capital or crowd funding.

3. Competitions that specifically focus on SEs.

4. Content development that is focused on entrepreneurship.

**METHODOLOGICAL NOTES**

For readability purposes, the term SE actors refers to both respondents from support organizations as well as SEs. The terms SE and social enterprise are also used interchangeably.

Additionally, some quotes have been modified for grammatical accuracy and comprehensibility, or to redact information and ensure fulfillment of the Do No Harm principle. Furthermore, the terms the region and MENA are defined here as encompassing the countries covered by this study: Egypt, Lebanon, Palestine and Jordan.

In order to elicit information related to internal business practices, which could be employed by direct competitors, interviewees were granted anonymity. However, in order to provide insights into national and sector specifics, details related to both identifying elements have been included.

This study’s full methodology is available in Annex A.

Countries were chosen because they are witnessing a series of complex development challenges and, more importantly, an upsurge in novel solutions to meet these challenges.
THE EMERGENCE OF THE SOCIAL ENTERPRISE

Social entrepreneurship – as well as the derivative terms, social entrepreneur and social enterprise – are fluid and rapidly evolving concepts that are yet to be clearly defined. To some, a social enterprise seeks to fulfill a social good without the need for monetary returns; to others it has to be profit generating – self-sufficient – with a social vision. For yet others, perhaps cynically, it is merely a new buzzword for “innovative” projects that are, at the end of the day, businesses, but have a socially-conscious angle that can be advantageously utilized for marketing purposes.

This lack of a standard definition enables (SEs) to stand out from the entrepreneurial pack, but also affects SEs during the initial start-up phase: What to register as – a non-profit or a “normal” commercial outfit? In addition, the concept of an enterprise that is after profits and social impact raises other issues: How do SEs compete with purely commercial organizations for investment? How can SEs balance the need to be financially sustainable with their vision of social change?

Indeed, the lack of a standard legal definition is indicative of the segment’s nascence, particularly in the Middle East. This state of affairs, however, can also present opportunities for SEs to flexibly structure their operations, models and product offerings, in order to address the region’s pervasive and intricate social problems.

The recent rise in the number and type of SEs in the region is partly due to the failures of numerous stakeholders to redress festering social problems. The reasons for these failures include inefficiency, a propensity for containing and managing rather than resolving social problems, structural rigidities and outdated, invariably misguided developmental strategies. Hence, the innovative and sustainable solutions that are at the core of SEs’ approach and ambition.

SE indeed offers a new and emerging understanding of what entrepreneurship is and can be. It, in sum, aspires to be an evolved form of entrepreneurship, which adapts to the realities of today’s world by simultaneously creating both social and economic value.

SOCIAL ENTERPRISE DEFINITIONS

What is an entrepreneur? A common definition is that entrepreneurship is the act of organizing and managing a business enterprise that requires a degree of risk. Such a term encompasses a broad range of business activity, from sole vending of trinkets on a street corner, to running small or medium sized business (SME) with dozens to hundreds of employees, to the global market reach of a multinational corporation. All are involved in generating income through selling a product or service; risk is inherent in the start-up phase. However, there is a difference in the characteristics of a typical commercial business professional and that of an entrepreneur (See Box 1).

FIVE KEY CHARACTERISTICS OF ENTREPRENEURS

1. They are inspired to alter the status quo;
2. They think outside of the box;
3. They take direct action instead of using third parties;
4. They have the courage to try something new (risk takers); and
5. They have the fortitude to persist.

For the purposes of this research project, it is implicitly assumed that the difference between a commercial and a social enterprise lies in the value proposition of the two business models. Commercial entrepreneurs anticipate and organize themselves to serve any market and to meet any market need, irrespective of their relevance to societal challenges.

SEs, on the other hand, tend to target “an underserved, neglected, or highly disadvantaged population that lacks the financial means of political clout to achieve the transformative benefit on its own.” Therefore, what essentially distinguishes social entrepreneurs from commercial ones is the fact that the former put their social mission at the heart of their enterprise. Equally, for this reason, the mechanics of governance between the two models also differ in fundamental ways. (Deeper analysis of definitional dynamics surrounding SEs can be found in Box 2.)

In sum, SEs are generally defined as those which:

1. identify the disadvantaged population and the cause of exclusion;

2. identify the opportunity to change; and

3. form a new situation for the better — a superior equilibrium.

Within this spectrum, there are three main SE business models:

1. non-profit organizations, which either totally rely on stakeholders or do so to a greater extent (leveraged or enterprising);

2. hybrid enterprises, which combine for-profit and non-profit models; and

3. social businesses, which aim to be financially sustainable while meeting social aspirations.

A more precise definition of social enterprises comes from the British Columbia Centre for Social Enterprise, which states that SEs have two goals: to make social, cultural, communal and/or environmental changes, and to achieve profits. As the centre notes on its website, “SEs are revenue-generating businesses with a twist.” According to the British Columbia Centre for Social Enterprise, SEs run their businesses similar to commercial enterprises, but:

1) put their profits aside to reinvest these in social or environmental projects or

2) train and/or employ people who are otherwise excluded from the regular economy, thus generating impact within the community.

There are variations on this theme, of course. For instance, the Canada-based MaRS Discovery District social believes that entrepreneurs aim for both social and economic value creation, but defines the term social enterprise as a business model that is added onto non-profit organizations with the goal of becoming financially sustainable and thereby less reliant on donations and grants. The definitional theory highlights the fact that since there are no shareholders in a non-profit organization, social enterprise sustainability can be realised through reinvestment of all profits into the business.


Box 2: Further Definitions of the Social Enterprise

A BEACON OF REFORM

Rife with challenges, the MENA region is particularly ripe for the roll out of SEs. Conflict, political instability and terrorism dominate the news agenda, but the systemic crises many countries in the region face, particularly the target countries of this research, are often less apparent.

SEs start to play when traditional players—governments, NGOs and international bodies—cannot or are unwilling to effectively address social and environmental challenges. Furthermore, given a unifying common language, Arabic, and related challenges in countries across the region, SEs that are successful in one country have the opportunity to expand beyond their initial borders.

It is in full view of these circumstances that this study should be read and understood. SEs and the organizations that support them are wading through an unchartered market landscape. The challenges they face in the MENA region are formidable, in terms of the efforts required to alleviate both the shortcomings of the economic market and of public services. Yet, the speed at which the MENA SEs and their
ecosystem are maturing should serve as a beacon for reform in a region that requires much in the way of social justice and redistribution.

BACKGROUND & CONTEXT

SE OPERATING ENVIRONMENT

SEs in the region face a dichotomy that both hinders and facilitates their development. On the one hand, social entrepreneurs must grapple with antiquated regulations, a tortuous bureaucracy and scant funding sources. But at the same time, they are primed to thrive in the target sectors precisely because of dysfunctional education systems, poor healthcare, environmental degradation and failing public services. These very problems create a wealth of opportunity for social actors to innovate solutions and penetrate untapped markets. Hence, an understanding of the operating environment is essential to comprehend how SEs could operate more effectively and make a real impact.

The MENA region suffers from extreme income inequality, with the income of the top 10 percent encompassing 60 percent of total income. Adding to this, MENA has the highest rate of youth unemployment in the world. While the global average is 13 percent, youth unemployment is estimated at 28.2 percent in the Middle East and at 30.5 percent in North Africa. With 60 percent of the MENA’s populace under 30 years of age, inequality and unemployment constitute a proverbial time bomb.

The issue is particularly pressing in Egypt, with youth accounting for 23.6 percent, or 20.7 million, of the total population, of whom 26.3 percent are unemployed and 51.2 percent live in poverty. Egypt needs to create some 850,000 new jobs per year just to maintain employment levels.

Youth unemployment is estimated at 28.8 percent in Jordan, and at 20.7 percent in Lebanon. In Palestine, the figures are even more dire, with youth unemployment estimated at 40 percent for young men and 63 percent for young women in 2014. In Gaza, 43 percent of the 1.8 million people living in the Strip are unemployed, with youth unemployment estimated at 60 percent.

Improving employment prospects for the region’s youth is clearly essential, and SEs are strongly positioned to create new job opportunities while at the same time addressing related social issues. One of the top priorities – and an area in which SEs are increasingly involved – is education.

MORE LEARNING TO DO

Public education in the region is largely underfunded, mismanaged and resistant to reform. Improvements are at their most tangible at the very basic level due to literacy campaigns and reforms. While literacy rates among Arab youth (15-24 years old) lag behind several other regions in the developing world, they have outpaced some developing regions, such as South Asia and Sub-Saharan Africa (See Figure 1). About 4.5 million children from Egypt, Iraq, Libya, Palestine, Sudan, Syria and Yemen are not attending school classes, and an additional 2.9 million young people don’t have access to secondary schools. These figures have been exacerbated over the past year due to the conflicts in Syria and Yemen. In addition, both Jordan and Lebanon’s schooling systems are under serious strain from the Syrian refugee crisis, while the development complex speaks of a “lost generation,” due to youth missing out on educational opportunities.

The problems pervading the Arab education sector are qualitative as well as quantitative. According to
the Brookings Institute, the Arab world faces a massive learning crisis with more than half of children and youth enrolled in school failing to learn (measured by literacy and numeracy scores on international tests). Rote learning, the think-tank points out, still dominates and workforce skills like critical thinking, creativity and communication are missing from school curricula and teaching methods. The World Bank meanwhile pinpoints low quality education, a mismatch of skills between the job market and school curricula and the youth bulge as the sector’s three main shortcomings in the region.

Due to these grave failings in the public education system, MENA households are investing in their children’s education beyond a formal classroom schooling. According to the World Bank’s Global Consumption Database, just over 2 percent of MENA household consumption is spent on education, averaging 2 percent for low income households, 3 percent for middle-income and 4 percent for higher income households. Such figures highlight the opportunities for SEs to offer a variety of higher quality educational services.

COUGHING IT UP

Throughout much of the region, the state of public healthcare infrastructure is weak and universal healthcare is absent. These shortcomings feed a cycle of illness and poverty, compounded by out-of-pocket (OOP) expenses on healthcare.

In fact, the economic consequences of OOP healthcare costs in Egypt, Jordan and Palestine have been described as “catastrophic.” This has been attributed to a drop in total healthcare spending by MENA governments, declining from 41.7 percent in 2010 to 37 percent in 2011, according to the WHO.

Healthcare costs are also rising. In Egypt, for example, health expenditure per capita was $110 in 1995, with OOP expenditures at 48 percent. In 2011, per capita expenditure reached $310, and in 2012, OOP expenditure was at 59.5 percent. In Palestine, the OOP share of total health spending was at 43.1 percent in 2011, and 42.3 percent in Jordan (figures are not known for Lebanon).

In Egypt, the government spends just 1.5 percent of GDP on healthcare, with the health ministry providing just 30-35 percent of health services. Chronic underfunding has resulted in the highest global prevalence of Hepatitis C (14.7 percent of the population), high rates of obesity and hypertension (17.6 percent of the adult population) and endemic poverty. Shocking images circulated online in 2015 showed the unhygienic and dangerous conditions present at public hospitals – an indication of the appalling state of the country’s public healthcare system.

In Lebanon, only around half of the population has health insurance coverage, 93 percent of which is public coverage and 7 percent private, according to government data. The healthcare system faces considerable strain from the influx of Syrian refugees.

In Jordan, public, private and UN health insurance cover 87 percent of the Jordanian population, but...
the government is struggling to handle burgeoning population growth and has deferred plans for universal healthcare coverage due to high costs.\footnote{28}

- In Palestine, the healthcare service is underfunded and undersupplied, and has been severely impacted by the ongoing occupation and conflict. Just 38 percent of total health financing comes from the Palestinian health ministry.\footnote{29}

With health costs rising and plans for universal healthcare stalled, SEs are well placed to implement affordable solutions. Online services and applications are a particular area in which SEs can make an impact across the region, both within a country and across borders given language commonalities and similar health-related issues. Furthermore, the strain on ailing healthcare systems is set to increase due to environmental degradation, another area in which SEs have a role to play.

**REVERSING THE UNSUSTAINABLE**

The dire effects of climate change and environmental degradation are increasingly apparent in Arab countries. Foremost among these challenges are desertification and water shortages, major contributors to the politically lethal problem of food insecurity. With governments struggling to address these issues, SEs are well placed to tap into the growing renewable and green economic sectors, while providing solutions at the local level.

Water poses a particularly pressing problem. Population growth means that total water demand will increase by 50 percent between 2000 and 2025. By 2025, per capita water availability is projected to drop by half.\footnote{30} According to the Strategic Foresight Group, an estimated 40 million people are already water vulnerable in Jordan, Lebanon, Syria, Iraq and Turkey.\footnote{31} At the country level, the statistics look ever more grim.

- In Jordan, 27 percent, or 1.7 million of the country’s 6.7 million people,\footnote{32} are hydro-insecure (water vulnerable).\footnote{33}

- In Egypt, water levels are scarce, at around 600 cubic meters (cm) per capita, and annual supply is slated to drop below 500 cm – the international threshold for “absolute scarcity” – by 2025. Today, some 38 million Egyptians drink polluted water.\footnote{34}

- In Lebanon, a supposedly water rich country, resources are mismanaged, precipitation has reduced, and pollution levels are rising, resulting in current water shortages that are expected to be chronic by 2020.\footnote{35}

- In Palestine, there are frequent water shortages in the West Bank and the Gaza Strip. In this particular case, the occupation is more the culprit than climate change. In the West Bank, average daily per capita consumption ranges from 20 to 73 liters (the World Health Organization recommends 100 liters per day), and from 70 to 90 liters in the Gaza Strip, where over 90 percent of water is unfit for human consumption.\footnote{36}

Environmental degradation due to land-use mismanagement, pollution and solid waste also poses a challenge, and solutions to foster a healthier and sustainable environment are urgently needed. Recycling and sustainability programs have risen in importance both at the private and public level, while the need for renewable energy schemes to tackle pollution and energy shortages has also become more pressing. Indeed, a whopping 98 percent of low and middle income Arab cities with more than 100,000 inhabitants do not meet WHO air quality guidelines.\footnote{37}

**GETTING THE JOB DONE IN SPITE OF IT ALL**

Providing a clear overview of the business situation in the four countries covered by this study, the World
Bank’s 2016 Doing Business Report finds that the area is performing worse than the OECD average and, in many cases, even below the MENA average. Entrepreneurs in Egypt, Jordan, Lebanon and Palestine face major challenges in accessing credit, protecting minority investors, trading across borders and resolving insolvency. In the global ranking of 189 countries, the four countries all rank in the lower half. Criteria-specific exemptions do, however, exist in Egypt (accessing credit ranked 79) as well as in Jordan and the Palestinian Territories (trading across borders ranked place 50 and 84, respectively).

In terms of starting a business, OECD countries provide a relatively fast and cost-efficient procedure compared to the region (See Figure 2). The time it takes to register a business in the West Bank and Gaza, and the costs involved in Lebanon and Palestine are far less favorable. It is worth noting that starting a business in Egypt is, however, comparable to the OECD average.

STIFLING LEGALITIES

SEs do not neatly fit into the region’s existing legal and administrative frameworks, and as a result face complications – particularly during registration. Operationally, SEs are at a comparative disadvantage to other regions. And according to the World Bank’s 2016 Ease of Doing Business Report, SEs and other enterprises spend more time and resources enforcing contracts, which affect their ability to grow (See Figure 3).

Overall, the legal situation in each of the four countries can be summarized as follows:

EGYPT

The Egyptian government introduced some amendments to the Egyptian Investment Law, which increased incentives for investors. These include a one-stop-shop, lowered sales tax and custom duties, as well as reduced cost of land from the government. However, these incentives primarily target larger companies (e.g. >250 employees), not SMEs or SEs.

According to Egypt’s NGO law, associations and foundations must first register with the Ministry of Social Solidarity and Justice before they are granted permission to incorporate. The same is true of non-profits, which also need to receive necessary approvals from the Ministry of Industry and Trade. While the NGO law clearly prohibits NGOs from engaging in any political activity, the grounds for denial of registration and for dissolution contain references to vague criteria, such as any activity or purposes that “threaten national unity, violate public order or morality or advocate discrimination citizens, on account of sex, origin, color, language, religion or creed.”

Political developments since 2011 have wrought greater legal uncertainty for the NGO sector, with several NGOs experiencing raids, employees denied departure, and assets frozen. Since then, a new NGO law has been put forth, earning mixed praise and condemnation.

Aside from NGO incorporation, SEs can choose to incorporate under the company law, particularly the limited liability company (LLC) structure of Law 159 issued in 1981. The LLC structure is seen as more flexible than the joint-stock shareholding company (S.A.E.), and some organizations propose that a future social enterprise company category could be established using LLC incorporation as its basis.

JORDAN

Jordan also lacks laws and regulations for social enterprises. However, an agency promoting
investments in the country – the Jordanian Investment Commission – was recently established (Investment Law No. 30, 2014), which also includes the Investment Window, a newly founded one-stop shop easing business procedures (chapter 3 of Law No. 30). 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. In mid-March, 2016 the Ministry of Social Development issued a draft NGO law, which, if passed, will grant the government greater powers to dissolve NGOs and further restrict access to foreign funding. However, the Lebanese legal system does not distinguish between social and commercial businesses. Entrepreneurs can either register as an NGO or a commercial enterprise, which is subject to taxation and commercial regulations. Until today, no new laws have been passed to encourage social businesses. And despite the existence of a draft law drawn up over a decade ago, there are presently no laws that regulate e-commerce. Furthermore, a notoriously inefficient bureaucracy and pervasive corruption hinder entrepreneurs who face serious difficulties in receiving needed permits and registrations.

LEBANON

In 1994, Lebanon established its one-stop shop Investment Development Authority of Lebanon to ease doing business. In 1999, the government introduced the Law on the Protection of Literary and Artistic Property (No. 75), which, in theory, protects copyright and intellectual property rights and further sets established an intellectual property regulatory body. In 2001, IDAL’s mission was reinforced with the passage of Investment Law No. 360. Incentives for investors (Art. 22 and 23) include reduced customs duties and tax exemptions and reductions. Article 18 of the law outlines the agency’s funding mechanism. Curiously, the Agency does not benefit from public funding and must thus finance its operations through revenues from services rendered to investors, stamp duties, penalties and grants. Despite such reforms, the West Bank and Gaza perform poorly in rankings on discrimination against investors.

PALESTINE

With the passage of the Law on the Encouragement of Investment in Palestine (Law No. 1 of 1998), the governing Palestinian Authority improved the operating environment for businesses in the West Bank and Gaza. Article 2 of the investment law addresses development objectives and priorities by:

1. establishing a Palestinian Investment Promotion Agency;
2. providing guarantees to all investors and investments within Palestine;
3. granting incentives; and
4. providing an appropriate environment for encouraging investments in Palestine.

Incentives for investors (Art. 22 and 23) include reduced customs duties and tax exemptions and reductions. Article 18 of the law outlines the agency’s funding mechanism. Curiously, the Agency does not benefit from public funding and must thus finance its operations through revenues from services rendered to investors, stamp duties, penalties and grants. Despite such reforms, the West Bank and Gaza perform poorly in rankings on discrimination against investors.

The last amendment to the law was issued in 2011 in the form of Presidential Decree No. 2, which is
advantageous to SEs in several respects. While in 1998, exemptions and incentives were only considered for industrial sectors, the amendment encompasses the health, education and environmental and recycling sectors. Under Article 9, the agency targets the promotion of highly skilled local staff, giving companies incentives to employ qualified local workers.

The ICNPL (2016b) states that NGOs in Palestine have to register with the NGO department of the Ministry of the Interior, which may inspect an association to ascertain whether it spends funds for the declared purpose.

In 2010, the Council of Ministers issued Regulation No. 3 on non-profit organizations (NPOs), which states that:

1. NPOs face the same registration fees and processes as commercial companies (Article 2);

2. NPOs must have an objective that contributes either to social, cultural, or civil development of citizens. (Article 3, 8, 11);

3. Eventual profits have to be reinvested and may not be distributed to any shareholder (Article 3);

4. Founders and shareholders, up to their second-degree relatives, may not have any direct interest with any for-profit company in the NPO’s field of activities (Article 7);

5. Employees have to be compensated equally by their peers in the labor market (Article 9);

6. NPOs face no restrictions on their funding (Article 11);

7. In case of illegal activities or failure to meet its goals, the authorities have the right to shut down the NPO with one month’s notice. Shareholders will then be compensated according to their investments and additional profits, which will be collected by the government and distributed to NPOs in the same field of activities.

In July 2015, the Palestinian Council of Ministers issued an amendment to Article 11 mandating prior approval from the council of ministries to accept gifts, donations, aid, or funding.

SOCIAL ENTERPRISE DEVELOPMENT IN MENA

This section draws on this survey’s findings as well as those of four other analyses and studies conducted over the past six years on SE in the region. Consistently, many results echoed those of the four studies’, strongly suggesting that in key areas little has changed for Arab SEs over the past five years.

Across the region, the Arab social entrepreneur is:

1. more often than not male;

2. between 25 and 36 of age;

3. relatively well educated;

4. starts entrepreneurial endeavor with one or more business partners –friends or former colleagues;

5. has had a personal experience with the social challenge they seek to address;

6. is typically frustrated with previous traditional careers and wants to tackle social issues through an entrepreneurial approach.

Interestingly, a 2010 study by the Brookings Institute also found that SEs in the MENA region were commonly engaged in extracurricular activities during their childhood and youth; more than a third studied,
lived, or worked abroad; most SEs pursue systematic change and reach out to their governments; and many pioneer new ways of delivering goods and services across all sectors. Moreover, the Brookings study cites four key sectors for SEs in MENA, all areas where Arab state failure has been at its most conspicuous:

1. Education and skills development;
2. Health;
3. Community development
4. Civic engagement; and
5. Economic development and income generation.

On top of the customary challenges faced by SEs worldwide (e.g. financing and cash flow), Arab SEs must also overcome issues particular to the region:

1. The absence of incentives, conducive legal and doing-business frameworks;
2. The need for quality technical support and funding; and
3. The lack of social and cultural awareness, as well as recognition of what SE is, and their ability in turn to formulate quality partnerships.

And, again, findings here highlight the same essential components of a thriving SE ecosystem mentioned by Abdou et al. (2010):

- The government, which is responsible for the regulatory framework, issuing laws, tax policies and regulating capital markets. Furthermore, governments can engage with SEs through public-private partnerships.
- The corporate sector, which is important when it comes to scaling-up social enterprises and granting financing opportunities. While incentives for partnerships between the corporate sector and SEs are largely absent, commercial companies can include them as suppliers in their value chain.
- Investors, which are key initiators, whether they are angel or seed investors, or provide follow-up funding.
- Intermediaries in the form of support networks and information providers, which are important because they connect SEs to capital and technical support.
- International donors, which enable SEs to pursue their ideas by financing non-profit SEs through grants.
- The education system, which can foster social entrepreneurship by encouraging students to pursue social entrepreneurship and discovering potential entrepreneurs. It can also offer SEs support through skills training and community work, as well as business planning exercises.

The same applies to Genny Ghanimeh’s report, which, much like this study, argues that the challenge for SEs, particularly during the start-up phase, lies in connecting social impact with a sustainable business model. SEs’ focus on the social agenda tends to obscure exit strategies, and in turn, strong business models, which hinders their ability to easily access a variety of traditional financing instruments available to traditional entrepreneurs, such as network investments, banking and equity debt. Equally, as with this survey, Ghanimeh discovers that SEs’ ability to access funding is complicated by the fact that their success, or potential for success, cannot be measured using purely financial metrics, concluding that SEs’s little attention to market research and
Haphazard sharing of knowledge and ideas for innovative solutions is weakening their prospects with the investor community.

But, as Talhouni points out, there are strong hints of trends that are helping Arab social actors to overcome barriers to financial viability and growth. For example, he sees technology as a catalyst for scaling up, especially for businesses operating in the financial technology and transportation services sectors, which are proliferating across MENA. He also argues that the Internet accelerates the adoption of products and services, making the scaling process easier and cheaper. Finally, he makes the case for technology and connectivity as very effective market liberalizers, lending a counterweight to widespread corruption and nepotism, as virtual marketplaces are comparatively immune to them.

### Box 3: Characteristics of Social Enterprises

1. Social entrepreneurs are highly educated, most holding undergraduate or graduate degrees.
2. Most social entrepreneurs found and fund SEs with family or friends.
3. Many social entrepreneurs tackle social issues about which they have personal experience.
4. Social entrepreneurs suffer from a lack of adequate human resources.
5. Social entrepreneurs operate in a mismatched legal and regulatory framework which does not suit their business models.
6. Social entrepreneurs are commonly engaged in extracurricular activities during their childhood and youth.
7. Social entrepreneurs are likely to have studied, lived, or worked abroad.
8. Most social entrepreneurs pursue systematic change and reach out to their governments.
9. Social entrepreneurs are the first to devise new ways to deliver goods and services across all sectors in their markets.
10. Social entrepreneurs face multiple challenges related to financing their operations.

As the previous sections demonstrate, literature on the nature of social enterprises, their challenges, coping mechanisms, and the overall state of the ecosystem remains sparse. The purpose of this section is to distill overarching themes from the qualitative survey, trace them on a continuum, and offer insights about the sector’s trajectory.

Key findings are gathered from the 31 KIIs conducted with SE actors across Egypt, Jordan, Lebanon, and Palestine. Figures 4 and 5 display the division of KIIs according to where SEs and SE Support Organizations are based.

Figure 6 reveals that almost three-fourths of social entrepreneurs interviewed were male and young, with over 70 percent under the age of 35 (Figure 7).

In line with the findings of the other reviewed studies, our results show that the majority of social entrepreneurs are highly educated. It is important to note, however, that most of the interviewed enterprises have an online presence, and are relatively connected to the SE support ecosystem. Less formally-educated entrepreneurs must exist outside of the current SE ecosystem, but they remain hard to reach through sampling strategies, which rely on active support organizations and information readily available online. Figure 8 depicts the educational backgrounds of social entrepreneurs interviewed as part of the study.

A total of 86 percent of those interviewed registered their organizations as companies (See Figure 9). It is worth noting that the study specifically targeted enterprises that are market-oriented, are trying to attain financially viable models, and attempting to break away from traditional donor-dependent models of development.

The greatest challenges social entrepreneurs and support organizations navigating the MENA region’s market landscape face are related to financing and regulations. While these challenges are both numerous and interrelated, and will be elaborated upon in this study, an analysis of challenges mentioned by SEs and SE support organizations is summarized in Figure 10. Indeed, more than half of respondents said they struggle with issues relating to financing and regulation. Other prominent issues that emerged are related to human resources, as well as scale and sustainability.

**FIGURE 4: SOCIAL ENTERPRISES (BY COUNTY & SECTOR)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Healthcare</th>
<th>Education</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palestine</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Jordan</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>1</td>
<td>1</td>
<td>4</td>
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</tbody>
</table>

**FIGURE 5: SUPPORT ORGANIZATIONS (BY COUNTRY)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Healthcare</th>
<th>Education</th>
<th>Environment</th>
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</thead>
<tbody>
<tr>
<td>Palestine</td>
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<tr>
<td>Lebanon</td>
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<tr>
<td>Jordan</td>
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</tr>
<tr>
<td>Egypt</td>
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</tr>
</tbody>
</table>
TAKE-AWAYS:

• SE actors decide to start-up a social enterprise after experience with a social problem.

• Social enterprises are typically conceived and started by like-minded persons from upper and middle classes with access to education and opportunity.

• Many social entrepreneurs have a good amount of work experience as well as an understanding of enterprise development.

SE actors experience a variety of processes in setting up a social enterprise in the region. The sprouting point for an idea that culminates in a social enterprise normally occurs during engagement with community problems or as a result of personal experience with social issues. These social entrepreneurs are archetypally driven by the need for social reform – often related to employment – and many, particularly in Egypt, were emboldened by the Arab Uprisings earlier in the decade. For instance, a healthcare SE begins to provide Arabic-language health content in Jordan, because his father was engaged in reforming
medical terminology in Arabic. Another social entrepreneur begins work in the audio book industry, because they themselves are blind.

Some social entrepreneurs arrive at the idea to form a social enterprise through previous engagement with social issues in their areas of employment. Indeed, during the start-up phase, many SE founders maintain employment in related jobs, even if this limits the time they can allocate to developing their SE in its nascent stage. Yet experience in a particular social field seems to facilitate a deeper understanding of social issues and, as such, allows social entrepreneurs to spot gaps in the market.

SE actors often consort with friends and acquaintances within their social class who share their values. Given that SEs possess an inherent social function, SE founders in Egypt, Jordan and Lebanon were found to be persons—friends, relatives or classmates—who share similar viewpoints about a social issue. Founding members of SEs who are not institutional actors often commit their time and personal savings to projects as a sign of their commitment to the organization’s vision. As existing literature also states, SE founders and their partners predominately come from middle to upper socioeconomic backgrounds, which provides them access to tertiary levels of education. And according to research participants and support organizations in Lebanon and Egypt, it is among persons in this environment where SE are typically hatched.

Many social entrepreneurs in the region have prior experience with entrepreneurship, specifically with starting up businesses. Several social entrepreneurs who participated in this study have a good understanding of the dynamics of operating an enterprise, and have been engaged in the start-up, launch and even downsizing of enterprises before their current venture, something which existing literature corroborates. For instance, an SE working on education in Egypt had gone through two prototype products and enterprises in different areas of the education sector before launching their current classroom visual aid enterprise. In fact, most of participants in this study have at least five years of work experience, and over 40 percent have over 10 years of experience (See Figure 11).

SCANNING THE MARKET

TAKE-AWAYS:

- SEs conduct research before entering the market, but the depth and breadth of this research varies.

- Because information is not always readily available, SEs can find it hard to assess their markets prior to entering them.

After making the decision to start a social enterprise, SE actors in the region almost immediately engage in some form of (invariably basic) market research. While the depth and breadth of this research differs from one SE to the next, the level of research conducted is generally indicative of how well business models fit the market landscape. Most SEs conducted research right before launching their models and products. Needless to say, extensive research is carried out by SEs when it is a core element of the business model. For example, one SE working in the environment sector in Egypt had not done a lot of research before entering the market and struggled to adapt their business model to generate revenue. An SE working on healthcare in Lebanon, on the other hand, claimed its product received significant uptake, specifically because the enterprise conducted both general market, sector and subsector research, prior to launching their product offering.
SE actors agree that there is no golden rule for how much, how little or what type of research is appropriate for SEs to undertake before launching. In general, all SEs market products or services and later fine-tune their models and products. Essentially, the degree to which SEs are able to conduct research is a matter of both time, availability of information and resources. To get around the issue of research costs, some 23 percent of interviewed SEs conduct preliminary research and then launch their business model as a pilot project, sometimes with donor funding. This piloting mechanism is particularly applicable to tech SEs who then adapt and replicate their concepts as their initial product offering.

Much of the preliminary research conducted by SEs tends to rely on secondary sources. But the reliance on secondary sources can ultimately be problematic, as information is not readily available for many sectors in the region. As such, enterprises looking to penetrate a market need to engage in costly and time-consuming primary research for which they do not necessarily have the resources. Typically, SEs that perform such research in the start-up phase are more profit-oriented than those more focused on social good. Moreover, those SEs that do conduct primary research usually do so in an informal manner without any real methodological approach. Again, because many social entrepreneurs are engaged in their sectors before starting their ventures, they possess a competitive advantage in terms of market knowledge and enterprise model. An important opportunity was found at an Egyptian SE working in a health-related field, which received sector-specific advice from mentors at support organizations. The SE stated that the assistance provided during the research phase was instrumental to developing their model in a scientific manner; and yet, no other SE interviewed had received sector-specific mentoring with regard to the research process.

You get a lot of on-the-ground research as there isn’t that much in writing. What has worked elsewhere in the world could work here.

- Founder, Environmental Sustainability Sector, Lebanon.

**FIGURE 11: YEARS OF SOCIAL ENTREPRENEURS’ WORK EXPERIENCE**

<table>
<thead>
<tr>
<th>Years</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1</td>
<td>5%</td>
</tr>
<tr>
<td>1-5</td>
<td>9%</td>
</tr>
<tr>
<td>5-10</td>
<td>4%</td>
</tr>
<tr>
<td>10-20</td>
<td>32%</td>
</tr>
<tr>
<td>20+</td>
<td>50%</td>
</tr>
</tbody>
</table>

No. of Responses: 22, Multiple Answers: No, NB: Years are inclusive of upper range
In the absence of regulations that define social enterprises, SE actors in the region construct their own interpretations and definitions of the term SE. These interpretations fall into three categories: Embracive, or those who accept and encourage the concept of social enterprises as a broad and inclusive concept; restrictive, or those who tend to restrict the concept of social enterprises to favor either non-profit or for-profit models; and rejectionist, those who reject the concept of the social enterprise and view the discourse around the subject to be frivolous at best and counterproductive at worst.

While SE actors may be divided on definition, they agree that all social enterprises must contain a built-in element of social impact. To do so, SEs must first integrate their enterprises into the target communities, in order to create minimum viable products or service offerings. However, once this has been achieved and SEs start to create social impact, very few social enterprises have the metrics or standards to track, measure and report that social impact.

THE CONTOURS OF IMPACT

In the absence of legal or regulatory definitions at the state-level, SE actors themselves determine the concept of the social enterprise in the region. The concept of the social enterprise in the region can and should be defined along a spectrum. At one end of the spectrum is the purely commercial enterprise – a profit-driven entity solely accountable to its shareholders. At the other end is a non-profit enterprise concerned with addressing a particular social ill, which is accountable to donors. Between these two conceptual poles lie several common strands, which help frame how social enterprises are conceptualized and shaped in the region.

Social impact is an innate feature of social enterprises, but there is disagreement over what qualifies as positive social impact. According to most interviewees, social impact is what sets social enterprises apart from traditional commercial outfits. Yet, responses to questions about the positive social impact of a social enterprise were often quite subjective. At the core of this subjectivity is a difficulty differentiating between the ‘positive’ effect all enterprises possess in generating income and creating employment in the communities in which they operate and the social impact of the work itself.

One Egyptian SE working in the environmental sustainability sector rejects being called a social en-
The way to define SEs under one theme, other than helping people and the environment, might be trying to drive yourself crazy, as in reality there’s a lot of variety.

– Co-founder, SE Support Organization, Lebanon.

Entreprise, arguing that all companies must integrate and add value to their communities, in order to be successful, instead of capitalizing on social aspects as a selling point. Another SE in Egypt working in education felt that while the term could define their activities, it was less important than entrepreneurial fundamentals that are common to enterprises. A well-known SE in Jordan working in healthcare also felt that the concept of the social enterprise did not represent their operations, which they described as a commercial enterprise that addresses a social problem. On the other end of the spectrum, around half of SEs interviewed said flat out that they considered themselves to be SEs at some point during the development of their enterprise. One SE in Lebanon felt that they became an SE once they received funding from the corporate sector in the form of CSR, while another SE working on education in Jordan deemed their organization an SE specifically because of their social impact.

Within this context, the conceptual viewpoints of SE actors in the region fall into three broad categories:

**Embracive**: Embracive SE actors are those who accept a broad concept of social enterprises, which encompasses enterprises that contain commercial elements and seek to address a social ill. Embracive SE actors tend to focus on factors such as reinvestment of profits, viable business models, financial sustainability, and the ability to scale and measure impact.

**Restrictive**: Restrictive SE actors are those that place specific conditions on the concept of SEs. These actors tend to favor either non-profit or for-profit models in order to differentiate social enterprises from commercial enterprises or NGOs. Restrictive SE actors in the non-profit sector believe that there is an inherent contradiction between profit-making and social good, and that SEs should reinvest all revenues into the communities in which they operate. Conversely, proponents of the for-profit model believe that non-profit enterprises are unable to attain financial sustainability, due to their dependence on donor funding and agendas, and that their social purpose is thus compromised.

**Rejectionist**: Rejectionist SE actors are those who reject the concept of the social enterprise altogether. They may consider the term unrepresentative of their activities, which are focused on profit as well as added value, and/or feel that it can distort the market in a manner that sells social good over a viable and competitive economic offering.

Figure 12 shows the general distribution of how SE is framed and accepted amongst study participants.

For any company to have a sustainable business model, it has to be in sync with the community, which means that it has to have a social aspect, so that’s why, for me, the social enterprise does not exist. – Founder, Environmental Sustainability Sector, Egypt.

**FIGURE 12: VIEWS OF THE SOCIAL ENTERPRISE CONCEPT AMONG SES**

No. of Responses: 22, Multiple Answers: No

Among the wider public, awareness of the SE concept and effects is very limited. In line with previously conducted studies, interviewed SE actors believe that awareness of the SE concept is limited to those with access to the entrepreneurial ecosystem: mainly people with access to education and with foreign language skills who reside in urban centers. Support
organizations in Lebanon and Egypt also feel that these issues limit SE activity to privileged segments of society; a reality that is seen to obstruct the reach and attractiveness of social enterprises as an employment option for lower socio-economic segments.

Equally, survey results suggest that the SE ecosystem could be biased against actors in non-urban sectors, and the socio-economic profile of the Arab entrepreneur might be inhibiting Bottom of the Pyramid (BOP) solutions. And hence the absence of rural-based SEs from the sample and the very low number (4 percent) of those catering to BOP clients, in spite of the research team’s diligent mapping efforts.

Entrepreneurship in general requires a baseline of being comfortable in your life, your needs [must be met]. — SE Support Organization, Jordan.

PUTTING IT ON PAPER

TAKE-AWAYS:

• One of the defining facets of the region’s social enterprises is which type of registration and profit model they choose to adopt.

• Since there are no regulatory provisions to match the dual financial and social purposes of SEs, founders and BOD members have to choose between for- and non-profit options – there is in effectively no middle ground.

Since there is no legal registration status for SEs in the region, entrepreneurs tend to choose either the easiest (least bureaucratic) or the cheapest (lowest starting capital) options for registration. As a result, some SEs incorporate without fully understanding the consequences of the regulatory environment associated with each registration type (see Figure 13). Sometimes SEs incorporate with a certain model only to undergo a process of finding new business incorporation models that could better serve their interests. For example, SEs working in agriculture in Egypt, who initially registered as an NGO, are considering forming a cooperative to bring together numerous fragmented small-scale farmers under one umbrella organization that manages itself. Another SE, also working with small-scale farmers in Palestine, considered incorporating as a cooperative, only to choose the NGO model because the process was simpler.

The ease of establishing either an NGO or a commercial enterprise varies from country to country in terms of cost and procedures. In Egypt as well as Jordan, commercial organizations are much easier to establish than NGOs, which are highly regulated and take months to receive approval. In Lebanon, establishing an NGO is relatively straightforward in comparison to a limited liability company (LLC), the cost of which may reach US$30,000 due to auditors and lawyers’ fees. Still, 59 percent of the interviewed SEs prefer to register as LLCs because liabilities better suit the roles and partnership responsibilities of SEs (See Figure 14).

SEs and SE support organizations tend to view for-profit business models as more sustainable and flexible, mainly because non-profit models are dependent on donor agendas, which are neither constant nor reliable. In fact, many for-profit SEs believe that they suffer an inherent disadvantage compared to purely commercial organizations. This is because they bear the same tax burden and their dual-purpose means that they do not pay out dividends to shareholders. An SE in Jordan working on healthcare actually relocated their payment systems to another country in order to avoid taxes, while another SE in the same sector and location felt it was unfair that they had to pay taxes before they had monetized. On the non-profit side, SEs feel that they are unable to maximize efficiency by generating profits and are increasingly reliant on donor funding and agendas. According to support organiza-
tions in Jordan, because donor funding is also granted for fixed time periods, non-profits are unable to conduct the same kind of business planning as for-profit SEs, which enjoy more constant revenue streams. This was corroborated by an education SE working in Jordan, which actually started out as a non-profit and moved to a for-profit model upon guidance from a mentor. Another SE working on environmental sustainability in Lebanon with a hybrid revenue model (donor and operational revenues) stated that donor funding alone would not allow his business to fund its expansion plans because it was too haphazard.

The process of accepting that social initiatives can go hand-in-hand with financial business objectives is not straightforward. During the course of this study, several interviewees indicated a resistance to institutions that employ a for-profit model to address social issues. An SE support organization in Palestine maintains that funding for social initiatives must remain philanthropic in nature. Other examples from Lebanon involve cases where for-profit SEs, which started out as not-for-profit models, switched in order to facilitate further financial transactions and partner liabilities. In addition, the move to for-profit models can also help facilitate access to capital from private investors, who are more likely to invest in a more commercially-oriented enterprise. Other for-profit SEs that wanted to incorporate as NGOs in Jordan found that in-country regulations are too stringent, did not fit the structure of their SEs and now feel the freedom of operations they enjoy as commercial entities better suits their models.

**DYNAMICS OF SOCIAL IMPACT**

**TAKE-AWAYS:**

- Social impact measurement is still in its nascent phase in the region due to a lack of appropriate metrics or a culture of impact measurement.
- SEs often lack both resources and understanding of social impact measurement.
- Despite capacity and resource scarcity, a culture of social impact measurement and reporting is starting to take hold.
- There is a lack of consensus among SE actors on how to qualify, measure or report on social impact.

During the start-up phase, SEs make key decisions about how much they lean into the social and financial sides of their businesses. The decisions associated with this process weigh heavily on profitability and sustainability, but also on impact. For instance, during start-up, SEs often debate whether and how to distribute profits to ultimate beneficiaries. Also, during early stage development some SEs - particularly, online enterprises - find that they need to provide services free of charge. They do so because they feel they have an opportunity to make a social impact, such as introducing a new idea to the market, which would not be adopted were they to charge end users. If the SE is addressing issues related to poverty, it is customary for such an enterprise to look for donor funding, in order to cover the costs of providing free services and other overheads.

One of the first major hurdles social enterprises face during establishment is to establish an intricate understanding of the social issues they seek to address. To have a social impact it is incumbent upon SEs to understand and define the social problems they seek to redress. The process described by interviewees entails defining the scope of a problem and then engaging the community or target market to accommodate the needs of the latter with their offering. Several SEs in Egypt working with local communities in the agricultural sector said they failed to comprehend and in fact underestimated the entrenchment of traditional social and business

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_We chose the worst registration a start-up should go through._

_I was in the military and my partner was alone so he did a lot of things on his own, that was one of them._

- Founder, Education Sector, Egypt.
practices. An SE working on solid waste in Lebanon also described having to alter their core business operations, because they could not sufficiently communicate with customers. This was also the case with SEs, which are physically removed from customer engagement, such as those working in healthcare online from outside Lebanon and Jordan. The latter had to adapt their revenue models, as end-users were generally unwilling to conduct numerous online transactions before garnering extensive experience with this SE’s services. Yet after understanding and working through the complexity of the social issues they seek to address, these same enterprises were able to spot market opportunities and create viable product offerings, which can generate longer-term financial sustainability for their enterprises.

SEs set out to build models for change in their society as well as their markets. By and large, SEs underestimate the amount of time and effort it requires to affect significant change and to make an impact. However, those SEs that grasp the need to engage their communities with an agenda for change are aware that businesses are likely to stay in the red while the market catches up to their new offering. Bearing that in mind, these SEs can and do fundraise as well as plan their operations.

Systematic reporting and monitoring of social metrics is not prevalent among social enterprises. Once SEs successfully integrate their operations into the targeted communities, they start to produce outputs and outcomes. For the most part, SEs understand that they should measure the social impact of these performance indicators. However, many do not consider this an operational priority. As such, interviewed SEs display a lack of consensus over how to measure impact and offered widely subjective interpretations. Moreover, SE support organizations in Lebanon perceive that the culture around data collection and impact-reporting against metrics, which fill a gap in the social space, is greatly lacking, as are initiatives to share such data on open-source platforms. Indeed, none of the participating SEs systematically tracked and published social impact, beyond reporting on social outcomes via social media. That said, almost two-thirds did engage in collecting social metrics of some sort (see Figure 15).

A culture that discourages sharing information creates issues for social enterprise development. Instead of publishing information about social impact, some SE support organizations in Lebanon suggest that the non-profit sector habitually hides proprietary information on impact. In turn, this is seen as an impediment to evidence-based SE growth and capacity-building based on data reported by successful SEs. Until this issue is readdressed, the effect of SEs in the region, and which sector-specific models are most effective in creating impact to resolve social ills, is likely to remain unclear.

Do you want 100 SEs that don’t really employ anybody but show up at all the events, and throw events and talk to newspapers? Or five really amazing companies expanding across borders and finding ways to monetize and have social impact? I think you want to think more critically about impact. — Founder, SE Support Organization, Lebanon.

A lack of resources and appropriate metrics thwart social impact measurement. Across the region, SEs that don’t engage in impact measurement say that the process of defining, tracking, and measuring social impact is difficult, due to a lack of resource capacity or skills. For instance, an environmental SE in Egypt claims that they can’t define impact metrics, because they are too subjective. An SE in Jordan working on healthcare complained that they had to allocate time and resources to conducting research for impact measurement, only to confront clients and partners unwilling to engage in serious monitoring and evaluation activities.
The reticence to engage in full-fledged impact monitoring may be understandable, given the size and correspondingly scarce resources of participating SEs. Yet both large and small social enterprises understand that there is a business case to be made for publishing social impact results, as it increases their organization’s credibility. However, SEs tend to focus their external communications on targeting customers through public relations material, rather than publishing results even if they agree that publishing social and/or financial information is in theory a good idea. For instance, an SE working on healthcare in Palestine describes how they publish milestones about their business, and an SE in Lebanon working in education feel that sharing information on their activities in newsletter form is akin to publishing information on social impact. Even when SEs do allocate the resources toward measuring impact, they don’t always have the processes or the will to allocate resources to publishing their findings, as is the case with an SE in Egypt working in the environmental sector.

The social impact metrics employed by SEs often lack differentiation between outputs, outcomes and impact. When interviewees were asked how they measure their impact, those that do often describe measuring outputs and outcomes, rather than systemic change over a sustained period of time. One explanation may be that most SEs in the region have not achieved the scale required to affect the kind of systemic changes that constitute impact. What’s more, most SEs have not been around long enough to engender the kind of impact that would affect a social construct. In fact, just over a quarter of SEs identified in the region during this study have existed for over five years (See Figure 16).

SE support organizations measure their impact because they must report results to donors. SE support organizations differ from SEs in that they have a clearer set of tools for measuring their impact, even if they too tend to focus solely on outputs and outcomes. The main reason that these enterprises measure impact is to report to donors on whom they are dependent for funding. Thus, it is common for regional support organizations to employ a series of KPIs that they can use to measure their success, including total funding amounts raised for their SEs, jobs created (including those for subgroups such as women), and longer-term measurements, which gauge how many projects are self-sustainable. Across the region, interviewed SE support organizations say that they encourage the SEs they support to systematically measure and report impact, but none viewed having such practices in place as an inclusion criterion for support.

You have so many eco-friendly artisans, for example, who have really high prices and they are targeting a niche as a social business. Is this the social impact that we need? Sometimes we have to determine that the social impact we need to have is for those people who don’t receive these services or who do not have the access to these opportunities. — SE Support Organization, Egypt.

SEs are open to publishing results, as long as they are positive. SEs which collect data on impact tend to be more open to sharing data on positive social impact and experiences, but shy away from publishing any sort of financial results. Although by no means universal, there are examples of SEs in Egypt and Jordan who theoretically believe in publishing financial results, especially if they are reinvesting the majority of their profits in the business. However, the vast majority of SEs interviewed claim they are not at a stage to publish financial results. Indeed, apart from when negotiations with potential funding agencies mandate it, SEs across the region do not feel a need to publish financial results, in the absence of any legal obligation.

Despite numerous challenges, a culture of social impact measurement is beginning to take hold in the region. The tools, however, remain basic and conventional. SEs which measure the components of their impact often do so using metrics specific to their

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We don’t have any measures to assess our social impact because we don’t even know how to measure it. We haven’t considered it yet.
— Founder, Healthcare Sector, Jordan.
industry, as is seen in the environmental sector in Egypt and Lebanon, as well as the health sector in Lebanon and Jordan. The number of local jobs created and clients/beneficiaries reached are common metrics among SEs attempting to measure impact. SEs that operate exclusively online also use digital metrics to measure their social impact. However, this study found that some SEs in Lebanon and Jordan working on healthcare and environmental sustainability grow reliant on loose tools such as social media feedback to showcase – rather than report on – their impact on social issues.

MANAGING THE SOCIAL ENTERPRISE

TAKE-AWAYS:

• The majority of interviewed SEs have a board of directors.

• The founders of an SE typically sit on its board and manage the organization.

• During inception, engagement with the support ecosystem generally creates positive results.

By and large, most regional SEs and SE support organizations have instituted a board of directors. In fact, of the interviewed SEs and SE support organizations, a total of 68 percent have a board of directors (BOD) (see Figure 17). In the case of interviewed SEs, many initial co-founders are also members of the BOD, and a separation between ownership and control of SEs – a cornerstone of orthodox corporate governance – is exceedingly rare. It’s also worth noting that BODs are legally required for the predominant forms of company incorporation in the region, such as LLCs, as well as a precondition for some SE support organizations or for investors contributing to SE development.

For SEs in the nascent development stage, the first BOD usually consists of initial co-founders and primary employees. Accordingly, during this phase, SEs are heavily reliant on the knowledge, decisions, personal connections, efforts and networks of their BOD to develop business functions and generate sales.

Engagement with the support ecosystem positively affects SE operations at the board level. One defining factor of SE BODs and their efficacy is whether the social entrepreneur has engaged with support organizations before they choose a management structure. Social entrepreneurs that come from the support ecosystem, or are more established, seek to use the BOD as a tool to attract talent and funding. For instance, a Jordanian healthcare SE founder, who has been through several rounds of funding, negotiated with investors to split his board between himself and someone of his choice, with two seats reserved for investors, and a final seat open to an independent member. Other examples from SEs working on environment in Egypt and healthcare in Lebanon offered places on their BOD to attract talent and expertise. Social entrepreneurs who are familiar with the entrepreneurship ecosystem in their respective countries also consider establishing advisory boards to maintain greater control over their operations. However, at times the advice of these advisory boards is viewed more as a diktat than a suggestion.

FLAT AND LEAN MACHINES

TAKE-AWAYS:

• Not surprisingly, almost all SEs start out and maintain flat and lean organizational structures, much like start-ups.

Organizational structure is, perhaps, where SEs and commercial entrepreneurial startups are at their most similar. Across all countries and sectors, SEs maintain flat and loose organizational structures during the start-up phase. Predictably, as they enter the growth and sustainability phases, SEs attempt to, and largely maintain, loose structures at the management level.
From the get-go, SEs find the process of attaining financial sustainability difficult. Financial sustainability is more complex for SEs than purely commercial organizations, because of the dual objective of garnering revenues and ensuring social impact. This dual narrative creates issues when attracting funds from institutional investors, who are primarily concerned with financial returns on investment. Donor funding also creates issues for SEs, because it is short-term and comes with strings attached, while SEs take a long-term view of social problems and require flexibility to adapt to local contexts.

In addition to funding, human resource supply and competing demand from outside their industry also pose challenges for SEs, which must continuously seek to disrupt the markets and social settings in which they operate through innovative models and products. In addition, government bureaucracy, inefficiency and resistance to change mean that SEs must find creative ways to manage regulatory frameworks.

**FINDING THE MONEY**

**TAKE-AWAYS:**

- During the start-up phase, SEs find it hard to attract investors and largely rely on donor funding.
- SEs that are more focused on the financial side of their business are more successful in attracting funding.
- Even as SEs develop, institutional investment remains difficult and cumbersome.

During start-up, SEs seek donor financing, since they perceive this method to be more receptive to social impact. Many of the interviewed SEs face difficulty attracting institutional investors, and in turn target funding from donor organizations such as international agencies or local support organizations offering seed funding. Of the participating SEs, around half acquired seed capital from funding bodies, such as international agencies or entrepreneurship competitions. Only a minority are able to acquire investment at the start of enterprise development, while around a third invest their own money or that of friends and family (see Figure 18).

As enterprises enter the growth stage, they start to rely less on donor funding and target more institutional funding. However, institutional funding still makes up only slightly more than a third of growth stage financing (see Figure 19). While for-profit businesses use either of the three financing categories, non-profit businesses rely completely on seed and competition funding, and unregistered businesses only invest their own capital.

**FIGURE 18: SE START-UP FUNDING SOURCE**
SEs looking to attract funding often resort to selling social and financial metrics together. As found in the literature, SEs offer a combination of social and financial returns to investors, in the knowledge that they cannot compete solely on the basis of financial returns with purely commercial organizations. But while SEs may not be able to compete with strictly commercial enterprises on ROI, some are trying to attract investment by selling their scalability — precisely because the level of need in the region is so high. This was the case with an Egyptian SE working in the environment, and a Jordanian healthcare SE, which saw the level of need and the ability to continually scale as a linchpin for sustainability. Indeed, the Jordanian healthcare SE has already attracted many rounds of investment and says that they are able to sell the scalability element of their business to investors, as a sign of long-term viability.

The banking sector in the region is generally uninterested in funding social enterprises. Particularly during the start-up phase, SEs struggle to secure traditional bank financing, as they lack performance indicators, have limited business plans, or their business plan sounds too iconoclastic for conservative bankers. Indeed, only one interviewed SE in Palestine has taken business loans from the banking sector, and only two education SEs working in Jordan and Lebanon are considering it. Moreover, penalties for defaulting on bank loans or declaring bankruptcy in the region are relatively harsh and can entail jail time, further discouraging SEs from leveraging through bank loans.

Entrepreneurs are not very keen on having loans because they know that if they go bankrupt, they are probably going to jail. So loans are not very sexy for entrepreneurs, or they are more into angel investing, venture capital and private equity. — Founder, Environmental Sustainability Sector, Egypt.

Institutional investors want to see risk and return metrics before committing investments. Some organizations offer funding to address social ills, as long as they are defined quantitatively in relation to market failure. By doing so, the risk can be quantified or at least estimated, and on this basis loans are provided to address gaps in social structures. While investment funds may like the idea of engendering social impact, ROI remains central, and most investors are unlikely to forego much of the latter for some of the former. One SE support organization, which offered funding, says that it does not consider any application that does not cover a period of five years and estimates risk, preferably in a quantitative manner. Such requirements stand in stark contrast with, for instance, a Jordanian SE working in health, which does not have a financial projection after a year of operation. In fact, over two-thirds of issues related to capital mentioned by SEs and SE support organizations dealt with financing and investor relations (see Figure 20).

Rejectionist SEs manage to secure institutional funding, several rounds of financing and also engage in equity financing. While some restrictive and embracive SEs also managed to do so, they were a minority (See Figure 21). These findings indicate that SEs which are more restrictive in their interpretation of their business and more focused on financial aspects or the financing process, create more restrictive and investment savvy SEs.

SEs that attract several rounds of financing build a proof-of-concept that can generate revenue and subsequently undergo an extensive due diligence process. SEs which have been through the due diligence process associated with institutional funders tend to focus on their business case and financial viability. Yet SEs which engage institutional investors find the due diligence process overly exhaustive and time consuming. They mention the process...
of assessment by, and negotiations with, investors, the associated legalities of putting these deals into place, as well as the time lag between when funds are pledged and actually arrive. This is the case for SEs across sectors working in Lebanon, Palestine and Jordan, as well as SE support organizations in Jordan, which also fund themselves through equity funding and offering investors spots on the BOD.

When it comes to financing, well that’s always going to be the issue because the Middle East is a very risky operation and investors are not going to become more generous unless they see really big success stories. – Founder, Healthcare Sector, Palestine

Few SEs do not even consider external financing until much later in the enterprise development cycle. This study found that SEs working on environmental sustainability in Lebanon and Egypt have access to some capital and felt that the terms, particularly for equity financing, are unfair. By not having taken out external funds, they maintain the organizational freedom and flexibility to experiment with riskier and innovative products. Only once these SEs achieve proof of concept, break even, attain profitability and show a growth trajectory, do they begin to negotiate with funding agencies for better terms. These SEs also find themselves more acceptable to traditional financing in the form of bank loans, because of their track record and established business case.

SUSTAINABLE WITH OR WITHOUT PROFIT

TAKE-AWAYS:

• The consensus among SE actors in the region is that for-profit models outpace non-profit ones in the longer term, once they establish a steady flow of capital.

• The very nature of how donor funding is administered affects long-term sustainability of SEs.

Most SE actors equate sustainability with the ability to maintain financial revenue, rather than reducing negative externalities. Interviewed SEs are generally aware that their operations should create as few externalities as possible. However, only SEs in Egypt and Lebanon working on environmental sustainability say that they measure their carbon footprint as a metric for how they affect their surroundings. According to one Lebanon-based SE support organization that operates around the region, the main reason for a lack of externality measurement is because the majority of SEs that measure impact do so with loose and often qualitative metrics. Rejectionist SEs are more likely to place added value on financial sustainability over social elements, while the more restrictive and embracive actors tend to emphasize the need to continually adapt and innovate their business model, in order to maintain sustainability.

Most of the social entrepreneurs come from a development background as they want to do something, they want support and they know that we have to have some sort of sustainability plan. So if they don’t have someone who is really focused on business... like the ‘bad guy’ in the social enterprise, they are going to lean into the impact and they are going to miss out on sustainability – and they are going to die eventually, and that’s what happens. — Founder, Environmental Sustainability Sector, Egypt.

SE founders who come from the non-governmental or development industry, use their knowledge and networks to address social problems and acquire funds. SEs in Egypt and Lebanon that came from the development industry were either able to draw on expertise or attract funding in order to contribute to early-stage development. Indeed, donor funding can and does help SEs in the region start-up operations, and in some cases, contributes to financial sustainability. Yet at the same time, dependence on donor funding can result in SEs focusing more
on social issues rather than financial sustainability, both in terms of their business models and day-to-day activities. According to one donor-dependent Egyptian SE working in the environment sector, the need to continually meet, evaluate and prove social outcomes takes time away from the financial aspects of their enterprises. Another donor-dependent SE in Jordan working on education said that since donor agendas constantly change, it is hard to focus and target their activities.

**Mainly we are trying to place more focus on our idea because most of the donor organizations are just a development shop. They buy and sell anything: One year it’s what we do about women, the next year it’s about child rights, and the next, ‘let’s work with refugees’. We can’t see ourselves like them.** – Founder, Education Sector, Jordan.

To varying degrees across target countries, funds available to organizations working on social ills are dominated by donor funding. To some SE actors, this constitutes a regrettable reality for the sector, as it crowds out innovative, financially sustainable models in favor of those that can adapt their models to donor agendas. In turn, this also focuses efforts on issues that are important to donors, which are not necessarily vital to local communities. While there are SEs that work with local communities in Egypt and maintain built-in participatory functions to feed into decision-making, these SEs ultimately agree that donor agendas determine what SEs do, and to some extent how, in the communities they serve.

The manner in which donor funding is distributed creates sustainability issues. In Lebanon and Jordan, donor interests and agendas related to the Syrian refugee crisis have brought hundreds of millions of dollars in to the social sector. So significant is the draw of this volume of funding that a for-profit Egyptian SE working in agriculture claimed it was looking to move from a for-profit model to registering as a non-governmental organization, since some large donor organizations prefer not to work with private companies. Moreover, most SEs face difficulties attracting large amounts of donor funding that can allow them to achieve economies of scale, as they lack organizational infrastructure and capacity. What’s more, grants come in the form of a lump sum that needs to be spent within a specific timeframe on specified social outputs and outcomes. SEs that attract this funding are forced to allocate resources to achieving shorter-term objectives rather than investing in longer-term sustainability, performance and efficiency. Short-term financing also curtails the ability of SEs and SE support organizations to engage in long-term strategic scalability planning.

**A lot of SEs are reliant on lump sum [donor] money coming to them on a silver platter. It is less bound by business productivity fundamentals, like having key performance indicators. Companies work differently, as if they don’t reach those KPIs they will go bankrupt.** – Founder, SE Support Organization, Jordan.

Another avenue for donor funds explored and employed by regional SEs is corporate social responsibility funding. Around 14 percent of interviewed SEs receive support from companies’ social investment or corporate social responsibility (CSR) budgets. At the same time, because CSR is relatively underdeveloped in the region, some of the SEs identified as having received CSR funding feel that the financing segment is overly concerned with public relations outcomes instead of social impact. Accordingly, SEs looking to attract corporate funding feel that the basis upon which CSR funds are allocated is more dependent on personal connections that open the door to nepotism than any form of corporate citizenship. However, the low number of SEs receiving funding from CSR sources could also reflect a lack of connection between SEs and socially responsible...
businesses. Indeed, only one SE working on health in Jordan had modeled their business to partner directly with companies engaged in CSR.

If you don’t know anyone inside a company and you have a brilliant idea, they will not give you a sponsorship package. The first time I went to a CSR manager and told them about my idea, they said: “It’s a nice idea and we’ll get back to you soon.” And of course they didn’t. And then I met the GM of the company... they approached us in a different manner and they paid. — Founder, Education Sector, Jordan.

THE SCALE OF ALL THINGS HUMAN AND NOT

TAKE-AWAYS:

• SEs which monetize their operations and become less dependent on grant funding can more easily achieve scale.

• Sourcing and retaining appropriate human resources is a major challenge for most SEs in the region.

• SEs fund their expansion and sustainability plans more through reinvestment of profits than grants, loans and equity financing.

A key element of scale is the ability of SEs to spot a gap in the market and create an offering to monetize their operations. There is no single manner in which SEs in the region approach the issue of monetization: indeed, it is greatly dependent on the sector and business model adopted. However, in general, SEs working in local communities, which are reliant on them for labor supply and production capacity, are forced to enter into profit-sharing models, as the community needs to be compensated for adding value. SEs that offer purely online services opt for the three main approaches to monetization: subscription models, royalties and advertising. Other SEs, such as an Egyptian outfit working in agriculture, even started with a business model that suffers from a lack of profitability, later bringing in other business lines that lean more towards corporate clients, in order to sustain their growth.

As social enterprises develop they rely less on grant funding and more on reinvestment of profits. Only one participating SE has reached the stage where they can pay out dividends to shareholders. The rest prioritize the reinvestment of profits into their business. Reinvestment is common to all participating SEs, as opposed to offering dividends to shareholders. Only SEs that have developed into SMEs with significant operations are paying dividends to shareholders, and even then, these remain minor in comparison with amounts put back into the business.

At the same time, some SEs offer their clients financing facilities for services rendered. Despite the inherent risk of non-payment, as well as more complex cash flow considerations, these SEs feel this method allows them to attract a wider client base without acquiring large contracts to facilitate scale. In fact, the inability of regional SEs to access large contracts from government or international development agencies is cited as one impediment of scale. SEs also still employ grants, institutional investment and leveraging to fund their expansion (see Figure 22).

Likely due to the nascence of the SE sector, over two-thirds of participating SEs do not have financial projections for past financial periods (see Figure 23). However, at the same time, SEs may have set a goal for breaking even. For SEs that do formulate measures of financial success, their first and primary objective is to achieve a positive cash flow on the path to sustainability. Once this has been achieved, SEs begin to show greater maneuverability with resource allocation to different aspects of their business where they feel the need to focus efforts.
At times, SEs model their revenue streams to use one stream to cover operating costs, such as labor, and another to garner profits. SEs working in sectors that typically rely on informal labor have the added advantage of avoiding large or consistent tax impositions. Of participating SEs which did have projection targets, around 70 percent were meeting them for years past. This indicates that once SEs are at a level where they can start to predict cash flow from operations, they also generally are able to plan ahead and achieve their goals.

One of the greatest challenges SEs face in their development is finding human resources. Corroborating the existing literature, interviewed SEs feel they could make a greater impact by scaling up, but often lack resources to invest in HR capacity in order to operate at scale. As SEs often don’t have the ability to hire or prioritize, dedicated full-time business development staff, these activities typically receive only part of the attention of founders and staff during early stage development. Moreover, interviewed SEs suffer an insufficient supply of required expertise, including practical, soft and on-the-job skills. Moreover, the relatively high demand for such talent in the region means that large established corporations can dominate access to qualified human resources. Therefore, SEs sometimes have to ‘settle for less’ because they cannot afford to compete on salaries or packages. Another tactic employed by SEs working in education and environment in Jordan and Egypt, respectively, is to recruit staff from outside the region, which could also entail higher wages depending on skill levels.

Talent is scarce in the region, and whenever you find talent, everyone wants them. People do not understand that they will be partner[s] in a start-up and all the experience you get in a small firm. They all want to build their CV, like at a huge corporation. Rather than attract young, ambitious people, we always find ourselves in a situation where we can’t pay a lot, and have to have people accept lower salaries. And the talent we bring in… we lose those to big corporations.

– Founder, Healthcare Sector, Lebanon.

Because skilled workers are also relatively scarce in the MENA, SEs have to adopt a variety of strategies to deal with the deficit. Participating SEs in Egypt and Jordan often structure their operations on a project-basis, with staff and consultants running specific projects while founders run the company and/or projects. SEs usually can only afford to compensate talent at local market rates, meaning that they often lose out to multinational corporations. To address this issue, SEs attempt to offer package deals to prospective team members, which sometimes include stock options. Another tactic employed by SEs working in education and environment in Jordan and Egypt, respectively, is to recruit staff from outside the region, which could also entail higher wages depending on skill levels.

Even SEs that have developed into middle-sized SMEs and offer more attractive packages still face problems attracting the right kind of talent. Examples from Egypt’s environmental sector and the education sector in Jordan show that one way SEs get around this problem is to hire staff and invest in their training and development. They were, however, disappointed by the knowledge attained by staff. Moreover, when staff did develop capacity to add good value to the business, retention was difficult to achieve.

Expanding into markets outside of their current coverage zone is a key target for most SEs, particularly those whose core offering is an online solution. The latter tend to be greatly reliant on the scale afforded by the Internet, as opposed to other SEs that are selling physical technology as their core offering. In the non-technology sector, SEs’ business expansion into different geographies is more organic, slower and based on considerations of where SEs can penetrate and wield a competitive advantage. Yet for the most part, SEs say that for the time being they need to focus their efforts on their current countries before expanding into the region and then further afield.
Diversification can allow SEs to increase profitably and maintain impact over time. By creating more than one revenue stream for their enterprises, diversification strategies allow SEs to both scale up their businesses, expand their product portfolio and increase their social impact – all of which contribute to making their businesses more sustainable over time. In addition, SEs that are viable often attempt to diversify revenue streams, in a manner that allows them to gear operations to different end-users. Examples of SE diversification were seen in Palestine, Lebanon and Egypt’s environmental sector, as well as Lebanon’s and Jordan’s health sectors.

The reason we survived and grew while they suffered is because we had two specific value additions. One is technical – we were developing our own technology – and the second is financial, we were very creative when it came to the financial solutions. – Founder, Environmental Sustainability Sector, Egypt.

INNOVATE OR PERISH

TAKE-AWAYS:

• In order to be truly effective, SEs need to capitalize on their inherent ability to disrupt the modus operandi of sectors in which they operate.

• SEs need to find ways to continually innovate and adapt their models and offerings to accommodate the market.

As disruptive entities, SEs in the region consistently face an uphill struggle against entrenched cultures and practices in their respective fields or sectors. 63 This is especially true for SEs working with local, particularly rural, communities, who typically lack access to information or alternative, innovate and more efficient modes of value production. For instance, in order to make a convincing case for social change, two Egyptian SEs working on environmental sustainability say they made the business case to rural communities to substitute entrenched environmentally unsustainable practices with income from sustainable ones. SEs working on online health offerings in Jordan and Lebanon have had to rethink adoption issues due to the fact that some of their clients display resistance to online transactions.

The process of disruption entails raising awareness. SEs interviewed for this study often face a two-pronged challenge: they must overcome resistance to change from the market and from society. In order to be disruptive, SEs often find that they need to address lifestyle issues. Naturally, raising awareness and building momentum for change is an inherently slow and complex task, particularly when addressing social ills. Across sectors and countries, SEs describe low community awareness for the need to tackle a pressing social problem, or a low regard for the manner in which SEs are proposing to do so. As a result, SEs express frustration with their operating environment, as a lot of work goes into re-education along the value chain of their industries while, in the meantime, income generation suffers.

The only good way to higher growth is through cultural change, to figure out how to change some of the cultural barriers around innovation and creativity, and the idea of risk entrepreneurship needs to grow. This needs to be on mass media, on TV, in mass discourse. What do most people want to do? Leave the country or go for a stable job in a big company, or work for government. – Founder, SE Support Organization, Lebanon

SEs in the region are more creative/adaptive than wholly innovative. 64 Over two-thirds of interviewed SEs adopt innovative approaches in regard to their business model, rather than their product offering (see Figure 24). These innovate models occur in two main forms: SEs from different sectors employ international SE business models that have proven viable
elsewhere and tailor them to a local context, or take local business models and build innovations on top of them, such as across industry value chains. For instance, online health SEs in the region resemble internationally-renowned online health websites, but with Arabic content. An environmental SE in Lebanon working on recycling replicates the job of many governments by going door-to-door to pick up recyclable materials.

Innovative products are generally more effective than innovative models. The one-third of interviewed SE who engage in home-grown research and development are perhaps the best examples of how SEs can make a qualitative difference to affect social impact in their sectors. SEs which create their own technologies and replicate them in their markets are noticeably more successful, due to the fact that their products are specifically tailored to target markets. While they may face similar adoption hurdles to other SEs, these SEs claim that their operating costs are lower since they do not have to pay premiums to purchase from suppliers. Of course, these SEs incur significant front-end costs stemming from research and development overhead. For instance, an environmental SE in Lebanon, which started out with the idea to manufacture locally, has reverted to import-installation models, before returning to the research, development and manufacturing of proprietary products. Another education sector SE in Egypt went through several different product-marketing stages, prior to settling on the current one for their locally produced product.

So we realized that we have to do a lot of work educating consumers about the products, educating them on our value, educating them on the ‘why’ – Founder, Environmental Sustainably Sector, Egypt.

Disruptive SEs recognize the need to consistently adapt their business models through feedback loops. However, most SEs do not have formal feedback mechanisms in place to streamline information from various stakeholders back into their enterprises. Much of the feedback SEs receive arrives in the form of qualitative information. Only the more developed SEs (three to six years old) in Jordan and Lebanon who work online are able to allocate resources toward quantitative evaluations, or even multi-stakeholder evaluations that include investors, as well as supporters, staff and target market clusters. Part of the reason these SEs are able to do so is because they can generate quantitative information online and then allocate resources for qualitative feedback collection. Typically, SEs that do not have resources to allocate toward such feedback mechanisms, tend to rely on social media.

A STATE OF HINDRANCE

TAKE-AWAYS:

- Government bureaucracy constitutes a major operational obstacle and source of uncertainty for SEs.
- Most but not all SE actors feel that their enterprises should be granted special regulatory consideration.

The primary regulatory obstacle SEs face is from government bureaucracy. Because SEs deal with social sectors and reform which, in theory, is the purview of government, many social enterprises need to regularly engage with state institutions. This can, in turn, provoke political sensitivities with members of government, as enterprises place themselves in direct competition with public services or government-linked NGOs. In line with the literature on SEs, enterprises seeking to receive government approval, especially for establishing NGOs, face numerous hurdles. For one, the process of registration and requirement is unclear and SEs commonly need to figure it out without much available guidance. Often regulatory requirements are ad hoc, unpredictable and dependent on the decisions of government bureaucrats.
SEs that are disruptive to their industries often operate in sectors where regulatory frameworks are outdated or non-existent. Operating licenses in sectors such as education can take years to obtain, by which time many SEs would likely cease to exist. What’s more, regional governments often adopt a ‘computer says no’ mentality in approving or acknowledging SE operations that require licensing. Partially as a consequence of bad experience with government, interviewed SE actors say they have issues engaging and accessing public sector contracts because of excessive red tape. As a result, said SEs commence operations informally or while attempting to acquire licensing that is not specifically suited to their operations. However, this practice exposes them to regulatory scrutiny and potential harm. At times, these SE actors face non-legal hurdles in the form of unwritten, but practically enforced regulations in the social sector. In places such as Palestine, the effect of ad-hoc and discriminatory regulations imposed by the Israeli occupation complicates business activity on a daily basis.

We face serious issues and we are still facing licensing issues with the government, because they want us to offer [redacted] programs according to their standards, however if we are to offer [redacted] courses according to their standards we will not be able to deliver anything! — Founder, Education Sector, Jordan.

Accordingly, this means that government revenues fall, which is also the case when technology companies move payment systems abroad, because governments do not possess the regulatory infrastructure to manage e-payments.

Multinationals can, you know, escape taxes easily, and so this is what we are learning to do. We are going around to save more money to put in operations and save our margins, so that we can keep serving our customers better. — Founder, Healthcare Sector, Jordan.

The lack of a legal structure and tax incentive policy for SEs poses a main regulatory challenge impeding sector growth. Along with wider reforms linked to ease of doing business, tax deductibles as well as incentives for investors, which exist in developed as well as some Arab countries,⁶⁵ are cited as essential elements to spur sector growth. Because SEs feel that they are lumped in with, say, multinationals, which have larger budgets and less of a social vision, many end up emulating large firms by finding ways around taxes, such as registering offshore.
The recent emergence of SE support programs in the region has already helped many social entrepreneurs manage their journey toward sustainability, but much work remains to be done. There are still very few support organizations that have developed programs tailored to the needs of SEs, and the existing support structure lacks key financing elements that can make SE sustainable. In addition to existing support structures, such as prototype support, incubation and acceleration, SEs also require sector-specific support in order to navigate the intricacies of social sectors where they operate.

TAKE-AWAYS:

• Like SEs, the SE Support ecosystem is burgeoning and requires a holistic approach in order to be effective.

• SE Support Organizations suffer from a mismatch between donor agendas and time required for impact.

• Support Organizations need to increase support for home-grown product innovation and sector-specific support to SEs.

STRUCTURED SUPPORT

Like SEs everywhere, SE support organizations are new to the MENA support ecosystem. While some entrepreneurship organizations have been working in the region for a number of years, a focus on social enterprise development is a recent addition to many support organizations’ portfolios. Because support organizations are accustomed to working with start-ups, they appear comfortable working with SEs. To date, however, there are very few entrepreneurship support organizations that are specifically geared towards helping SEs.

The lack of a holistic support infrastructure in the region means SEs cannot easily gauge what is on offer. Different forms of support exist in each country and many basic entrepreneurship support mechanisms are available (See Box 4). However, outreach to new potential social entrepreneurs poses a challenge for support organizations, who have trouble communicating principles of entrepreneurship to young people in order to instill ideas of enterprise development as a career option. Furthermore, the support ecosystem is generally constrained to population segments that can access this support, such as those with a higher education and knowledge of foreign languages. Once inside the ecosystem, it takes social entrepreneurs time to gauge and navigate the types of support they can access. Finally, coordination of support services and the establishment of candidate pools to share access to potential entrepreneurs did not appear to be in place during the research. Rather, SE support organizations complain that some members of the support ecosystem are territorial about the candidates and SEs they support. This may be because SE support organizations typically answer to donor organizations and must achieve short-term KPIs related to graduating entrepreneurs from their programs as well as longer term KPIs for graduating sustainable enterprises. That said, SEs that engaged with support organizations during the early stages of their establishment, found it beneficial but also potentially distracting from their core endeavors.

The main support mechanism that requires development is adequate funding for SEs, particularly during start-up. While this may be the result of the financing dynamics described above, very few venture capital firms will consider dealing with companies at the current stage and scale of most SEs in the region. At the same time, support organizations commonly connect SEs with investors through their networking services. Typically, SE support organizations will offer seed funding in the form of a grant and then support is offered to connect start-ups and growth stage enterprises with investors.
Like SEs themselves, support organizations adopt either for- or non-profit models. SE support organizations face many of the same issues that SEs do with regard to registration and the nature of donor financing. In fact, SE support organizations that participated in this research say that they tend to have rather rigid support structures dictated by donor funding requirements, as well as monitoring and evaluation processes. Support organizations in Lebanon say they are trying to become more flexible in their support requirements and are moving toward models where support is more demand driven. And SE support organizations in Lebanon and Egypt also state that they suffer from a lack of funding, as well as challenges with the short-term nature of funding not befitting the time-consuming objectives of support organizations to develop sustainable enterprises.

SE support organizations have different screening procedures for social entrepreneurs. Depending on program support type, SE support organizations screen entrepreneurship candidates through different procedures. Accordingly, these support organizations require participating social enterprises to pass through numerous screening and training stages. For SEs, this creates several issues, such as an exhaustive set of mandatory support sessions, which SE support organizations in Lebanon and Egypt argue are excessive. Usually, candidate assessments can range from a one-day basic training course to months for mentorship and growth stage acceleration. While there is no standardization, SE support organizations claim to be inclusive in their selection, at least in earlier stages. Selection at more developed support organizations depends more on the nature of programs and the profile of the entrepreneurs (age, education level, etc.), and are usually initiated through an open call for proposals.

We get so many people who are saturated with training. However, according to my mandate, you have to attend that training so I can monitor your progress. So you can’t run away from this, and you get bodies without minds. – Director, SE support organization, Egypt.

Support to SEs offered by Support Organizations typically encompass three loose phases. Depending on the organization, support is time bound by different criteria, depending on the type of program on offer. These support phases can be classified as:

1. Start-up support that helps an SE develop their business model and prototype,
2. Incubation and acceleration to transform prototypes and business models into minimum viable products
3. Funding acquisition support, which entails either direct funding or access to financing networks

Across the region, support organizations face difficulties in helping SEs develop ideas that are based on novel scientific research. According to said organizations, the primary reason behind a dearth of innovative products is a dearth of candidates capable of seeing an innovative product idea through to the research and development, proof-of-concept and viability phases in the market. As is the case with over two-thirds of existing SEs, most candidates possess

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**MAIN TYPES OF SUPPORT OFFERED TO SES IN THE REGION**

1. Basic Training in Entrepreneurship Concepts
2. Boot Camps (up to three phases)
3. Legal assistance related (incorporation)
4. Psychosocial Support
5. Seed Funding
6. Angel Investments
7. Crowd Funding
8. Mentorships
9. Networking (Investors & Experts)
10. Innovation Labs
11. Incubation
12. Acceleration
an innovative model, rather than a novel product. But there are only a few instances of support organizations working specifically on developing innovative social products. Moreover, SE support organizations find it difficult to integrate programs with academic institutions that produce research and innovative products.

**Lack of product innovation causes issues for support organizations during the selection process.** Without a wide and developed pool of candidates to choose from, support organizations sometimes combine start-up support and screening with seed funding to help nascent SEs develop their prototypes alongside their business models. At the same time, organizations also extend support to teach start-up SEs to fundraise across different platforms, such as crowd-funding.

**SEs find that sector-specific support is lacking across the ecosystem.** This is particularly the case with regard to structuring a sector-specific business, due to different and intricate legal, regulatory and technical requirements applicable to specific industries. To address this, some SE support organizations are using the mentor model and matching SEs with persons who have expertise in a specific sector. While this practice is not yet widespread, it is indicative of the fact that support organizations display a growing awareness of the need for specialized support.

**SEs who have access to this kind of support in the ecosystem say they tend to experience less problems with regulatory issues at inception because they are guided through the process.** In addition, sector-specific support can help save SEs precious funding given that technical consulting in the region is often targeted to larger and established businesses, which often have copyright or intellectual property concerns. As a result, prices for expert advice on risk management and sector specific financial planning are prohibitive for start-ups and many early-stage SEs.

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We get so many people who are saturated with training. However, according to my mandate, you have to attend that training so I can monitor your progress. So you can’t run away from this, and you get bodies without minds.

– Director, SE support organization, Egypt.
Paradoxically, for Arab Social Entrepreneurship, the region offers all the market conditions for growth and all the barriers to it. Perhaps one of the most conspicuous trends in the past two decades has been the public sector’s retrenchment. In education, health and the environment, to mention only the areas covered in this study, the states of target countries (Jordan, Lebanon, Palestine and Egypt) have been falling short by almost every measure. The statistics alone tell of societies, especially the most vulnerable among them, that have been forced to fend for themselves. And whereas the options of private education and healthcare have shielded the affluent, environmental degradation has pretty much affected one and all, doing its worst among the less fortunate.

And hence the noticeable uptick in the number of NGOs and (more recently) social actors whose primary mission is to intervene, alleviate and/or redress in the presence of diminishing public services. But for a variety of reasons—ranging from the Arab state’s capriciousness and antipathy, to the absence of impact investors, to a disconnect between international donor agendas and local imperatives—Arab social entrepreneurship’s has yet to catch up with its potential.

One of the more interesting findings of this study is that little has changed over the past six years, when the research field (academic and otherwise) began to turn its attention to SE. While available data allows us to safely assume that social enterprises have multiplied and support organizations have sprouted across the region, the market gaps and regulatory hurdles that impeded momentum in 2010 are still hampering it now. It is true that, in countries like Jordan and Lebanon, laws have been simplified and incentives established, at least on paper, to help commercial start-ups, but many other factors intrude to make the experience trying for them and even more frustrating for impact-driven outfits, whose social proposition often acts as a deterrent for two of the major players poised to help them: international donors and institutional investors. Whereas the former recoils at the idea of a for-profit concept, the latter is unimpressed with a bottom line that argues value beyond numbers.

The SE ecosystem, therefore, remains forever harried and untidy, leaving its members hard pressed to navigate in a climate hobbled by ambiguities, rigidities and ignorance about the vital role social enterprises can play in innovating developmental strategies and responding to dangerous societal vacuums. And bad for all, of course, is the ecosystem’s implicit bias, because of language barriers and conventionally unattractive returns on investment, against social enterprises operating in non-urban centers and bottom-of-the-pyramid communities, two uniformly neglected locales in the four target countries.

WHAT TO DO?

The rhetorics of change are easy to articulate, but execution is palpably trickier in the absence of a commitment to audacious reform by major movers in this sphere. The tasks for governments, investors, international donors and intermediaries are clear. In fact, over the years, a whole edifice of specific policy recommendations has been erected. And yet, very few of these have been implemented because of influencers’ remarkably tenacious ambivalence towards start-ups, which tends to be at its most acute towards SEs.

It is, therefore, hard to imagine foresight and resolve converging to create the necessary group of change agents across dominions. There is no evidence of public servants overhauling decrepit practices and attitudes, or of dominant investors adopting new performance benchmarks and espousing advocacy, or of international donors rethinking methodologies. Only within the relatively small, albeit growing, entrepreneurial space, peppered that it is with visionary investors and young innovators, do we catch a glimpse of those who appreciate and embrace the promise of social entrepreneurship. And only when we observe local governments, do we see public representatives and social actors (24/7 electricity in Zahle, Lebanon, is one such example) successfully pursuing shared interests.

So far, it is within these two spaces that Arab social enterprises have built up strength and found their true champions. And it is within these spaces—each very likely to continue growing for all manner of reasons—that action plans for SEs have to be conceived and rolled out.
The Syrian conflict has turned 4.8 million people into refugees. Governments around the region are struggling to handle such high numbers, especially Lebanon, where one in five inhabitants are refugees, and in Jordan, where refugees make up 10 percent of the population. All the while, humanitarian aid is drying up due to ‘donor fatigue’ after six years of conflict.

On top of this, host countries have high unemployment rates and budget deficits, while the non-profit and private sectors alike have not been able to provide enough aid or create enough jobs to alleviate the socioeconomic costs of the refugee crisis. In Lebanon, the poverty rate is thought to have increased by around 4 percent to 32 percent of all Lebanese as a result of the crisis, according to the International Monetary Fund. In Jordan meanwhile, unemployment has risen from some 14.5 percent before the crisis to 22.1 percent, according to the International Labor Organization. In response, the Jordanian and Lebanese governments are limiting employment areas for refugees; in Lebanon, refugees are only allowed to work in three sectors: agriculture, construction and the environment, while, until recently, Jordan has only issued around 5,000 work permits for the close to 650,000 Syrian refugees in the country.

Social Enterprises (SEs) however have started to play an innovative role in providing employment and project funding opportunities for Syrian refugees. In many respects, such endeavors are at the core of what social enterprises are all about: creating employment with social benefit when the more established actors are not able to do so. By creating employment opportunities, SEs help alleviate what has been labeled the ‘donor dependency curse’ - where communities become reliant on financial aid to the detriment of sustainable economic development - and help counter governmental and agencies’ shortcomings. In other words, such initiatives make refugees less of a burden on host communities, be it in Lebanon, Jordan or Germany.

“People typically want to donate to a non-profit organization, but SEs can sometimes be more efficient and provide better solutions to a given problem, so it would be useful for people to consider donating to SEs rather than simply focusing on NGOs. The core of what we do is to have an impact and make a profit, but this doesn’t necessarily mean profit for our pocket - it can simply mean profit to be self-sufficient and not dependent on external donors, and is an increasingly popular model,” said Aline Sara, founder of NaTakallam (‘We Speak’ in Arabic), which provides online Arabic lessons by connecting Syrian refugees with students around the world.

The Syrian refugee crisis has in fact led to collaboration between for-profits and non-profits. NaTakallam for instance is currently collaborating with Arcenciel, which helps identify refugees who are qualified to teach Arabic, but also serves as a payment hub for the Syrian tutors. Jordan-based 3D MENA and Refugee Open Ware (ROW) are for-profit organizations using technology, such as robotics, artificial intelligence, and 3D printing, to aid refugees at the humanitarian and economic level. ROW has teamed up with Jordanian and Syrian NGOs to provide innovative education with a focus on technology to enable refugees to be a part of what they call the ‘Third Industrial Revolution’ - advanced technology, IT and programming, primarily through Open Software.

One initiative is with the National Syrian Project for Prosthetic Limbs (NSPPL), an NGO, to develop low-cost 3D-printed prosthetics for amputees, a much needed service given there are an estimated 100,000 to 200,000 Syrian amputees. ROW’s business model mixes innovation and entrepreneurship with donations, having received nearly $10 million in social investment over the past two years. It is aiming to raise a $20 million fund, while ROW has invested in Hala...
Systems, Inc., a SE focused on technology-driven solutions to problems related to conflict and natural disasters.

NGOs with a social enterprise element are also focusing on empowerment rather than providing direct financial aid. Lebanon-based NGO Basmeh wa Zeitouneh, which was established four years ago by Syrian refugees, has set up community centers which provide vocational training for refugees. One program is in embroidery, with over 200 women getting training at its four centers. “They do the embroidery at the center or at home, and every piece they make they get a fee. We sell these products to a SE in Germany and at fairs. That money goes to the women, to projects and to sustain the program, so there are no profits,” said program officer Kim Voogt.

Over time, women involved in the program wanted to set up their own businesses, so Basmeh wa Zeitouneh established a small grants program provided through donors. The NGO selects candidates and provides training for up to six weeks in basic marketing and accounting skills. The candidate then writes up a proposal and a business plan. If accepted, a grant of up to $1,000 is provided, such as for a small shop. “We don’t give them money, we pay in kind, so they go to a shop, select what they need, and we buy it for them. We pay the rent, and they set up the business and it is then monitored. In some cases, after a half a year the businesses needs an extra push, so we started a second cycle for 10 women to receive another $500, which they don’t have to pay back,” said Voogt.

Thirty-eight business were started in the first cycle, and 24 are still running. In total, the programme is aiding 24 Syrians, five Palestinian-Lebanese, and three Palestinian-Syrians, of which 23 are women and nine are men. “We had an NGO from Lichtenstein pay for the training, but the biggest chunk of money needed is from grants, which is hard to get. We can’t ask the women to pay back the grants as we know they will never be able to do so, which is why we’re looking at crowd-funding,” she said.

INTERNET TO THE RESCUE

Online crowd-funding has also become a popular way to raise money for private and public causes, not least the refugee crisis. A leading regional platform is Beirut-based Zoomaal, which has hosted numerous crowd-funding projects related to Syrian refugees. This year the founders noticed that it was hard for potential funders to navigate their website to find such projects.

“We wanted to be more involved in supporting the refugee crisis, as a problem has been for people to discover what crowd-funding initiatives are out there making an impact with refugees, especially small grass-roots projects coming out of the community, not governmental or big agency ones,” said Abdallah Absi, founder of Zoomaal. To effect this change, Zoomaal launched a generic fund specifically for refugee-linked projects, aiming to raise $50,000 through donations. Every $1 raised for an individual project will then be matched with a $1 from the generic fund. Such projects will have more visibility and move closer to their funding needs, while Zoomaal also benefits, taking its usual 5 percent fee for crowd-funding projects.

For-profit Seven Circles Consulting, based in Jordan, is not using crowd-funding but online donations to help feed refugees through its venture Feeding All. “Feeding All is a solution to feed the world through restaurants donating meals, and individuals buying meals to be donated, all around the world, through a voucher-based system,” said founder Dina Saoudi. Via its website and mobile app, users select and pay for a meal which is delivered by the donor or through...
organizations linked to Feeding All. Jordan was the pilot project for the concept, which is being rolled out elsewhere, with Feeding All working with fast-food chains and online delivery terminals such as the Gulf-based Talabat.com to provide meals to those in need. In return, companies get good publicity and minimise food wastage through donating meals, while Feeding All makes 20 percent on each meal to cover operational costs.

DEALING WITH EMPLOYMENT RESTRICTIONS

Beirut-based social enterprise Arcenciel, which was established in 1985, is trying to circumvent the employment restrictions on Syrian refugees by developing cash-for-work solutions. One scheme is at its Taanayel center in the Bekaa valley, where Arcenciel is providing training for women to work in professional kitchens. "We have a referral system, so we try to work with NGOs and enterprises to have people in need placed with them," said Sara Habboushe, the Head of the Social, Health and Employment Program. "As an SE we are also trying to come up with new ventures which incorporate people with difficulties of all sorts, including refugees."

A motivation for Sara to set up NaTakallam was also to provide jobs for Syrians unable to find work due to employment restrictions or after moving to Europe, where employment may be difficulty due to linguistic barriers. "I was heart broken by all these qualified Syrians not able to work, so I thought, why shouldn’t they be Arabic instructors? I told myself it would be a win-win situation, as it is a rewarding type of work for Syrians to teach, and for students to learn Levantine Arabic at affordable prices," said Sara.

NaTakallam, which was launched in July 2015 in New York, has connected 700 students in over 50 countries with more than 30 Syrian conversation partners (CP) in Lebanon, Armenia, Turkey, Egypt, Germany, Brazil and France. Around 60 percent of the students are in the US, which has helped raise awareness about the plight of refugees. "We are like an online dating website – really – as we look into people’s interests and pair them accordingly, so if a student is a journalist, we pair him or her with a CP who has a history in journalism or activism. If a doctor signs up, we pair them with a Syrian nurse who is a working CP with us. We put a lot of time into this," she said.

While other online language platforms exist, Sara said that NaTakallam is competitive because of its social nature and not being purely profit driven. That said, the SE expects to only turn a profit in 2017.

NaTakallam’s revenue models works by charging $15 an hour, with the CP earning $10. "One of our CP’s is based in Cairo and making $600 a month (over twice Egypt’s minimum wage), and some in Lebanon are making the same amount. This past month (July), one of our Lebanon-based teachers hit $1,500 due to the rise in students taking Arabic over the summer. We can see the impact," said Sara.

Such strategies are also ways to overcome the perception that immigrants and refugees are taking jobs in host communities. Social enterprise Recycle Beirut for instance employs refugee women at its recycling facilities, in jobs that Lebanese typically do not want to do (see Case Study). “Some people think immigrants are going to take their jobs,” said Alexander McHugh, founder of Recycle Beirut. But when you are developing a recycling industry like ours, you are also going to need environmental lawyers, engineers, graphic designers and managers. And these jobs that are created are for Lebanese.”
CASE STUDY 2: RECYCLE BEIRUT

Country: Lebanon
Sector: Environment
Year launched: 2013
Founders: Abdallah Chamas, Raed Chami, Sam Kazak and Alexander McHugh
Employees: 14
Board of Directors: Four

In the midst of a garbage crisis that enveloped Lebanon in the summer of 2015, four like-minded residents of its capital Beirut launched what is fast city’s most convenient way to take out the trash. Recycle Beirut is indicative of a social enterprise that is innovative in solving a local problem caused by government inaction, like many others in the region, it does so with a global model. The Lebanese for-profit company collects recyclable material from homes and offices around Greater Beirut, sorts and processes it, and sells it on. Indeed, the Bureau of International Recycling estimates that the global industry which conducts door-to-door recycling employs some 1.6 million people and has an annual turnover of over $200 billion.

What is innovative about Recycle Beirut is that such a service had not been available before in Lebanon, as a business and with a social impact: creating employment and improving the environment. How innovative Recycle Beirut was in the local context more evident than ever during the several month-long trash crisis that started in July 2015, after the government closed a major landfill and trash started piling up throughout the country. Recycling quickly became a hot topic, and TV channels began informing the public about the A-B-Cs of recycling.

“As a business we are doing something that is usually done by a government; because the government is paralyzed we are providing such a service,” said founder Alexander McHugh. A further motivation was to provide employment for very low-income vulnerable populations like refugee women. This decision was spurred on by founder Sam Kazak’s own situation as a Palestinian refugee in Lebanon, as Palestinians are not allowed to work in over 25 professional sectors - the environment however is not one of them.

Recycle Beirut was started by four co-founders with an initial investment of $60,000 and a grant from Red Cross International to cover salaries. During initial research, the founders were offered plenty of guidance, although McHugh says they found only 10 percent of any practical use. And it did not come from start-up incubators or professional service providers, but from the streets. “The best guidance was from people already working in recycling, the zabaleen,” or informal trash pickers or people who own small businesses doing recycling, “because in their own way they are experts,” said McHugh.

Recycle Beirut differs from the zabaleen by providing the convenience of door-to-door collection of recyclable material, for a $10 monthly fee. Almost immediately the business faced a local challenge: locating addresses in a city where addresses are not often known or listed on maps – effectively a city where the streets have no name. “When we figured out a system, by using Whatsapp, Google maps, and things like that, it went from really bad to really good,” said McHugh. The company now collects from over 500 business and residences.

While Recycle Beirut has saved innumerable plastic bags, bottles and other waste from ending up in a landfill or in the sea, the firm quantifies its social success by the number of employees: 14.

“The thing that I measure foremost is jobs created, how many people are lifted out of poverty. Not lifted into the middle class but lifted from hand-to-mouth poverty,” said McHugh.

Recycling was an ideal venture for this to happen. “We had the money to develop a recycling industry which can employ people at the lowest end of the socio-economic ladder. And it was basically wide open, no competition, as Lebanese don’t really want to work in this industry, at least not at the bottom rung of it,” he added.

Employees are Lebanese, Palestinians and even Syrians, who work on a casual labor basis in line with Lebanese legislation. Workers at the warehouse earn $20 for six hours, truck workers $25 a day, and the warehouse manager $700 a month; outreach employees that represent the company earn $1,200 a month.
Like many young SEs in the region, Recycle Beirut does not have a corporate structure and has had to be flexible with its staff. “When you are dealing with very poor people then you are also dealing with their problems. For example, the sister of an employee was dying of cancer, and she went into a coma. What are you going to say? Come to work anyway? No, you have to be flexible,” said McHugh.

The firm emphasizes investing in their employees rather than in fixed assets to improve their livelihoods and bolster productivity. “One thing that has been reinforced for me is how much more productive female workers are than males, at least twice as productive,” he added.

Recycle Beirut has not paid back all the money initially invested in the company, but at the day-to-day level it is breaking even. The monthly collection fees covers transportation costs and the rent of the warehouse, with profits derived from selling the recycled material. “It’s a pretty decent margin, like 30 percent or so,” said McHugh.

The environmental enterprises next project is to provide a composting collection system in the highly populated neighborhood of Bourj Hammoud, a bustling suburb of Beirut. According to the scheme, households will leave their organic waste at their doorstep, and the building’s trash collector deposits it in a compost on the roof. The scheme has multiple environmental benefits with around 60 percent of waste organic matter, composting would reduce waste that would have gone to a landfill by being used as a fertilizer by the building or in the local community. What is more, compost can be sold onto farmers, thereby covering operational costs, with high grade compost selling for $300 a ton – and if packaged in smaller bags, at $1,000 per metric tonne.

Such a scheme is reflective of the strengths of for-profit social enterprises that are willing to cooperate with other actors. “To provide a service you have to use a business structure, to show up on time and be sustainable in the long run. NGOs and development agencies are often inefficient, but we need donor funding to do certain things, like make and provide compost containers in Bourj Hammoud. So there isn’t much of a set line between business, government and the nonprofit sectors anymore, about what the private sector should do and what an NGO should do. That’s in the past, but the future is collaboration,” said McHugh.
### CASE STUDY 3: PALESTINE FAIR TRADE ASSOCIATION AND CANAAN FAIR TRADE

**Country:** Palestine  
**Sector:** Agriculture  
**Year launched:** 2004  
**Founder:** Nasser Abufarha (one of 15 founders)  
**Employees:** Four permanent staff and 15 seasonal  
**Board of Directors:** 5 members.

Nasser Abufarha was carrying out anthropological research on political violence in Palestine in 2003, when he witnessed another form of violence: the loss of olive trees. Rural Palestinian communities had few opportunities to sell olives, resulting in the olive groves being neglected and left to wither away. “If you lose the olive trees, you lose this treasure of an ecosystem that we inherited from generations past,” said Abufarha.

He wanted to help rejuvenate the olive sector to improve food security – olives and olive oil being a dietary staple – and enable farmers to contribute to the modern economy. To do so Abufarha thought of adopting the Fair Trade concept as olive cultivation is both organic and sustainable, while the ethical label would improve sales possibilities. Furthermore, local traditions were already in sync with fair trade principles, and the olive tree itself was a Palestinian symbol of sorts due to the destruction of olive groves by the Israelis.

Within a year, Abufarha and 14 other founders had established the non-profit Palestine Fair Trade Association (PFTA) and the for-profit Canaan Fair Trade (CFT), with the founders coming from the industry, the farming community and workers, geographically distributed between the Jenin, Nablus and Ramallah regions. Canaan was to develop the commercial side of the enterprise, while the PFTA, registered as an NGO, organized farmers, olive presses and production. Utilizing cooperatives, each one elects two members to the PFTA. For every 25 farmers within a cooperation, one is elected as a legal representative within the PFTA.

For the first 18 months the endeavor was run by volunteers while Abufarha sought out potential buyers in the United States and the United Kingdom for Palestinian fair trade olive oil. “It was intriguing to some but they were not necessarily willing to jump on it right away, so we decided to keep going and develop standards based on the Fairtrade International (FLO) standards,” he said.

Instead of just copy-pasting the FLO system in the northern West Bank, the association formalised an equitable form of exchange between farmers, workers, and the press owners. “Along the way we realised there was a missing link because there was little research being done on organic farming, so we needed local research tailored to our own ecosystem,” said Abufarha. A third entity was established, the Canaan Organic Research and Extension (CORE) center, consisting of specialists to improve yields and assist farmers address certain challenges.

During the first two years, Abufarha helped sustain operations by using his private earnings in the US, and secured initial funding through a $28,000 grant from the British Consulate-General in Jerusalem. Operations only become profitable in 2007, with CORE financed by olive oil sales through the CFT. By 2008, CFT had a strong enough track record to qualify for bank loans and trading financing at the international and local level to expand the business, with a current facility worth Euro 3 million.

“Once we had business performance indicators we were able to secure funding from sustainable trust funds,” said Abufarha.
To get to that point was not easy however. The PFTA had to create the market and promote fair trade olive oil for certification organizations to take interest. “We had to create the system and we had to create the market before the system actually made the space for us,” said Abufarha.

The PFTA had to establish a network of farmers and convey the ideas of fair trade and sustainable agricultural practices, so that participants were not just abiding by standards and regulations but making it a way of life. It took time for communities to adapt, with 40 or 50 farmers per year not conforming by ‘gaming the system’, resulting in produce and farmers being suspended from the association. “Today we hardly encounter any such problems, just four or five a year. With over 2,000 farming families (involved), there is a level of maturity and respect for the system,” said Abufarha.

Participants have also seen the benefits at the environmental and community level, while incomes have increased and the local market price for olives has risen to an economically sustainable level.

For every kilogram of olive oil produced, the PFTA gets half a Euro as premium, with 25-30 cents going to the farmer, 10 cents to the local cooperative, and 10 cents to the PFTA budget. Any monetary carryover from the previous year goes towards the Tree for Life Program, which has planted over 140,000 olive trees since 2006.

“We are setting a trend for organic farming in the country, as we are organizing the largest single source of organic products in the region. We have about 45,000 dunam (45 million square meters) of certified organic farms across Palestine, which is a very significant scale,” said Abufarha.

Indicative of this is that CORE has reinvigorated the almond sector, planting 35,000 almond trees so far in 2016. The association has also implemented a micro-loan programme for women, providing $2,500 to be paid back within two years after the first year of operations. “We have also managed to develop women cooperatives to develop traditional products, so we are almost setting the agenda for the national organic agriculture agenda through CORE,” said Abufarha.

At the international level, PFTA products are increasingly available and selling well, while the International Labor Organization (ILO) is using the project as a global model for rural development and employment generation. “We are changing perceptions of Palestine but we are also changing perceptions of traditional communities, traditional ecosystems, and what is fine food,” said Abufarha.
RESEARCH OBJECTIVES

The focus of the research was to map key constituents of social entrepreneurship in Jordan, Lebanon, Palestine and Egypt, while providing deep analysis of obstacles, opportunities and strengths of this emerging entrepreneurial trend. The objectives of the research can be summarized thus:

1. Map key constituents of social entrepreneurship in Jordan, Lebanon, Palestine and Egypt in three main sectors
   - a. Education
   - b. Healthcare; and
   - c. Environmental sustainability

2. Identify main obstacles to sustainability and barriers to entry facing SEs, including legal, economic and market obstacles.

3. Identify main opportunities available to the emerging SE scene through a synthesized gap analysis aimed at identifying areas suitable for SEs inception and expansion.

4. Identify existing support mechanisms of the SE sector.

5. Identify future trajectories and provide recommendations for improvement.

RESEARCH APPROACH & METHODOLOGY

The analysis and research of this study took place over a period of 4.5 months from March 14 to July 31 2016. Research activities adopted a phased adaptive approach in order to gather appropriate information during three overlapping and integrated phases (Inception, Field Research and Reporting) as well as integrate feedback loops into tools development which facilitate analytical research as follows:

• Phase 1: Inception Phase
• Phase 2: Research Phase
• Phase 3: Reporting Phase

The information gathered during each phase was collated, analyzed and employed in the development and adaptation of tools and findings. The purpose of such an approach is to facilitate the nature of location-based research, as well as ensure that research and analysis is flexible and contextual enough to meet the timeframe requirements.

Primary data was collected by a research team made up of three researchers from Triangle Consulting (Triangle). Qualitative data acquired through interviews was analyzed according to grounded theory method, also known as Glaser-Strauss method. Collected data was extracted, coded and marked for analysis by researchers under the guidance of the Triangle Team Leader.

Following the period of primary data collection, qualitative data was cleaned, coded and analyzed and quantitative data was extracted. The findings of that analysis were synthesized in a final report and presented to ATC.

SAMPLING STRATEGY

A sampling strategy that accommodated for requirements and time constraints was implemented throughout the course of the research. The sampling strategy adhered to ethical standards of qualitative research and the ‘Do no harm’ principle was applicable throughout the course of the research.

ANNEX A: FULL METHODOLOGY
Key informant interviews (KIIs) were selected in a non-random purposive manner by Triangle, according to the specifications laid out in the Research Activities section below. KIIs in particular also adhered to a snowball sampling method in order to sufficiently adapt informant targeting in the different locales (specifically Lebanon, Jordan, Egypt and Palestine).

Sourcing of KII participants with appropriate profiles to fit the needs of this research was conducted by Triangle through a mapping of resources in the public domain and a chain-referral and non-random purposive sampling strategy to map out key stakeholders in the Social Enterprise (SE) landscape.

The first level of KIIs targeted research subjects that addressed a ‘pressing societal challenge’ which, for the purposes of this research, cover one or more of the following:

1. Have the potential to impact a significant number of people
2. Address gaps in public sector initiatives which have failed to meet their objectives or are conspicuously absent
3. Work in a sector where there is a widespread social ill or inefficacy ranging from traffic to pollution and labor productivity
4. Are innovative, in that they are creating a new product, model or service, developing a new production process, or finding a new market in their countries or the MENA region.
5. Aim to enact or catalyze sustainable and systemic societal transformation/social change.

The target organizations fell into one of the following four categories:

Innovative non-profits: Broadly defined as organizations which create a new product or service in their country or the MENA region, develop a new production process, or find/enter a new market. The novelty of these organizations will be judged according to whether they address a pressing societal challenge.

Social Enterprises: Broadly defined as outfits that adopt a financially viable business model to deal with pressing societal challenges. Financially viable SEs are defined as those which aim to break even and generate profit that is often reinvested in the enterprise, channel profits to target communities or intend to do so at a later date. These businesses also have or are working on a business plan for growth and financial sustainability.

Hybrid Organizations: Broadly defined as organizations that mix a non-profit and for-profit models. These organizations can have both an incorporated company and a non-profit registered or a public-private effort.

SE support organizations: Broadly defined as organizations in the private, public and civil society sectors which support SEs to grow in a sustainable fashion. These organizations can offer services in target countries, including:

1. Incubation, mentoring and SE training.
2. Investment in the form of angel investments, seed funding, venture capital, crowd-funding or investing platforms that focus on SE.
3. Entities which organize competitions specifically focused on SEs.
4. Media entities which place a particular focus on the entrepreneurship space.
5. Academics who place a particular focus on the entrepreneurship space.

**Non-incorporated organizations:** These organizations are included in the scope of the study if the organization has or is testing minimum viable product (MVP). The organizations may also be about to incorporate or are in the process of figuring out which incorporation option to adopt.

Research activities also targeted three specific sectors in each country. The sectors covered by this research are Healthcare (HC), Education (ED) and Environmental Sustainability (EV).

In the case that targeted research subjects cannot adhere to sampling strategy, ATC and Triangle agreed on changes to the research protocol and adjusted research activities accordingly.

**RESEARCH ACTIVITIES**

**Phase 1: Inception Phase**

**Literature Review**

The research team conducted a preliminary desk review to inform the direction and content of the inception interviews with key stakeholders. The review incorporated available internal project documents and reports from ATC as well as academic and development literature available in the public domain related to issues surrounding social entrepreneurship (SE) development and sustainability. Based on this review Triangle devised a questionnaire meant to guide the inception interview process. In addition, the process of reviewing literature continued throughout the inception and research phases in order to triangulate new information as arose.

**Inception Interviews**

A set of inception interviews were conducted with SE support organizations and SEs in order to provide crucial contextual information and inform the conduct and design of research tools and activities. The interviews were semi-structured and open-ended and employed a pilot questionnaire which accommodated for the different research subjects targeted. The overarching purpose of the inception interviews was to place the issues related to SE development in their country-specific and regional contexts. As such, the interviews aimed to focus on contextual issues as much as issues specific to each organization targeted.

As a result, a total of nine inception interviews were be carried out with target organizations to find out more about SE at a regional and country level, as well as garner contact information for the research phase of the study. Such interviews will acted as a springboard for chain referrals to new start-ups and companies that fit the profile of the research. Primary interviews also enabled researchers to further develop the questionnaires for selected interviewees and case studies.

A consent form was sent to interviewees prior to the interview by email (unless respondents do not have email in which case consent was explained and agreed). Upon beginning interviews, recipients were asked again for their informed consent and if they replied positively that consent will be deemed granted.

Upon conclusion of inception interviews, researchers transcribe and code the data according to this research project’s coding methodology (See Annex C). Once basic codes emerge they will be used as a basis to formulate subject areas for final questionnaires that were used to conduct interviews during the research phase (See Annex B).
Phase 2: Research Phase

Literature Review

The research team conducted an ongoing literature review throughout the course of the research to inform the direction and content of the interviews with key stakeholders. The review incorporated available internal project documents and reports from ATC as well as academic, legal and development literature available in the public domain on issues surrounding social entrepreneurship development and sustainability, both globally and in the MENA region.

Key Informant Interviews

Based on data from the preliminary literature review, Triangle and ATC devised a two semi-structured questionnaires for SE support organizations and SEs as well as identified candidates for a series of eight inception KIIs. Once these interviews were completed the questionnaires were reformulated and the remainder of the 31 KIIs were conducted. The table below displays the division of KIIs according to where SEs and SE Support Organizations are based.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>LEBANON</th>
<th>JORDAN</th>
<th>EGYPT</th>
<th>PALESTINE</th>
<th>TOTAL INTERVIEWS PER SECTOR</th>
<th>TOTAL RESEARCH INTERVIEWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>3</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>31</td>
</tr>
<tr>
<td>Healthcare</td>
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<td>3</td>
<td>1</td>
<td>2</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Total Interviews per geography</td>
<td>11</td>
<td>7</td>
<td>8</td>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analysis

KIIs were recorded and rendered word-for-word transcript to accommodate for verbatim quotes and coding analysis. Coding was conducted according to the research project’s coding methodology (See Annex C). Data about KII interview candidates and those interviewed were also collected in the form of an actor mapping sheet which allowed for the compilation of quantitative data across primary and secondary data collected.

Case Studies

Case studies that exemplified the challenges and contexts relating to SEs in the region were jointly selected by Triangle and ATC. The case studies were based on the willingness and openness of an interviewee to share information for developing a comprehensive case study. Accordingly, three case studies published with names of the organizations identified after receiving consent by the organizations in question.

Phase 3: Reporting

Analysis

Data acquired during the desk review and key informant interviews process were incorporated at several levels of the research in order to inform the findings and final report. The constant and adaptive desk review served to inform key informant interviews, which, in turn, allowed for triangulation of information from the literature. Primary and secondary data sourced from the desk review and key informant interviews was also referenced in the final report.

Report Writing

At the end of the analysis phase, researchers prepared a Full Scale Report (FSR) summarizing and analyzing the qualitative and quantitative data assembled during research activities. The FSR was envisioned to constitute a minimum of 45 pages plus Annexes.

METHODOLOGICAL NOTES

For readability purposes, during the course of this study the term ‘SE actors’ refers to both respondents from support organizations as well as SEs. Some quotes have been adapted for grammatical and comprehensibility, or to redact information to ensure that the Do No Harm principle of the research applies. Furthermore, the terms ‘the region’ and ‘MENA’ are defined here as encompassing the countries covered by this study, namely Egypt, Lebanon, Occupied Palestine and Jordan. The terms ‘SE’ and ‘social enterprise’ are also used interchangeably. Finally, findings are reported in aggregate because the studies sample cannot be viewed as representative of all SEs and SE Support Organization.
ANNEX B: KEY INFORMANT INTERVIEW QUESTIONNAIRES

SE SUPPORT ORGANIZATION QUESTIONNAIRE

**A. Background (5 min)**

1. Year Established:
2. Number of Employees:
3. Has a Board of Directors: Yes/No
4. Are you operating locally, regionally or internationally?
5. Kind of Organization:
   - Public Sector
   - Private Company
   - Civil Society/NGO

**b. Approach (20 min)**

1. How do you define social entrepreneurship?
   - If needed, probe on where would you draw the line between a commercial for-profit and a social entrepreneur?
   - If needed, ask for specific examples of social enterprise
2. Can you tell us more about the technical support that you offer social entrepreneurs?
   - Probe on kinds of support (Training, Incubation, Other, funding), When was this support model introduced? How was it designed? How has it changed/evolved since it was launched?
   - What is the duration of the support that you provide?
   - What are the selection criteria?
   - How much have you invested in this support model to date? Who funds this support? How do you plan on sustaining the support funding in future?
   - How do you measure success and impact?
   - What are your expected returns? Success indicators?
   - Do you plan on introducing other support models in the future?
   - On the spectrum of support offered, what is more important and why i.e. from start-up mentoring to VC funding? (Country Specific).
3. If they **don’t offer funding** ask why not?
   - If they **offer funding**, ask about:
     - What kind of financial support do you offer? (Equity, loans, etc)
     - What is your investment criteria?
     - What is your due diligence process with regard to SEs?
     - What kinds of financial or non-financial returns do you expect?
     - How are these returns measured?
4. What other support models are you aware of? (Implemented by other organizations in your coverage area)
5. If you were to change registration laws for SEs, what are the main reforms you would want to see put in place to ease establishment and operations of SEs?
   - Taxes
   - Procedures
   - Legal requirements (Probe: auditors, lawyers, domiciliation, professional licensing, etc.)
B. Insights (20 min)

7. Do you see the social entrepreneurs that you have interfaced with as addressing a pressing social need?

a. To what extent are they changing the game in their fields of practice?

b. How can we enhance the quality of social entrepreneurs emerging from the region?

8. To what extent do the social entrepreneurs you interface with capitalize on the power of technology?

Probe: To what extent tech essential for scalability and outreach? Is the usefulness of tech sector or enterprise dependent?

9. What is the best method How can we enhance the measurability of outcomes and accountability of SEs moving forward?

10. What are the primary strengths of the current social entrepreneurship ecosystem? How inclusive is it? How can support organizations make it more inclusive (ask about their operation)

11. What are the primary constraints affecting potential social entrepreneurs of the current social entrepreneurship ecosystem?

a. Probe: awareness, gap between capital need and available initial funding, follow-up funding, lack of SE specific laws initial legal steps (e.g. registration, enforcing contracts, electricity, etc.). b. Do people from lower income and education segments have access to the resources required to start and run social enterprises? Probe: Issues of class, access to finance, education level.

12. What have been the greatest challenges that you have faced in supporting social enterprises?

SOCIAL ENTREPRENEURS QUESTIONNAIRE

DEMOGRAPHIC (10 min)

a. Interviewee:

b. age:

c. Gender:

d. Highest obtained educational degree:

e. Years of work experience:

f. Year established/initiated:

g. Year registered (if different from 1):

h. Number of Co-founders:

GENDER BREAKDOWN

i. Number of employees at start up

j. Number of employees at date of interview

GENDER BREAKDOWN

k. How would you describe your organization:

I. SE

II. Enterprising Non-Profit

III. Hybrid

IV. Other
I. What is the registration status of your organization?
   I. Sole proprietorship
   II. Joint stock
   III. NPO
   IV. Foundation
   V. Cooperative, charity,
   VI. Non-incorporated.

m. Are you operating locally, regionally or internationally?

THE ENTREPRENEUR’S STORY (10 min)

a. Can you tell us more about the story behind your start a social enterprise?

I. Why did you decide to start a social enterprise? How did the idea come about?
II. What steps did you take to move ahead from idea to implementation?
III. Did you conduct any kind of research/sensing?

b. Who are your cofounders and how did you choose each other?

c. What was the process of choosing your current registration status? Why did you choose this particular status?

d. Did you experience regulatory issues during inception and, if so, can do describe the main ones?

MANAGEMENT AND APPROACH (15 min)

a. What is your theory of change? Probes:
   1. What are the assumptions associated with your theory of change?
   2. How are you addressing this social problem differently from commercial companies, (other) NGOs, and public institutions?

b. Can you give us an overview of your business model? Probes:

I. What services/products do you offer?
II. How do you differentiate your product/service from other companies in your sector?
III. What are your sources of revenue?
IV. How are you dealing with profits?
V. How has your model evolved since inception?

C. Do you consider your model/approach innovative (locally, regionally, globally)?

i. If so, do you have a method to n within your enterprise? ensure continuous innovation

Impact and Success (10 min)

a. How do you define your social impact or social success?

b. How do you measure your social impact?

I. Probe: What kind of metrics do you use (KPIs, qualitative and quantitative outputs/outcomes)?
II. Probe: Challenges and enablers of impact measurement?

C. What have you achieved so far?

I. How does this measure against your initial expectations of impact?
II. What enabled you to achieve/hindered you from achieving these expectations?

d. How do you define your organization’s financial success? Probes:

1. Have you broke even yet?
2. If yes, when?
3. If no, what is your projected breakeven date?
4. If not an NPO, what is your financial projection for the next year?
5. How does it your financial performance measure against their your initial projections? (what were the reasons for this over/under estimation)

HUMAN RESOURCE MANAGEMENT (5 min)

a. Can you describe your organizational structure and work culture? (Flat and lean, Tall and hierarchical)?

b. What are your wage levels compared to your industry and market geography?

I. Are they below, at or higher than national minimum wage?
II. Are they competitive? Compared to what?

FUNDING (10 MIN)

a. How did you fund the startup process of your business?

I. Funding amount(s)/access to funding?
II. Source(s) of funding?
III. How did you find the seed funding process?

b. Have you secured or looked into securing follow-up funding?

1. If yes, what kind of funding mechanism have you looked into?

2. How did you find the follow-up funding process? Probe on overall experience, challenges and facilitators, Investor requirements, Needed ROI

FOR NON-PROFITS:

c. What are the effects of donor agendas on your operations, measurement and social impact? Probe: donor agendas, short-term financing options, accountability to donors (needing to show short term results rather than longer term social impact).

d. Do you feel you could transition your organization into a for-profit model or at least a hybrid model. If so how? If not, why not?

FOR PROFITS:

e. Do you feel that your existing or prospective investors are after financial returns and social impact?

f. How does this affect your operations?

GOVERNANCE AND ENGAGEMENT (5 min)

a. Can you describe how and by who is the enterprise governed and managed?

I. If enterprise has a BOD
   1. How did you go about choosing your board members?

II. If enterprise does not have a BOD,
   1. Can you elaborate on why you chose not to have a board?
2. Do you plan on introducing an active board in the near future?

b. Do you publish information about your performance and achievements?

I. If yes, probe on kind of information published, frequency of publishing, channels and target audience

II. If no, probe on why not and future plans for publishing such information in the future? Please describe them.

c. What kinds of feedback of you gather from your different stakeholders (employees, clients, suppliers, business partners) and how do you do this?

INSIGHTS (10 min)

a. What have been the greatest challenges in starting and running your social enterprise?

I. Probe on legal, financial, human resources, and awareness/trust building, and country specific challenges

b. Can you describe 3 practical changes that you feel would facilitate the growth of social entrepreneurship, or facilitate your work?

c. If you could travel back in time to day one of your startup, and have 15 minutes with your former self to communicate any lessons you’ve acquired with the intention of saving yourself mistakes and headaches, what would you tell yourself

CONCLUDING QUESTIONS: (5 min)

a. Ask if respondent has anything to add that may be relevant to the study.

b. Ask if respondent has any contacts for organizations or persons who would fit the criteria of the study.

c. Ask if the respondent would be open to a case study where information would be made public.
ANNEX C: CODING METHODOLOGY

INTRODUCTION

This document serves to describe and formulate the coding methodology that will be applied throughout the course of the Social Entrepreneurship Mapping Study (SEMP) conducted by Triangle Consulting (TC) for the Ahead of the Curve organization (ATC). Throughout this document ‘coding’ will describe the transitional process by which data collection is decoded, encoded and prepared for generation of theory and analysis.

METHODOLOGY

The coding methodology employed throughout the course of the SEMP Study will be separated into four inter-related phases, of which the activities of the first phase will remain ongoing throughout other phases. Because the interview process consists of an inception interview phase, this will facilitate the initial formation of codes and subcodes which will then undergo review periodically as new information is incorporated to produce themes and concepts for analysis and formation of theory.

CODING PROCESS

Researchers will implement a series of six inception interviews with the aim of piloting a basic semi-structured interview questionnaire and identifying issues most pertinent to each country. Upon conclusion of the inception interviews, a first set of codes will be created using the below coding methods and evolve throughout the process of the research—the idea however will be not to adopt a restrictive code but rather allow codes and subcodes to evolve under each coding round.

The unit of coding will be the explicit idea, which can be comprised of a phrase, sentence, paragraph, or series of paragraphs. The project envisions five phases of key informant interviews and two reviews of research codes.

CODING METHODS

The main coding methods this research will employ will be Descriptive and Values Coding since the objective of the research is to both to understand specific perspectives and understand the breadth of those perspectives across different countries and sectors.

When deemed necessary by the coder, Simultaneous Coding (one level in) may be applied selectively when there is a clear explicit differentiation of descriptive or values codes. However so as not to over complicate the coding process, such simultaneous coding could also constitute rationale for subcoding.

THEME FORMULATION

The formation of themes will follow the final coding review and adopt a pattern analysis that is based on Hatch’s (2002) framework, specifically:

1. similarity (things happen the same way)
2. difference (they happen in predictably different ways)
3. frequency (they happen often or seldom)
4. sequence (they happen in a certain order)
5. correspondence (they happen in relation to other activities or events)
6. causation (one appears to cause another)

During this analysis, data will be reviewed at the category level to reformulate codes and categories as needed. If deemed necessary or applicable, inclusion and exclusion criteria may be applied at the category level.

Finally, a comparison of categories will take place to produce outcome propositions, which will be classified as themes for analysis and theory formulation. These themes will also be analyzed using Hatch’s pattern analysis and classified within and then across countries to disaggregate which themes are country-specific and which are cross-cutting.

End of Coding Methodology
Environmental sustainability includes waste management; energy, such as introducing cleaner, more sustainable energy and energy security; food; nutrition and water security, as well as sustainable agriculture.

A minimum viable product (MVP) is a product that has just enough features to gather validated learning about the customers and its continued development.


33. It is important to note that the referenced study was conducted before the 2015 census, which estimates Jordan’s population at 9 million citizens (http://www.tradingeconomics.com/jordan/population).
34. Ibid


37. Palestinian Water Authority (2014)


44. Spear, R. et. al. (2012). Legal Assessment of the Social Entrepreneurship Framework in Egypt. EMES European Research Network


63. Many SEs cover more than one geographical area. Thus, it is not possible concretely display the number of SEs interviewed according to geography. See Figure 4 for the scope of SE’s geographical coverage.

64. ‘Disruption’ in so far as it is used in this study seeks to describe a process where social innovation is taking place. In other words, when SEs seek to alter the way challenges facing society are addressed. For a discussion on this topic see: Woodman, P. (2014). Is social enterprise among the top social innovations? London: British Council. Retrieved from: https://www.britishcouncil.org/voices-magazine/is-social-enterprise-among-the-top-social-innovations

65. The concept of innovation here is defined according to this study’s sampling method which is to only select SEs which create a new product or service, develop a new production process, or find a new market in their countries or the MENA region.

66. Such as Lebanon’s central bank Circular 331, which offers local start-ups interest-free government loans

67. A minimum viable product (MVP) is a product which has just enough features to gather validated learning about the product and its continued development.

68. Environmental sustainability includes Waste management (E.g. Recyclobekia in Egypt, Arc En Ciel in Beirut), Energy such as introducing cleaner and more sustainable energy as well as enhancing energy security (E.g. KarmSolar in Egypt, Dawtec and Solarnet in Lebanon), Water security (E.g. Wello’s Water wheel and Drinkable Book), Food security (E.g. Schaduf in Egypt).

69. Many SEs cover more than one geographical area. Thus is it not possible concretely display the number of SEs interviewed according to geography. See Figure 4 for the scope of SE’s geographical coverage.