A robust third sector for a thriving nation

Achieving financial sustainability for the non-profit sector in Saudi Arabia
The paper aims to highlight and analyze the efforts that aim to enhance financial sustainability, promote transparency, and encourage wider community participation.

Moreover, we highlight the significant developments and opportunities that have emerged within the non-profit sector, encompassing diverse funding mechanisms, digital transformation programs, and the establishment of supportive platforms. These efforts aim to enhance financial sustainability, promote transparency, and encourage wider participation.

Through real-world examples and best practices, we provide insights and recommendations to stakeholders, including non-profit organizations, policymakers, and investors, on how to further optimize financial sustainability in the non-profit sector.

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Vision 2030 aspirations for the non-profit sector

Vision 2030 has made it possible to revitalize the non-profit sector in the Kingdom, through setting out key objectives for a robust and adaptive society that supports the three pillars of Saudi Arabia’s bold transformative strategy: to realize an ambitious nation, a thriving economy, and a vibrant society.

Vision 2030 states the goal to promote and reinvigorate social development in order to build a strong and productive society. Specifically, the goal is to maximizing the social impact of the non-profit sector. This will be achieved through developing systems for institutional transformation, supporting projects and programs with social impact, and facilitating the establishment of non-profit organizations.

Currently, the large majority of funding for the non-profit sector in Saudi Arabia is sourced from government and semi-government. Vision 2030 has set out objectives for financial sustainability, maturity and resilience for the sector, thereby benefitting from the advantages of such positioning.

From 2,598 non-profit organizations in 2017, the sector experienced a rapid growth reaching 36,151 organizations in June 2023, as indicated by the King Khaled Foundation. This progress shows the development of a robust funding, engagement, and support platform to enable more startups in the NPO sector and foster greater capabilities.

Vision 2030 embodies the plans and processes for the realization of a collective vision for Saudi Arabia and in so doing provides a level of transparency of policy at the highest level. The strategic focus and setting of goals towards a vibrant, fulfilled society offers a clear direction and defined objectives for the non-profit sector in the Kingdom. The Vision states the goal to promote and reinvigorate social development in order to build a strong and productive society. Specifically, the goal is to maximizing the social impact of the non-profit sector.

Factors shaping the non-profit ecosystem

External factors are having a dramatic effect in shaping and transforming the current non-profit sector worldwide. Non-profit organizations must be adaptive and responsive to these outside factors to remain effective, relevant, and able to deliver on their missions. Some of the common global external factors are:

- **Changing demographics**
  Aging populations and shifting migration patterns are resulting in additional demands on non-profits and the services that they provide.

- **Economic conditions**
  Recessions and changes in government funding can dampen fundraising activity and strangle financial sustainability.

- **Growing donor sophistication**
  Donors now prioritize impactful non-profits addressing complex social issues with a system-level approach.

- **Increased competition**
  The non-profit sector is becoming increasingly competitive with an increasing number of organizations seeking funding and support.

- **Regulation and policy**
  Updates in government oversight, when they occur, typically become more stringent and can have an impact on compliance, funding, operations, and reporting requirements.

- **Technology**
  The availability and reduced cost of technology is transforming the way non-profits operate from fundraising and communications to program delivery and evaluation.

In addition to these global trends, there are drivers unique to the Kingdom that are helping to transform its non-profit sector, some of which are explored in the next section.
The rise of a social participation culture

The goal of building the strength and resilience of society rests not only on the constituent players within the non-profit and private sectors, but also on the broader community. The non-profit sector can help to drive community engagement and further activate the social participation mindset to take on more responsibilities within society. The sector helps support and institutionalize the progressive societal agenda in Saudi Arabia further, reinforcing the useful constructs of civil duty and social responsibility that are embedded in the culture.

It is noticeable that the government is fostering deep engagement with organizations across all sectors – public, private and non-profit – to develop inclusive projects that drive a participation culture, which will be a key building block to achieving sustainable development of the future non-profit sector.

Available organizational forms for non-profits

The structural framework for non-profit organizations in Saudi Arabia has witnessed positive regulatory changes to offer a wider choice of regulated structures and more flexibility. At the forefront of this progress is the National Center for the Development of the Non-Profit Sector (NCNP), which was established in 2019 to activate and expand the role of non-profit sector organizations. NCNP is focused on integrating government efforts and increasing coordination and awareness – in society and among business leaders – while also supporting non-profits with licensing, financial and administrative supervision. Citizens can now establish non-profits online through the digital services portal of NCNP.

At present, there are three organizational forms for the establishment of a non-profit organization: non-governmental institutions, non-governmental associations, and family funds. The institution can be established as entity by one or more individuals, with either a defined or undefined duration, and they should focus on addressing social, cultural, and economic issues. The association, which needs to be founded by a group of individuals, needs a more elaborate organizational structure, and have a focus on non-profit activities that foster cooperation and solidarity. Family funds, require to be founded by family members and are intended to facilitate charitable endeavors. This institutionalization may then help strengthening familial bonds and cultivate harmony among family members.

Other funding mechanisms to drive financial sustainability

Other diversification of funding available to non-profits include certain debt and equity instruments for the sole purpose of making an impact in the society. These include micro-financing, social funds, crowdfunding platforms, and social sukuk. It’s worth highlighting, in the context of constructing a sustainable financial framework, that non-profit organizations frequently explore novel approaches to depart from traditional funding norms. This shift paves the way for the adoption of earned-revenue models. On an individual and collective basis, these advancements possess the potential to offer non-profits an alternative, third stream of income.

In addition, the Social Development Bank (SDB) has been a factor of support. As a government-supported development bank, SDB is working to enable the financial independence of individuals and families, providing social protection, and empowering SMEs and NPOs. SDB offers various programs tailored to help fund NPOs, structured according to their purpose. This includes a financing product to support securing government competitions, to enhance their operations and provide operational capital, to build financial sustainability, and micro-financing.

Another important factor for support in the ecosystem for socio-economic advance is the Awqaf, or endowments. For centuries, Awqaf has played a fundamental role in social financing across the Islamic world. Endowments have been utilized to provide continuous financial support for institutions and initiatives, dedicated to addressing poverty, supporting education, improving healthcare, and advocating various other social objectives. In 2021, the General Authority of Endowments introduced the Waqfy platform to promote community support for endowments – and non-profits. The platform aims to encourage community participation and offers secure digital payment options for donation campaigns. By April 2023, 230 campaigns have been launched, reaching 700,000 donors and contributing more than US$88 million.

In 2021, the Ehsan donation platform was established, aiming to promote charitable values and support the non-profit sector in Saudi Arabia. It focuses on encouraging donations through the transparency of charitable and development activities and working with different government agencies and sectors. In May 2023, Ehsan reported to have raised more than SAR4 billion in the two years since its inception.

Lastly, in November 2021, the Non-Profit City was announced – a global first. Spanning an area of 3.4 square kilometers, it is projected to serve as a model for global non-profit sector development and as an incubator platform for youth, volunteer groups, and local and international non-profit institutions.
Strong governance and compliance with regulatory aspects means that non-profit organizations can ensure their operations are effective, efficient, and accountable, as well as being able to meet the needs and expectations of their stakeholders, all of which leads to greater impact. From the get-go, a legal structure must be determined with the corresponding regulatory requirements depending on the type of organizational form.

The Young Nonprofit Professionals Network (YNPN) is a national non-profit based in the United States that aims to support the development of young professionals in the non-profit sector.

In the early 2010s, YNPN faced significant governance challenges that hindered its ability to fulfill its mission and serve its members. The organization had a volunteer board of directors who lacked experience in non-profit management and governance. The board struggled to provide effective oversight of the organization’s finances, which led to mismanagement of funds and lack of accountability.

Additionally, YNPN faced regulatory challenges as it struggled to comply with federal laws and regulations related to nonprofit organizations. This resulted in penalties and fines, which further strained the organization’s finances and reputation.

These governance and regulatory challenges hinder YNPN’s ability to effectively support young professionals in the non-profit sector. Despite its good intentions and commitment to its mission, the organization faced decreased support from donors and a decline in membership.

To address these challenges, YNPN underwent significant governance reforms, including the appointment of a new board of directors with experience in non-profit management and governance. The organization also implemented robust financial management systems and strengthened its compliance with federal laws and regulations.

As a result of these reforms, YNPN reversed declining support from donors and experienced a resurgence in membership, factors which have contributed to the continuing fulfillment of the non-profit’s mission-related objectives.

In conclusion, as we have outlined, good governance practices lead to effective financial management, a strong regulatory framework, reputational protection, and stakeholder engagement – all of which improve overall governance within the non-profit sector.
Advantages of government funding for NPOs:

- More predictable inflows of finance
- Potential for achieving economies of scale
- Marker of greater reliability and accountability

Concerns of moving to a mixed funding model:

- Institutionalization of nonprofits
- Administrative burden

Positive aspects of reduced public funding:

- Reduced administrative burden
- Resetting the relationship with government
- Flexibility in program delivery

## Achieving impact through funding

Non-profits are aware they can make a positive impact and meet the needs of the communities in which they operate, but only when all the elements are in place – good governance, operational proficiency, and, more importantly, access to regular, predictable funding. It’s therefore worth taking a few moments to explore the issues, attitudes, and limiting factors related to different sources of non-profit funding, whether from private, public, or third-stream sources, and how they could influence and, in some cases, create barriers to the efficiency and effectiveness of program delivery.

### Attitudes of NPOs towards diversified funding models

Faced with new options for funding, many non-profits will welcome the opportunity to focus more on their mission. However, others may feel concerned that a reliance on funding from entities outside of government, including private companies, individuals, and foundations, may impede mission-related objectives.

Government funding will continue to account for a large slice of project financing. However, with more options available to them, non-profits may start approaching the diverse forms of government funding in different ways too. For example, a contract may be easier to win and offer greater flexibility, but with less certainty of award. While a grant award may be more certain but may be more restrictive in how the organization spends the funding and directs operations.

Predictably, smaller non-profits and startups will benefit the most from a diversity of funding streams that offer fewer regulatory hurdles, less bureaucracy, and more freedom in pursuing mission-related objectives.
Financial sustainability enhances the reputation of non-profits and the sector overall, increasing public trust and support. Furthermore, donors and funders are more likely to have confidence in a nonprofit’s ability to effectively use the resources provided, increasing the likelihood of continued support. A financially sustainable non-profit sector contributes to job creation and smooths fluctuations in the employment market during economic downturns.

With stability underpinning the organization, non-profit organizations in Saudi Arabia will be able to manage their manpower more efficiently, create a stable employment environment, and plan their long-term human resources program. By prioritizing financial sustainability, non-profit organizations can maximize their potential for creating meaningful societal and economic outcomes.

Creating financial sustainability in the non-profit sector

A financially sustainable non-profit sector delivers greater socio-economic impact. Non-profit organizations can manage their resources more effectively, allowing them to deliver services with greater efficiency. Being less dependent on a dominant source of government funding means non-profits can become more resilient and agile; better able to respond to fluctuations in demand for services and changing economic circumstances. Generally, they will be better equipped to address the long-term needs of the communities they serve, resulting in a more lasting impact over time.

The five pillars of financial stability

01 Strategic planning
Non-profits need to have a clear understanding of their mission, goals, and objectives. They should develop and regularly review a strategic plan that outlines how they will achieve their goals and ensure their long-term financial sustainability.

02 Effective financial planning and management
Non-profits need to have strong financial management processes in place, across budgeting, forecasting, and financial reporting. They should have a good understanding of their financial situation, including their strengths and weaknesses, and adopt practices that deliver transparency and accountability. Effective cost management, through regular review and analysis, will identify areas for improvement and help drive cost-saving measures.

03 Diverse funding
Non-profits should aim to diversify their funding sources rather than relying on a single source of funding (typically from the government). This can include donations, grants, loans, and earned income, such as sponsorships, fee-for-service, and social enterprises.

04 Impact measurement and evaluation
Non-profits should measure and communicate their impact, demonstrating the value they deliver to their stakeholders. This will help increase support and funding from donors and other stakeholders and will ensure that services are making the desired impact and are valued by stakeholders and the community.

05 Strong stakeholder relationships
Non-profits should seek out opportunities to collaborate and form partnerships with their extended stakeholder ecosystems, including government and semi-government organizations, private sector companies, the community, and donors. This will help leverage resources, reduce costs, extend reach, and ultimately deliver greater impact.

At the government level, financial stability should be encouraged through the adoption of a robust system of funding appraisal and awarding, as well as rigorous monitoring procedures and reporting. The public sector can enforce protocols, regulations and binding requirements within the grant or contract application as well as impose regular, stringent checks on the quality and efficiency of services delivered.
Promoting financial sustainability through diversified funding

One of the most effective ways of ensuring the stability of individual NGOs is to ensure they understand and have access to all the funding options available to them. Including the latest options, such as the use of funds for Impact Investing and blended finance, as well as ways to invest resources for financial return and structure operations to include supporting profit-making activities.

Some of the major sources of funding that can help sustain a non-profit organization include:

- Recurring private donations
  Regular gifting from private donors is one of the most sustainable ways for a non-profit to remain operational.

- Membership fees
  Periodic fees, usually monthly or yearly, that your donors pay to become a member of your organization and gain access to exclusive events, merchandise, or content.

- Fundraising events
  Annual or more frequent events can make a considerable contribution to revenues for non-profits.

- Government grants
  Eagerly sought after by many nonprofits, especially startups. However, applying for government grants is not easy and requires specialist bid writers to create appropriate grant proposals. Reporting and data tracking requirements may be extensive, and the nonprofit is restricted to projects which are approved by the government or an authorized body.

- Commercial activity
  Another way to become a self-sustaining nonprofit is to create valued products and services that can be sold. For example, some nonprofits charge a fee for their branded T-shirts, mugs, and other merchandise. Other examples include annual membership programs, paid subscriptions, and training sessions and workshops for professionals in the field who want to improve their skills or acquire specialist knowledge.

As more non-profits venture into social enterprises for sources of revenue, we are seeing more entrepreneurial and innovative methods of revenue generation. Such as monetizing data, intellectual property and know-how; engaging in joint ventures with other nonprofits; or arranging commercial deals with private companies who wish to be associated with a charitable cause.

Non-profit sector performance: assessing financial sustainability

There are several indices used by countries to assess the financial sustainability performance of the non-profit sector. These indices and measurement tools provide a framework for nonprofits to assess their financial sustainability and performance and can help to benchmark progress against other organizations globally. Additionally, non-profits in Saudi Arabia can also benefit from implementing best practices and approaches that have been successful in other countries.

- Non-profit Sustainability Index
  Developed by the Nonprofit Finance Fund, the Non-profit Sustainability Index (NPSI) is a tool used to measure the financial health and sustainability of non-profits. It covers areas such as revenue diversification, cash reserves, and financial stability.

- Charity Navigator
  A well-known index in the United States, Charity Navigator evaluates non-profits based on their financial health, accountability, and transparency.

- GuideStar
  A global index, GuideStar provides detailed financial and impact information about non-profits, including revenue, expenses, and governance practices.

- Social Return on Investment
  The Social Return on Investment (SROI) is a method of measuring the social, environmental, and economic impact of a non-profit, along with its financial sustainability.

- Global Impact Investing Rating System
  Developed by the Global Impact Investing Network, Global Impact Investing Rating System (GIIRS) evaluates non-profits and impact investment funds based on their social and environmental impact, as well as their financial sustainability.
Increasing and diversifying funding sources

Increasing existing funding sources and diversifying through additional sources can improve financial sustainability of the non-profit sector. Effective governance of the available and additional funding is also critical. Funding sources could be increased and diversified with these means.

- **Corporate social responsibility**
  Increased corporate social responsibility (resources, donations) allocated in line with the government’s priorities and strategic goals.

- **Donations and philanthropy**
  Increased donations from individuals, families, and high net worth individuals are allocated in line with the government’s priorities and goals.

- **NPO sector resources**
  Increased fundraising capabilities in the non-profit sector, including cross-border funding and support for NPOs working in areas of strategic importance.

- **Private resources (e.g. volunteering)**
  Increased private resources available to the sector e.g. volunteer time to support government’s strategic goals.

- **Government funding**
  Increased government funding for the social development sector, through MoF, VRPs, etc. in line with international benchmarks, based on a clear business case and return on investment.

- **Zakat**
  Increased zakat targeted at areas of highest need and greatest impact.

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**The way forward**

Saudi Arabia’s non-profit sector has made great strides in a relatively short time. However, more can and should be done to ensure non-profits can achieve their full potential in contributing to the goals of Vision 2030.

In this article, we have covered some of the major external drivers, globally and locally, shaping Saudi Arabia’s non-profit sector. In addition, we have explored areas where non-profits should consider focusing attention, such as financial stability, strong governance, and the development of an extended stakeholder ecosystem based on collaboration.

Below, we outline additional initiatives that will help NGOs optimize effectiveness and accelerate impact: strategic initiatives that focus on long-term financial sustainability and the creation of a more diverse funding mix, and tactical initiatives, which deliver quick wins and generate immediate funding and build momentum.

### Strategic

- **Embrace social enterprise**
  By shifting to a social enterprise mindset, non-profits can explore revenue generation strategies that will become self-sustaining and contribute to funding their missions.

- **Attract impact investment**
  Investment of this type requires concerted and considered efforts to attract interest from individual and institutional investors and fund managers. In some instances, program design may need to be modified to deliver on specific social or environmental outcomes targeted by investors.

- **Build a robust organizational infrastructure**
  Defining mission and purpose, deepening board-level experience, achieving strong governance, and reaching financial stability all contribute to a robust non-profit.

- **Community engagement and volunteering**
  Non-profits can explore impact investing, where they can receive funding in exchange for delivering specific social or environmental outcomes. Examples include the sharing of facilities, collaborative marketing activities, access to specialist technical support, etc. Volunteers and volunteering networks reduce manpower overheads and will help to fulfill the volunteer component typically set by government programs.

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### Tactical

- **Crowdfunding and peer-to-peer fundraising**
  The more funds a non-profit can secure, the better it will be at carrying out its mission. Using online platforms, crowdfunding allows non-profits to raise donations from a large and diverse audience without the need to hire more people to their development team. In fact, individuals not directly affiliated with nonprofits can and often do leverage crowdfunding strategies on behalf of non-profits.

- **Fundraising campaigns**
  Non-profits can launch innovative and creative fundraising campaigns, such as social media challenges, online auctions, and charity walks, to engage supporters and generate revenue. As well as soliciting funds for a program or initiative, campaigns build brand recognition, generate awareness among existing and new audiences, and create visibility among stakeholders and donors.

- **Grant writing and proposals**
  Through developing skills in grant writing and proposal development non-profits can secure funding from foundations and government agencies.

- **Corporate partnerships and sponsorships**
  Non-profits can partner with corporations and businesses to leverage their resources and network to achieve shared goals and increase funding.
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