



A robust third sector for a thriving nation

Achieving financial sustainability for
the non-profit sector in Saudi Arabia



Content

Introduction	3
Vision 2030 aspirations for the non-profit sector	4
Factors shaping the non-profit ecosystem	5
Governance, regulation and the non-profit organization	8
Achieving impact through funding	10
Creating financial sustainability in the non-profit sector	12
The way forward	17
References	18
Contacts	19

Introduction



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.

Saudi Arabia's non-profit sector has a crucial role in promoting community engagement and encouraging individuals to take responsibility for social issues. Non-profit organizations (NPOs) greatly benefit from a consistent and reliable flow of financial support, which is critical for their financial sustainability and effectiveness. Through strategic initiatives and regulatory changes, the government is actively supporting the growth and impact of non-profit organizations.

In this paper, we explore the evolving landscape of the non-profit sector in the Kingdom. Our objective is to shed light on country's commitment to revitalizing this sector as part of Vision 2030, as well as providing a comprehensive guide for the trends, innovations, and significant advances that are shaping the non-profit sector in Saudi Arabia.

Drawing from global comparisons and studies, we looked at the structural, regulatory, and financial changes that are fostering stability and sustainability within the non-profit sector. These changes create an enabling environment for organizations to operate effectively and sustainably, thereby bolstering their capacity to deliver services efficiently and generate significant socio-economic outcomes.



Hanan Alowain
Partner, Government & Public Sector



Omar Alhalabi
Director, Head of Enterprise Strategy

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.



Ambitious nation

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. 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, so continuing to have the government to be the main contributor would not align with that in the long-term Vision 2030 sees the non-profit sector as a contributor to society and a mechanism to bolster the public sector, but not a major cost to government. In particular, one of the key goals of Vision 2030 is for the non-profit sector's contribution to Saudi Arabia's gross domestic product



Thriving economy

(GDP) to grow to 5 percent by 2030. A truly successful non-profit sector will be one that straddles the public and private sectors, 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.⁹



Vibrant society

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:

01

Changing demographics

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

02

Economic conditions

Recessions and changes in government funding can dampen fundraising activity and strangle financial sustainability.

03

Growing donor sophistication

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

04

Increased competition

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

05

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.

06

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.¹ 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.²

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.³ 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\$86 million.⁴ Waqfy fits a wider trend of digital transformation across the government, including the implementation of digital platforms like Ehsan and Tabara that help raise funds from the public for charitable causes.



Digital platforms to support fundraising

As part of Vision 2030, there have also been digital transformation efforts across the sector. The following initiatives have been part of that agenda to date.

- In 2019, the **Jood Al Eskan** platform was launched, enabling charitable housing donations through a digital platform. By 2023, the platform had already secured homes for 3,500 Saudi families in need.
- **Tabara**, or the national donation platform, was launched in 2020, with the objective to streamline the connection between donors and those in need across all regions and cities of the Kingdom. Tabara established a transparent donation process under the supervision and governance of the Ministry of Human Resources and Social Development (MHRSD), making it easier for individuals to contribute to charitable organizations.⁶

- 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.⁷

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.⁸

Governance, regulation and the non-profit organization

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 composition of the governing board along with defined responsibilities and duties are prerequisites to effective oversight of the organization's operations, finances, and strategy. Next, the NPO should have strong financial management systems in place, including internal controls, budgeting, and financial reporting. Transparency and accountability in operations and finances are essential, with regular reporting to stakeholders. Financial, operational, and reputational risks should be identified and managed, with regular reviews undertaken.

There are other areas that require oversight from a reputational standpoint, such as ethics and compliance and conflicts of interest. Policies should be prepared to address issues as they arise. In certain circumstances, additional advisory boards should be formed and assigned to ensure decisions are made in the best interests of the organization and its stakeholders.

Nonprofits are particularly susceptible to ethical issues, being purpose driven and at the intersection of commercial and charitable domains. For this reason, codes of ethics and compliance policies should be in place to ensure all operations are carried out in an ethical and compliant manner.

Finally, non-profits must engage with donors and stakeholders in a transparent and accountable manner, seeking their input and feedback on operations and impact. Failure to do so could jeopardize missions and, in extreme cases, threaten the organization.

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.

Case study: YNPN

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 fulfilment of the non-profit's mission-related objectives.

Achieving impact through funding

Non-profit organizations 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 government funding

Non-profits view the funding relationship with government as advantageous. Public funding provides more predictable inflows of finance and offers the potential of achieving, otherwise likely unavailable, economies of scale.

Non-profits may welcome the additional regulation and procedures required to qualify for funding, seeing it as a marker of greater reliability and accountability. For these reasons, some nonprofits may resist moving to a mixed funding model, preferring to maintain their reliance on government funding. There may also be a 'shock of retreat' because of the institutionalization of some non-profits who have enjoyed full public funding for many years.

On a more positive note, nonprofits who receive lesser amounts of public funding will see a reduction in their administrative burden, with tangible benefits to their bottom line. Additionally, non-profits may feel that a reduction in public funding will allow them to reset their relationship with government as they move away from a model of publicly funded services substitution to one of services supplementation.



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.



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.



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.

The five pillars of financial stability

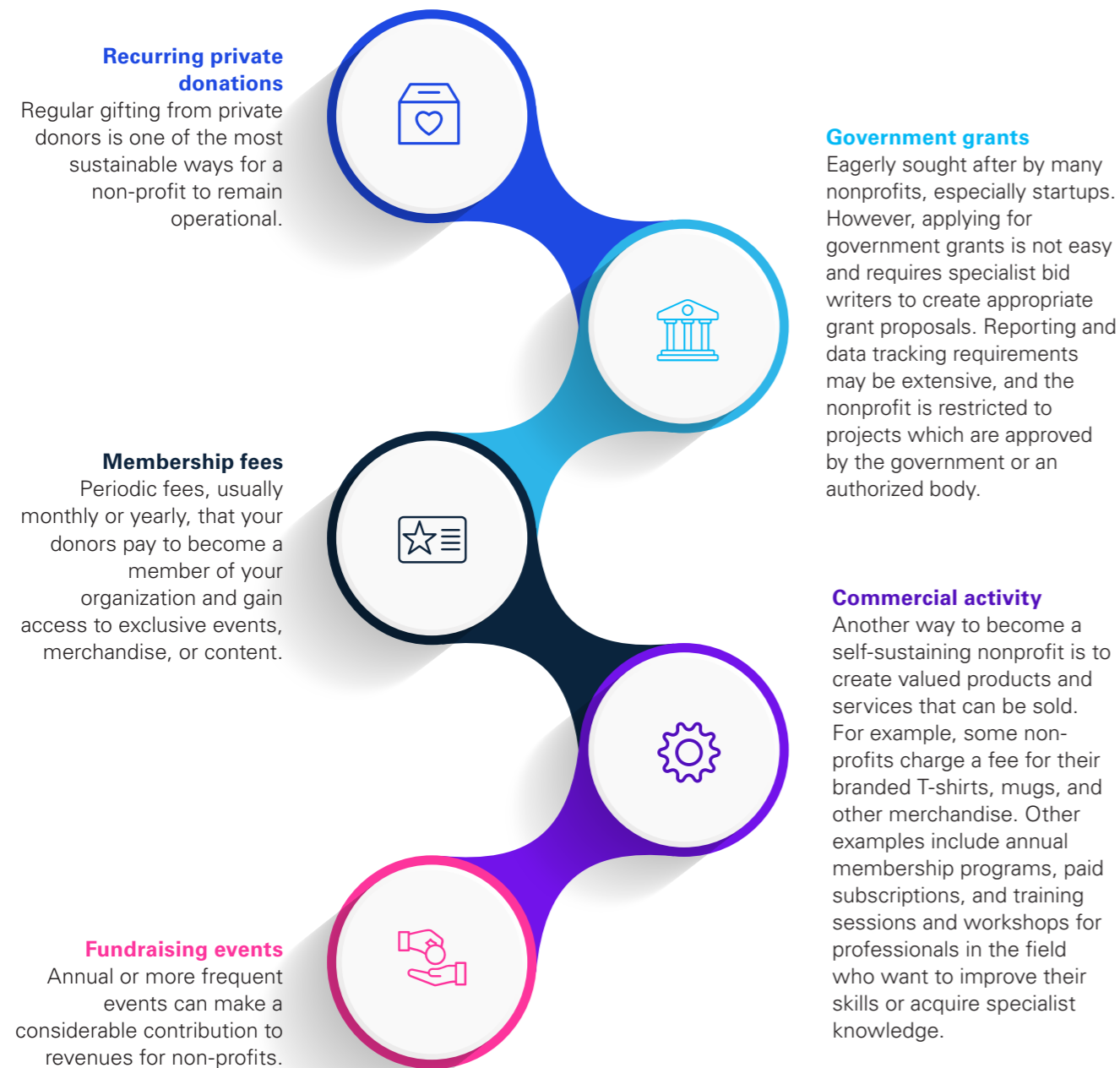
- 01 Strategic planning**
Non-profits need to have a clear understanding of their mission, goals, and objectives. They should develop and regularly review a strategic plan that outlines how they will achieve their goals and ensure their long-term financial sustainability.
- 02 Effective financial planning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



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.

	<p>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.</p>
	<p>Charity Navigator A well-known index in the United States, Charity Navigator evaluates non-profits based on their financial health, accountability, and transparency.</p>
	<p>GuideStar A global index, GuideStar provides detailed financial and impact information about non-profits, including revenue, expenses, and governance practices.</p>
	<p>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.</p>
	<p>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.</p>

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.

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 volunteerism

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 fulfil the volunteer component typically set by government programs.



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.

References

Endnotes

- ¹ Jood Eskan Charitable Campaign Breaks Record, Raising SAR1 Billion for Housing Welfare in Saudi Arabia (spa.gov.sa).
- ² NCNP, Guidance for the establishment of non-profit organizations: [شذحم ببيتك \(ncnp.gov.sa\)](http://ncnp.gov.sa).
- ³ The Role of Awqaf in the Vision 2030 and SDGs in the Kingdom of Saudi Arabia | United Nations in Saudi Arabia.
- ⁴ Waqfy: <http://waqfy.sa>; [Saudi's pay it forward through online donations \(arabnews.com\)](http://arabnews.com).
- ⁵ Jood Eskan Charitable Campaign Breaks Record, Raising SAR1 Billion for Housing Welfare in Saudi Arabia (spa.gov.sa).
- ⁶ Digital platforms | Ministry of Human Resources and Social Development (hrsd.gov.sa).
- ⁷ Saudi Arabia's Ehsan charity platform records over \$1bn in donations (arabnews.com).
- ⁸ Saudi crown prince announces world's first non-profit city | Arab News.
- ⁹ King Khaled Foundation, Non-profit sector outlook (Midway report 2023): <https://kkf.org.sa/media/oxngmhqc/non-profit-sector-outlook.pdf>.

Useful sources

- Nonprofit Corporate Governance: The Board's Role (harvard.edu).
- Financial Sustainability: The New Frontier – Nonprofit Risk Management Center.
- INGOs and the Localization Agenda | HAD (had-int.org): benefits of localization in the nonprofit sector.
- Social Development Bank, Saudi Arabia: <https://www.sdb.gov.sa/>.
- Ehsan Platform: <https://ehsan.sa/>.
- King Khalid Foundation: <https://kkf.org.sa/en/insights/>.
- National Center for the Development of the Non-Profit Sector: <https://ncpd.gov.sa/>.

Contacts



Hanan Alowain
Partner, Government & Public Sector
E: hananalowain@kpmg.com



Omar Alhalabi
Director, Head of Enterprise Strategy
E: oalhalabi@kpmg.com

Contributors

- Mark Fitzgerald**, Global Head of KPMG International Development Assistance Services (IDAS)
Martin D Chrisney, Senior Director IDAS, KPMG in the US
Peter Bannink, Head of Marketing and Thought Leadership, KPMG in Saudi Arabia
Madhawi Alrajhi, Senior Analyst, Marketing and Thought Leadership, KPMG in Saudi Arabia
Alanood Almutairi, Analyst, Marketing and Thought Leadership, KPMG in Saudi Arabia

kpmg.com/sa



Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG Professional Services, a Saudi Closed Joint Stock Company and a non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. The KPMG name and logo are registered trademarks or trademarks of KPMG International.