

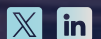
A nighttime photograph of a city skyline. A prominent skyscraper with a large, illuminated, golden-colored arch at its top stands out against a dark, cloudy sky. The city below is lit up with various lights, and a major highway with multiple lanes of traffic is visible in the foreground, with red and white light trails from cars.

Where is the Kingdom Now

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Where is the Kingdom Now

The impact investment ecosystem in Saudi Arabia and the MENA region is a budding concept that is on the brink of blossoming, but has yet to realize its potential in a sustainable way. According annual impact investor survey , the Middle East and ٢٠٢٠ to GIIN presence of the %١ North Africa (MENA) region records only impact investors worldwide. As big a challenge as this is to puts emphasis on ٢٠٣٠ actualize, the advent of Saudi Vision entrepreneurial scaling and the development of social enterprise sector, making now the ideal time to invest with impactful intention. A benchmark analysis by Human Resources and Social Development place emphasis on five areas to create an ideal environment for the social enterprise sector. They are "awareness and promotion, infrastructure, funding, access and ".networks, and education and training



How ready is KSA for Impact Investment?

Saudi Arabia has undertaken an extensive socio-economic transformation initiative under Vision 2030- a strategic roadmap to realize the Kingdom's non-oil economic potential. Vision 2030 has 96 strategic objectives; the vast majority have the potential to attract a wealth of impact investment to the country. To optimize that momentum, the Kingdom should be investment-ready, in terms of both soft (reforms and regulations) and hard infrastructure (physical infrastructure). To do so, the National Transformation Program under the Vision 2030 works on developing "the necessary infrastructure and create an environment that enables the public, private and non-profit sectors to achieve the Kingdom's Vision 2030."

A study conducted by PwC and Monsha'at estimates that if the social enterprise sector, which attracts most of the impact investment, is effectively prospered, it can contribute an additional 2.5% to the Kingdom's GDP each year and will result in 2,50,000+ jobs by the year 2030.

In order to understand the impact investment ecosystem in the Kingdom better, let us look at the regulatory landscape, incentives to investors, and some of the potential impact investment ready sectors.



The Kingdom of Saudi Arabia has aimed multiple reforms at attracting investment in its non-oil economy. The Vision 2030 portal enumerates more than 750 business reforms undertaken thus far to enhance the ease of establishing and conducting business. Though here we are concerned with the regulatory changes with reference to impact investment, it is important to note that many of the changes are broader and cover both impact as well as general investment. A dedicated Investment Services Portal is available to acquire investment licenses with only two documents - (i) Copy of the commercial registration

of the entity in its original country (authenticated by a Saudi Embassy) and (ii) Financial statements for the last year, prepared by an internationally acclaimed legal office (and authenticated by a Saudi Embassy).

The Kingdom's national unified portal for government services claims that the changes have "reduced the total requirements of investment licenses by 54%." In order to facilitate investors with licensing and other regulatory procedure, platforms like Meraas consists of information about licensing guidance and electronic services. For boosting local entrepreneurship, the Small and Medium Enterprises General Authority, Monsha'at, has started several entrepreneurship complexes, business accelerators and incubators (Al-Kharj and Hail), resulting in 37% increase in the small and medium enterprise (SME) sector compared to 2016. Another important aspect that affects the enterprises working for social/environmental impact (as well as other businesses and the economy) is the engagement of women through "setting an equal age for both genders, preventing gender discrimination in terms of wages, occupation, work field and hours, and enabling women to incorporate and practice commercial business without obtaining prior consent.

In order to fulfil the Vision 2030 and attract investment of various kinds, the Kingdom has also come up with multiple incentives. These include loan programs for private/public investment, economic development projects (by Arab Monetary Fund), and export credit guarantees. One such body offering loan is Arab Fund for Economic and Social Development (AFESD) which offers loans on reduced interest rate extended up to 22-25 years and with 4-6 grace periods. Apart from loans, the Kingdom is also offering employment support schemes and enabling energy and utilities in industrial cities.



■ Challenges

As mentioned above, being in the infancy stages of the impact investment ecosystem, Saudi Arabia faces challenges both on demand and supply side. On supply side, these include lack of laws catering to the sector, lack of regulatory bodies, excessive reliance on charitable funding, and lack of awareness resulting in lack of knowledge about investment tools and pathways, fewer finance products, lesser private sector participation, among others. While on demand side, lack of standardized procedure for registration and licensing, high fees, lack of awareness on part of investors about the characteristics of a social enterprise among others contribute to the problem.

Despite the challenges mentioned above, Saudi Arabia has the potential to attract significant number of impact investors. Goals of Kingdom's Vision 2030 also ensure a suitable environment for businesses aiming to create positive social/environmental impact. Since the announcement of the Vision, the Kingdom has seen a huge relative increase in impact funding, especially in recent years. Impact funding in Q3 2021 was 130% higher compared to the same time in 2020. Between 2016 to 2021, 20% of the deals to impact-driven start-ups in the MENA region came into KSA.

■ Education

There has been a massive uptick in MENA-region impact investment with regards to education, and specifically, Edtech. The Kingdom has allowed 100% foreign ownership in this sector. Given its demographics (in terms of age composition), low enrollment in private education institutions and quality of education (see PISA 2018 report), Saudi Arabia is an appealing market both for financial and social returns in the education sector. With the student population of 8.4 million, it is the biggest market among GCC countries.

The Kingdom spends highest on education in the region. It has started the Human Capital Development Program (HCDP) to fulfil the strategic objectives set under Vision 2030. Edtech being one of the biggest attractions for impact investors in Saudi Arabia, especially in the post-COVID scenario, the government has heavily invested in "e-learning, with 9 million students benefiting from distance learning platforms and 300,000 children benefiting from the virtual kindergarten platform."





■ Healthcare

The sector which is experiencing one of the most significant transformations under the Vision 2030. The adoption of the Accountable Care Organization (ACO) model opens doors for impact investors to invest in providing advisory, management training, laboratory support, IT support and so on, as suited to this new model.

The Kingdom also represents an appealing market for impact investors with high potential for localization given 94% of the medical devices come from other countries. The medical technology market in the Kingdom is valued at US\$5.4 billion with predictions of growth. Governmental encouragement of foreign investors to participate and reap benefits in the growth of the healthcare sector creates a fertile environment for both interest and scaling. As a step in this direction, in 2017, Saudi Arabian General Investment Authority (SAGIA) allowed 100% ownership for foreign investors.

In order to realize the strategic objectives put forth by Vision 2030 in, the Saudi Food and Drug Authority (SFDA) is providing “investors with transparency on regulations and clear procedures, resulting in faster and easier licensing and higher-quality products on the market.” One of the many impact investors who came in Saudi healthcare is a Swiss multinational pharmaceutical company Acino which entered in 2016, and in 2017 established its first office in the country to expedite the fulfilment of local market needs. Acino’s General Manager reported saying that they envision “access to high quality and affordable medicines, by enabling healthcare practitioners to enhance the quality of care for patients and improve treatment outcomes”.

■ Financial Services

The Kingdom's Investment Portal projects that by 2030, the estimated total credit demand in the Kingdom will be \$1.3 trillion. As formalisation of the economy has picked up speed, by 2030, 70% of all transactions in the Kingdom will be non-cash resulting in greater demand for financial service providers.

Given Vision's focus on increasing Micro, Small and Medium Enterprises' (MSMEs) contribution to the GDP to 35% by 2030, the government is also enabling banks to increase the volume of lending to the MSMEs. The regulatory body for MSMEs, Monsha'at, enables enterprises with offerings like the Entrepreneurship Fund (for professional support and guidance), KAFALAH (financial guarantees for enterprises through banks), among others. The KAFALAH program launched in 2016 with a budget of SR800 million. This gives considerable incentive to the impact investors to invest in social businesses popping up as MSMEs.



■ Other areas

The economic transformation of Saudi Arabia is not limited to the sectors mentioned above. It spans across real estate, environmental services, human capital innovations, tourism and so on. All sectors under the Vision 2030 agenda have significant potential to accommodate social entrepreneurs and thereby attract impact investors.

This summary piece is from a series of articles we, at Impetus Strategy, intend to share with researchers, practitioners, and the general public. We aimed to provide an initial snapshot as to the current state of impact investment in KSA, and where it aims to arrive. Our intention is to create awareness about the impact investment sector in The Kingdom, as well as efficiently and successfully provide our services to all stakeholders including, donors, investors, entrepreneurs, regulators, and governmental entities.

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