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Moving social services beyond government

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EXECUTIVE SUMMARY

Gulf countries are struggling to meet the continuously changing and increasingly complex needs of their citizens. The generous public services of the past are no longer sustainable, due to continued lower oil prices and demographic growth. In this environment, these governments can no longer be the sole provider of public social services — and they should not have to be. Instead, governments can work with not-for-profit organizations (NFPs) and private-sector companies to supplement government offerings, moving social development beyond merely using the government as a provider.

Specifically, Gulf countries could focus on three potential mechanisms that have not yet received attention in the region:

1. Build an ecosystem of NFPs, by clarifying what services are needed, making NFPs more financially sustainable, developing organizational capabilities, increasing awareness among the public, creating linkages with the private and public sectors, and putting the right regulatory environment in place.

2. Encourage companies to advance from corporate social responsibility, or the alleviation of social misfortune, to corporate social innovation — the creation of a positive agenda, through more capable internal operations and more innovative products and services.

3. Implement performance-based payments by the public sector to reward favorable outcomes, including proven mechanisms such as social impact bonds, which bring investors to the market for the most promising social initiatives.

All three of these concepts are entering use elsewhere and generating positive results. By applying all three, these governments can better meet the needs of their growing populations, with higher-quality services, more efficient delivery, and lower government outlays.

AN UNSUSTAINABLE MODEL FOR PUBLIC SERVICES

Countries in the Gulf Cooperation Council[1] region have long adopted a generous model for social welfare. The government has been the main provider of jobs for citizens, along with key services in areas such as education, healthcare, and social protection. Over time, however, the burdens of this model have led to a degradation in the quality of services, many of which no longer meet the expectations of citizens or government leaders. These countries consistently rank lower internationally across a range of indicators spanning key social areas such as education, employment, and healthcare.

More troubling, the current model is unsustainable financially and operationally. For decades, the region's oil economy has paid for the provision of government-backed social services delivered by the public sector. However, an extended period of low oil prices has negatively affected state finances, and many governments simply cannot meet all the needs of all their constituents.

Demographic trends compound the challenge. GCC governments have to deal with multiple generations that have very different lifestyles, habits, needs, and expectations. The social needs of these different groups of citizens are always changing and are increasingly complex. Overall, populations in GCC-region countries are aging, putting a strain on government-funded services. The younger generation is more aware, more connected, more aware of social service provision in other countries, and so is more demanding. The unemployment rate among nationals of these countries is often high, as these economies continue to rely on expatriates for most skilled labor in the short to medium term.

In many countries, social services are shifting away from the traditional model of provision in which public service providers operate in silos. Instead, services are provided through an integrated approach in which NFPs and the private sector supplement government services. Technology is a key enabler of this new approach. Public providers are now adopting IT systems, such as cloud computing, that are designed around the actual needs of recipients, in particular as family units, and that allow these providers to share social need cases with other organizations. Big data is helping agencies tailor services to the needs of individuals while anticipating health or social problems and proactively mitigating them.

Governments therefore should transition to a similar "all of the above" approach, in which the government, public-sector providers, the private sector, and NFPs combine forces to offer public services. There are three potential mechanisms that should be at the top of the agenda for GCC governments: develop an ecosystem of sustainable NFPs, encourage the private sector to become more innovative in addressing social issues, and introduce more innovative social contracting mechanisms such as "social impact bonds."

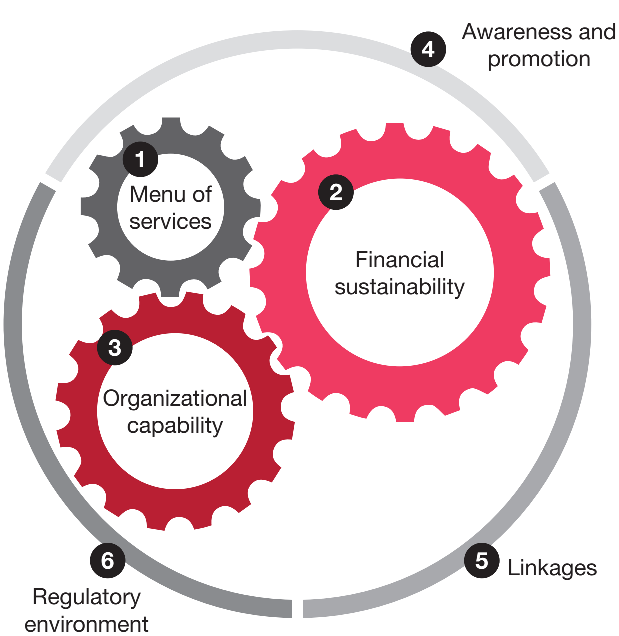
BUILD AN ECOSYSTEM OF NFPs

The first mechanism involves building a thriving NFP ecosystem. Around the world, governments increasingly do not bear the entire burden of delivering social services. They are the primary provider, but they are supplemented by a network of NFPs that deliver specific services and/or focus on specific groups of people. For example, an NFP may offer job training to disabled individuals, or help economically integrate citizens with troubled backgrounds (such as ex-convicts or people with a history of substance abuse), or help educate children in underserved communities.

GCC-region countries can use this approach as well, but they are starting from a relatively undeveloped state. The number of NFPs in any Gulf country is in the range of 1,000 to 2,000. By comparison, there are nearly 1.5 million nonprofit organizations in the U.S., including public charities, private foundations, and business and civic groups.[2] Accordingly, the first step is to create the right conditions for an ecosystem of these organizations. Six components are critical to create an ecosystem for NFPs (*see Exhibit 1*).

EXHIBIT 1

The NFP ecosystem includes six key components



1. What is the spectrum of services covered by NFPs? To what extent are the activities/actions of NFPs integrated with the country's needs and national agenda?
2. How do NFPs secure sustainable sources of funding? How do governments support NFPs' access to funding?
3. What are the required governance and organizational capabilities within NFPs?
4. How are communities and individuals encouraged to develop, contribute to, and engage with NFPs?
5. How are NFPs linked to the community, to the private sector, to the government, and to other local and international NFPs?
6. What are the key characteristics of an enabling NFP regulatory environment?

Note: NFP = Not-for-profit.
Source: Strategy&

1. Menu of services

The largest category of NFPs in Gulf countries are charities that offer financial support to those in need but typically do not offer services. To relieve their burden of providing public services, governments need to designate priority areas for new NFPs such as poverty relief, education, healthcare and wellness (including for those with disabilities), and community development.

2. Financial sustainability

The pattern in countries with well-developed NFPs is that these organizations have numerous sources of income, including government funding, government fees (to provide services to government entities under a procurement system that slightly favors NFPs), and fundraising (usually the biggest component), in addition to a number of activities like membership fees, publications, and merchandise sales. In Gulf countries, by contrast, the majority of funding still comes through private donations, which often go to charities rather than NFPs that actively work on social issues. The lack of a volunteering ethos also limits the potential income from membership fees. Furthermore, fundraising for non-charities is prohibited by law in some countries in the region.

On top of these factors, governments in the Gulf region have traditionally provided minimal funding to NFPs, compared to international benchmarks in which government funding represents anywhere from 10 to 20 percent of NFPs' total revenues. As such, governments need to increase their funding to NFPs, either through donations or fees against services, and particularly in the early stages of the development of the ecosystem. Over time, the goal should be to allow NFPs to become self-sustaining, in part by governments adopting a more relaxed fundraising model that allows NFPs to access private funding and donations.

3. Organizational capabilities

NFPs need proper accountability as they benefit from favorable tax laws and need to comply with regulations. That means having such capabilities as strong governance and decision making and financial management, and rules on disclosure and conflicts of interest. They have to be accountable to their beneficiaries and the public. Usually governments (through the tax authorities) or other NFPs and academia (through advocacy and research) enforce these standards. Many NFPs in Gulf countries lack proper governance, transparency, and performance management. For governments in the region, the challenge is to provide sufficient education and resources for new NFPs, and to clarify and enforce regulatory standards, while respecting the independence of these organizations.

4. Awareness and promotion

NFPs in Gulf countries face multiple challenges in marketing themselves to the public. There is insufficient awareness among citizens of how these organizations work. Little information is available as there is a limited amount of data in the form of a standardized central registry. Government efforts to promote NFPs lack coordination. Concerted promotion and awareness initiatives can create a stronger ecosystem for NFPs, in areas such as raising funds, spurring volunteerism, and encouraging community action. Traditional measures for governments include public awareness campaigns, high-profile events, and rewards. More innovative approaches include disseminating data (through a public database of all NFPs in a country), donor education, and partnerships with professional advisors.

5. Linkages

In the past, NFPs, government, and private-sector organizations operated separately, with limited collaboration. Instead, if the three groups work together for the provision of public services, it can lead to greater efficiencies and innovation. For example, companies can collaborate with NFPs on specific initiatives. NFPs can support governments in shaping social policies. Governments can incentivize companies to contribute actively to the NFP sector.

6. Regulatory environment

Governments need to establish a regulatory framework that covers the NFP life cycle from establishment through operations to dissolution. These rules need not be overly restrictive. For example, burdensome application processes and strict scrutiny over operations can suppress NFP activity. Instead, the purpose of the regulatory environment is to be conducive to new NFPs, with the minimum requirements to ensure proper governance, monitoring, and reporting, along with sensible laws regarding funding.

“ NFPs can support governments in shaping social policies.

A PRIVATE-SECTOR SHIFT FROM SOCIAL RESPONSIBILITY TO SOCIAL INNOVATION

The second mechanism is to engage the private sector. The ambitious national plans of the GCC-region countries all have roles for the private sector to help address social needs through innovation. UAE Vision 2021, Saudi Vision 2030, and New Kuwait 2035 all include social development objectives. Contributing in this way is more than an obligation, it is good business. Companies that promote social impact through their products and processes show better performance in several dimensions. They can tap into a consumer base that is more aware of sustainability issues and is willing to pay for cleaner and greener products. This is particularly true of millennials, 91 percent of whom would switch brands to one associated with a cause.[3] Companies such as Warby Parker, Diff Eyewear, Toms Shoes, and The Company Store have opted for a "buy one, give one" model where for each product purchased, the company donates a similar product to a person in need. The success of these companies can be partially attributed to their socially conscious approach.[4]

The challenge, however, is that many companies still use simple or ad hoc approaches to corporate social responsibility. They may donate a portion of their revenue to charitable causes, or they may launch a green product line or two. The looming social issues in the GCC region call for a more comprehensive approach — corporate social innovation (CSI). CSI entails working to solve social challenges as part of the company's core operations. Rather than simply limiting the negative effects of an organization, CSI actively creates positive effects throughout a company's operations and among its stakeholders. For example:

- **Suppliers** — Rather than just prioritizing suppliers based on their social and environmental performance, companies can seek out those in vulnerable groups or communities

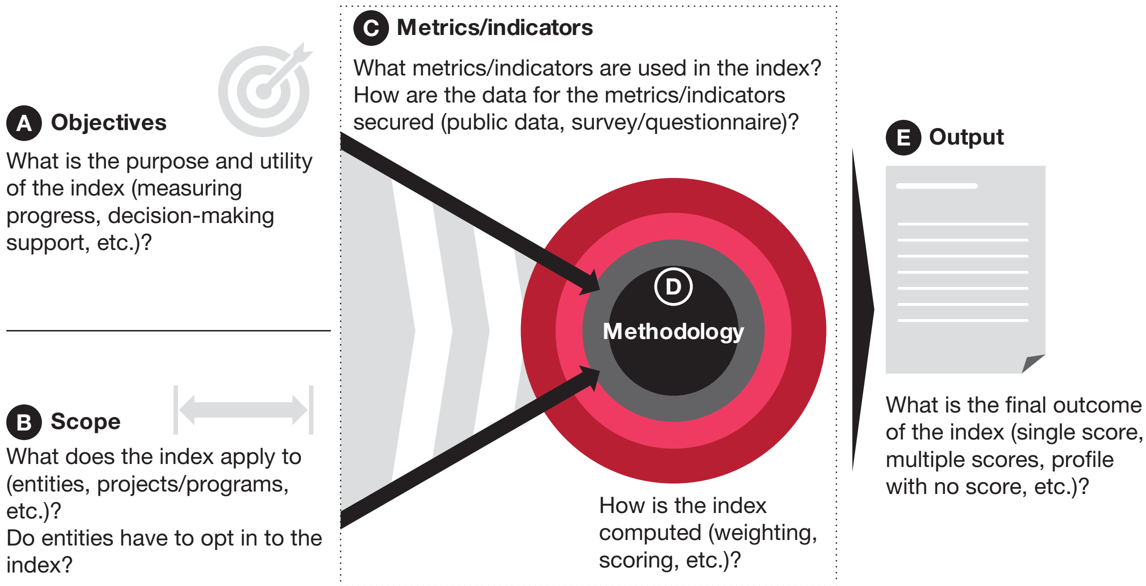
- **Employees** — Rather than simply offering training and development and creating a diverse workforce, companies can build up their employees' social conscience, turning each person into an engine of change by encouraging, or also rewarding, them for volunteering

- **Customers** — Rather than simply measuring the impact of their products, companies can develop new offerings that actually improve the livelihood or wellness of customers

- **Community** — Rather than donating to charities or offering pro bono services, the company can focus its innovation on directly solving social challenges, and partnering with NFPs on development initiatives

Measuring social innovation requires that governments get involved, particularly in the early stages. A CSI index is one method for achieving this. The government needs to outline the parameters for inclusion (companies, projects, programs, or other entities, and whether they have to opt in to be counted) to define the index in the context in which it will be used and the objectives it will help to achieve. This must be accompanied by standardizing methodologies (including data sources, calculations, weighting, and scoring), to create a fair, side-by-side comparison using common language and benchmarks (*see Exhibit 2*).

EXHIBIT 2
Creating a CSI index



Source: Strategy&

Consequently, companies can see their strengths and deficiencies and prioritize improvements, while external stakeholders have greater transparency about social innovation performance.

Governments in the GCC-region countries could make use of two distinct characteristics of the broader enterprise sector to encourage the shift from corporate social responsibility to CSI. One characteristic of the region's economies is that there are many large, family-owned businesses. These companies feel a deep sense of social responsibility, which is in addition to their religious duty of zakat (charitable giving). We estimated in 2017 that the 100 largest GCC family businesses had annual philanthropic capital of at least US$7 billion.[5] In addition to their financial influence, these companies could act as pioneers of the move to CSI. The other characteristic of GCC-region economies is that the largest corporations are state-owned companies. The government, as the owner, can direct these state-owned enterprises to use the CSI approach. For both family-owned companies and state-owned firms, the government can promote the adoption of CSI through a mixture of incentives and regulations.

CSI indices already exist elsewhere at the national, NFP, and company levels. For example, Hong Kong has a creativity index, which measures the human, social, institutional, and cultural capital devoted to creativity, along with outcomes.[6] Similarly, IRIS, an initiative of the Global Impact Investing Network, provides impact investors with a framework that allows them to understand the social and environmental performance of their investments.[7] The B Impact Assessment is a tool that any company can use to measure its impact on its key stakeholders, including employees, customers, and the broader community.[8]

OUTCOME-BASED COMMISSIONING VIA SOCIAL IMPACT BONDS

The third mechanism for Gulf countries is financing. Governments typically use a traditional model for contracting public services. They pay a set amount to a vendor, which then provides services to a target group of beneficiaries. The government may evaluate outcomes, but often does not. Governments use the same approach to buy tangible services. However, this model no longer suffices for governments' public-service needs, for which they have to start measuring impact and outcomes rather than simply output.

Impact investing, a forward-thinking approach, can have a stronger influence and cost less. In this approach, governments structure the vendor contract for providing social services around performance-based payments that they link to outcomes. Governments put precise criteria in place to assess and validate social outcomes in terms of public savings and non-financial social benefits. Stronger performance against social objectives leads to higher payments from government. In addition, government funds are supplemented by third-party investments. These third-party investors allocate capital to the service provider through social impact bonds in exchange for a steady stream of payments by the government to the investor when the target outcomes are achieved (*see Exhibit 3*).

This approach has significant advantages. It creates a greater role for the private sector in social issues and harnesses market forces. Highly promising approaches will receive the funding they need to thrive. Those that do not achieve their objectives do not receive performance-based payments from government, leading to lower returns for investors. The result is more innovation in solving problems, with greater scrutiny from investors on the front end and, ultimately, higher-quality services for beneficiaries.

For governments, this approach shifts delivery risk to the private sector, which is often better equipped to analyze it, along with financial risk. Unlike in the past, failing projects will not receive payouts after they are complete, only successful projects will.

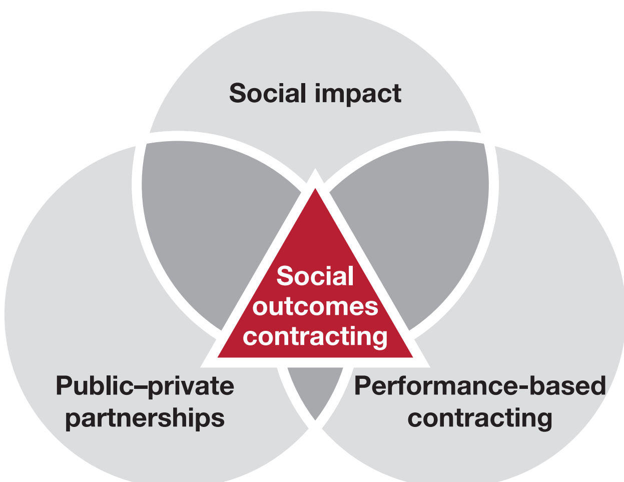
Social impact bonds work best for social interventions that meet four criteria:

- **Preventative:** An action taken today can prevent a larger and more expensive social issue from emerging in the future
- **Well-defined outcomes:** Initiatives that have outcomes that are specific, measurable, achievable, realistic, and timely
- **Quantifiable savings:** The future savings can be calculated today
- **Available and interested partners:** NFPs with expertise in the issue at hand have to be available, along with investors with capital to fund the initiative

EXHIBIT 3

Benefits of social outcomes contracting and flow of social impact bond payments

Overview of social outcomes contracting



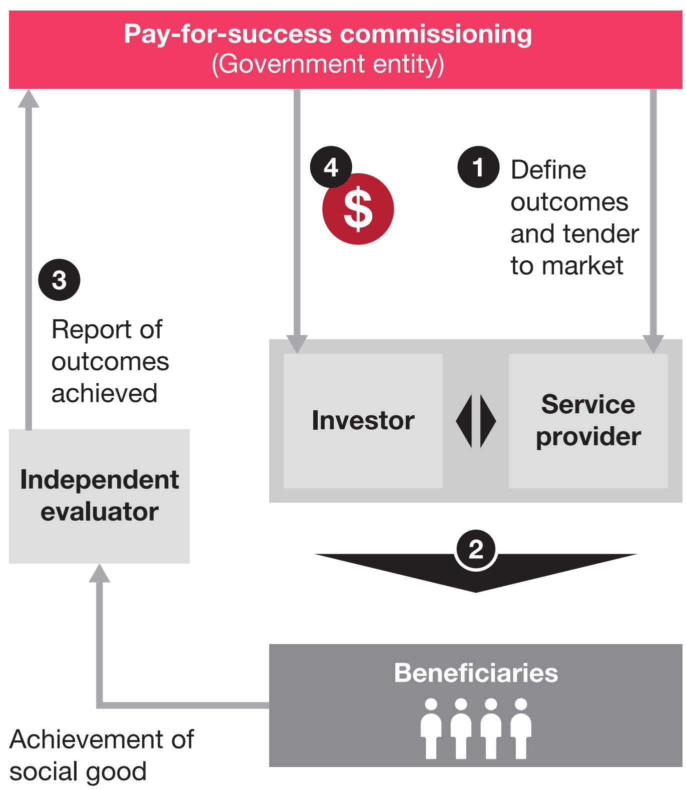
Social outcomes

Prevention: investment-to-save, and dual-running of services, with social investors funding upstream interventions

Collaboration: multiple commissioning entities work together and there is cooperation within provider networks

Innovation: new interventions, enhanced performance management, and systematic learning through risk transfers

Social impact bonds flow of payment



Source: Strategy&

Some governments around the world are already using social impact bonds to address a variety of social issues. In New South Wales, Australia, a family-oriented project sought to reduce youth homelessness. Private investors funded the bond, and the project succeeded in returning an increased number of children to their families and preventing at-risk families from losing their children. The total savings through 2030 are projected at AU$80 million, leading to an annual return for investors of 8.9 percent.[9]

Similarly, in the U.S., the state of Utah has a local initiative in place to improve educational outcomes for toddlers, specifically through early interventions to reduce the need for special education. Funding has come from Goldman Sachs and an independent philanthropist. In the project's first year, the Utah government saved $281,000 (through the reduction in future remedial services), of which 95 percent was returned to investors.[10]

To replicate that success in the GCC region, governments can use four approaches:

1. **Strengthen social investment channels.** Governments can start large social investment funds and encourage them to invest in entities that solve societal problems in new ways, such as NFPs and social businesses. Another approach is to create a government-backed social investment fund that generates initial momentum, such as the U.K.'s Big Society Capital

2. **Formalize the status of social enterprises.** Governments can designate social enterprises as a separate legal entity or as a special category of for-profit company (provided they are engaged in some form of social impact)

3. **Update government procurement rules.** Currently, public procurement regulations in Gulf countries are strictly limited to a traditional model of payment for a specific product or service. Updating those regulations will allow governments to use more innovative approaches, such as scaling payments based on successful outcomes

4. **Foster trust.** Governments can encourage and organize standard metrics to gauge performance among social enterprises, along with reporting requirements to boost transparency

CONCLUSION

The current approach to social services provision in GCC-region countries is unsustainable. Instead, countries can change their approach to move social development beyond the government by creating a vibrant ecosystem of NFPs, encouraging a change in the private sector from corporate social responsibility to corporate social innovation, and financing public services through outcomes-based commissioning models.

ENDNOTES

1. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

2. Brice McKeever, "The Nonprofit Sector in Brief," Urban Institute National Center for Charitable Statistics, January 3, 2019 (https://nccs.urban.org/project/nonprofit-sector-brief).

3. 2015 Cone Communications Millennial CSR Study (https://tinyurl.com/yxu7g7xd).

4. Tom Redd, "How Warby Parker Became a Billion-Dollar Disruptor," *Digitalist*, May 24, 2016 (https://tinyurl.com/y2ga7uqe).

5. Fadi Adra, Ramy Sfeir, Maria Abou Sakr, and Melissa Rizk, "From traditional to impact philanthropy: Creating a legacy for GCC family businesses," Strategy& 2017 (https://www.strategyand.pwc.com/me/report/impact-philanthropy).

6. The Hong Kong Special Administrative Region Government, Home Affairs Bureau, "A Study on Creativity Index" (https://www.hab.gov.hk/file_manager/en/documents/policy_responsibilities/arts_culture_recreation_and_sport/HKCI-InteriReport-printed.pdf).

7. Global Impact Investing Network (https://iris.thegiin.org/about/).

8. The B Impact Assessment (https://bimpactassessment.net/).

9. David Donaldson, "Newpin Success Paves Way for Social Impact Bond Expansion," *The Mandarin*, August 24, 2015 (https://www.themandarin.com.au/49174-social-impact-bonds-good-results-newpin/).

10. "Utah High Quality Preschool Program," Nonprofit Finance Fund, July 2, 2018 (https://www.payforsuccess.org/project/utah-high-quality-preschool-program).

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