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Developing Social Entrepreneurship and Social Innovation in the Mediterranean and Middle East

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in collaboration with : Institut de la Méditerranée

1. Summary

Our policy brief builds on the findings of two mutually reinforcing initiatives. First, it takes into account the results of a 2018 assessment (Hausser, 2019), funded by Northeastern University, produced in Beirut and Tunis to map and analyze the social innovation ecosystems alongside the challenges and opportunities available to socially and environmentally-minded entrepreneurs. Second, it capitalizes on the research of FEMISE researchers (Tsakas and Moukaddem, 2019) on how to develop the conditions that will allow for the strengthening of social entrepreneurship ecosystems in the South-Med countries and lead to inclusive innovation that creates jobs, income and opportunities for marginalized populations, women and youth. Findings show that the lack of a legal form for social enterprises, impediments to financing and investment, scarcity of human resources for upper management and difficulties in determining the proper customer base are among the core obstacles faced by social entrepreneurs. We argue that more innovative financing mechanisms should be available for them. Educating investors in the South Med around the concept of impact measurement and impact investment would be needed. In addition, South Med governments ought to actively support social enterprises, meanwhile, corporations should be considering social procurement and including social enterprises in their supply chains. Finally, capitalizing on Euro-Med cooperation could be an inclusivity game-changer. Specifically, an EU-Med Social Impact Platform could multiply funding opportunities for South-Med entrepreneurs and provide a promising market for impact investors.

2. Introduction

In its broadest terms, Social Entrepreneurship (SE) is defined by an approach that combines innovation, dynamism and the ability to meet social and environmental challenges. A social entrepreneur creates a social enterprise, which may be for-profit or non-profit, but which consistently seeks to solve societal problems (poverty, marginalization, environmental deterioration, etc.) through innovative solutions.

A real tool for achieving social impact and inclusive growth, SE offers appropriate solutions, meeting major challenges faced by South Mediterranean Countries (SMCs). It can, when supported by appropriate public policy, contribute to the economic security of all segments of the population and contribute to economic diversity. Furthermore, SE is based on territorial development and proximity, promoting community participation, prioritizing local impacts and modeling participatory values.

At the same time, with an average rate of 12.4% in 2017, unemployment is very high in the region. It greatly affects young people and graduates (with rising unemployment rates respectively at 27% and 29%). Even worse, women's participation rate is at an extremely low level (29% versus 50% for all countries with comparable income). Meanwhile, although poverty rates in SMCs are lower than in other developing and emerging countries, the share of the poor population, measured from national thresholds, has increased in both Egypt and Jordan. In addition, compared to all countries with comparable income, it is in SMCs that population's vulnerability to poverty has increased the most.

While exhaustive data for SMCs is scarce, sectorial data suggests that SE is growing at a rapid pace that is outgrowing traditional entrepreneurship. For instance, Tunisia has nearly 20 000 associations, which are a specific form of SE, half of which were created over the last five years under the impetus of post-revolution civil society. The number of jobs created by SE is significant, estimated at 4% of the population in direct jobs in SMCs and much more if we count the jobs created indirectly. Social entrepreneurs in SMCs invest in sectors such as personal services, professional integration, fair trade, agriculture, culture, social housing, waste recycling and tourism to name a few. Yet, the SE landscape is complex due to the manifold stakeholders that take different forms across countries.

Against this background, in this brief we address **the situation of SMC in terms of SE and the obstacles to its development. Exhaustive analysis is provided analysing characteristics of social innovation ecosystems in Tunisia and Lebanon, which have launched discussions on a possible legal form for SEs**. We also present selected case studies of impactful SEs (found in the annex). Finally, we offer **recommendations** which could feed into future actions and programmes to promote SE at the national and EU-Med levels.

3. Approaches and Results

Obstacles/Challenges

As identified by Hausser (2019) and FEMISE (2019) the success of social entrepreneurs depends on whether a developed ecosystem of social innovation exists, one that is as developed as that of traditional businesses. Such ecosystem is lacking in SMCs for the following reasons :

1. **In all South Mediterranean countries, with the exception of Jordan, there is no specific legislation to govern SE.** Thus, social entrepreneurs have limited access to institutions and laws supporting them. Government resistance to change is also an issue, with weak steps to e-governance. The lack of a legal form for SEs makes fundraising and expanding difficult as well.
2. **Lack of adequate financing and investment opportunities.** There are no deep regional ties concerning financing. There is plenty of idea-stage and seed funding, but there's a middle funding gap between seed (up to ~ $400k)and B+ series ($1 million+), regardless of the gender of the social entrepreneur. Due to some of the Med countries' small markets, social entrepreneurs struggle to scale and prove long term effectiveness. Furthermore, competing in the same market as traditional entrepreneurs, whether in incubators or investment competitions, makes social entrepreneurs even more disadvantaged.
3. **Receiving loans from the bank are a challenge to overcome and debt is highly expensive for SEs.** Banks loan easily to anyone from the tech sector or more traditional businesses, but they struggle to understand

social businesses. Fear of change among large institutions and throughout society contributes to this barrier.

4. **Accessing international markets.** The markets in SMCs are relatively small. In countries like Tunisia, foreign exchange difficulties make exports and imports extremely difficult. When SEs are looking to source anything from abroad, there are problems with currency utilization and banks can take up to two years to approve a loan.

5. **Finding good talent/HR, particularly for upper management is difficult.** It is a constant struggle for idea and growth stage enterprises to find specific technical talent, from top quality engineers to programmers. A number of SEs are pursuing the same people and there are difficulties retaining them. There is also a lack of sufficient, relevant business and management skills among some social entrepreneurs and without that business mindset, they will not be able to compete and sustain their work.

6. **Determining the proper customer base**: With social and eco-conscious businesses, it's difficult to find the middle ground between making products accessible to everyone or reaching the upper echelons of the economy who only want luxury products (but may also have more influence on the market). This is a particularly large challenge in the case of Lebanon.

Methodology to map and analyze the characteristics of social innovation ecosystems

In May - June 2019, as part of an independent study funded by a grant from Northeastern University (Hausser, 2019), a series of field missions took place in Beirut and Tunis to map and analyze the social innovation ecosystems in the South Med. **There were four main actions taken in this project** :

1. **An intensive analysis of economic indicators in Tunisia and Lebanon** was conducted to develop a better understanding of the macroeconomic environment surrounding the social entrepreneurs located there. Sources used included "Doing Business" statistics from the OECD, WITS from the World Bank, and various statistics from the Stanford Social Innovation Review.
2. Once in the field, **benchmarking was undertaken to map out the existence of venture capital firms and venture philanthropy organizations as well as their clients** in Beirut and Tunis, developing both a social innovation-focused and a more traditional entrepreneurial ecosystem map of these two cities. Mapping included social entrepreneurs, policymakers, traditional VC firms, start-ups, incubators, social coworking spaces, social innovation community support centers, and research institutions.
3. Once mapped, the research consisted of **analysis of the state of social enterprise inclusion through the eyes of relevant actors within these maps**. This analysis involved reading program materials; attending trainings and networking sessions; interviewing the facilitating personnel and participants; and denoting standardizing qualifiers that helped compare aspects of these programs.
4. The final action taken was **in-person interviews with representatives from mapped entities** so as to understand the state of social innovation in these cities, the challenges involved, and the opportunities available to socially and environmentally-minded entrepreneurs in SMCs.

This process of qualitative research provided well-rounded insight about the state of social entrepreneurship, lending to what we consider to be the basic paths through which these ecosystems can solve the challenges they face.

Findings

Keeping in mind that these two cities are not perfectly representative of the social entrepreneurship ecosystems throughout the South Med, some trends found in Beirut and Tunis are nonetheless applicable to many other country situations.

1. Social entrepreneurs in both cities expressed the need for **more opportunities to interact with impact investors and venture philanthropy firms**. More innovative financial institutions will provide for a healthier social innovation environment and less pressure on social entrepreneurs to fit into the molds of "for-profit start-up" or "traditional non-profit association".

2. Government investment into development is not lacking in the region, however **ambitious investment initiatives are failing to include social entrepreneurs**. An example of this is the case of Circular 331, the Lebanese Central Bank's investment project into the tech community, in which a stated $800 million was injected into the economy to build the entrepreneurship community. Collaboration between entities has been impressive, and even universities are reaching out to accelerators for guidance on developing incubators and start-up competitions. If this energy could grow to include socially-minded entrepreneurs and entities, the social innovation ecosystem would feel the support of all those involved, becoming more effective at solving the widespread issues they aim to address.

3. Management training programs for entrepreneurs vary extensively but most local actors have found that the **one-to-one mentorship model is the most effective**. This form of management training and knowledge sharing could be useful for social entrepreneurs.

4. Some **social enterprise ecosystems forgo collaboration in favor of unnecessarily harsh competition between actors**. Within more nascent ecosystems with fewer "success stories", entities have yet to work together to see that healthy collaboration will allow for a better ecosystem for all. Competition between socially-minded community organizations only deters growth.

5. Both Tunisia and Lebanon are working to **develop legal frameworks** for social enterprises, which would bring about significant change in the place of such organizations in society and the economy. In Beirut, actors are working on the ground to prepare a **badge of SE approval** that they will share with the government once a framework is finished. This badge would help weed out true social and environmental entrepreneurs from those who lean more towards "greenwashing". In Tunisia, social actors have claimed that the ESS framework is not inclusive enough for social entrepreneurs. It has opened great opportunities for cooperatives and community banks, but has left social entrepreneurs more or less excluded.

4. Policy Implications and Recommendations for the Support of Social Innovation Ecosystems

In countries where they contribute to growth and employment, social enterprises are well structured with dedicated institutional, financial and support tools. Considering their proven effectiveness in countries/territories with similar social needs, we believe in their ability to boost social impact in SMCs. Considering the reality encountered by SEs in the region, we propose the following recommendations :

1. Map social enterprises in the Mediterranean : The potential of SE in the Mediterranean is still relatively unknown and needs to be quantified and inventoried. There is an urgent need to build databases on SE in the Mediterranean to increase its visibility, better communicate around «social returns» and effectively orient support and funding to the right structures. It is in the context of this objective that the EU launched, in 2009, a programme of satellite accounts for cooperatives and mutuals, in order to develop reliable statistics on this type of structure at national and European level. It would be extremely useful if the initiative could be extended, within the EU-Med framework, for each of the SMCs. This work could be done in two stages: i. The Mediterranean Statistical Offices would work on a harmonised statistical basis, to produce a regular publication of SE satellite accounts, ii. Satellite accounts would provide a real SE EuroMed observatory to maximize dissemination to stakeholders (private sector, public, academic research, social innovators, IFIs etc.)

2. Provide a National Framework : South Med governments need to start actively supporting social enterprises and including them in government programs. It costs a fortune to do business in some South Med countries, because getting a loan from the bank is close to impossible as a social enterprise and there is no clear protocol for registering with the government. The development of a social enterprise legal form would be a game-changer for countries such as Lebanon, but the government has not expressed much interest. Other SMC's have done some efforts, but the process is usually slow. The first steps would be to at least try to get social innovators included in government programs and competitions.

3. Implement Social Impact Assessment Tools : A rating methodology to assess an enterprise's social performance in terms of local impacts would then be necessary. A dialogue between social entrepreneurs, public authorities and support organisations could be launched in each SMC to define social impact performance indicators that could be adapted in a national framework according to the country's strategic priorities (youth employment, women's employment, etc.). This framework/tool could then be transferred to the ministries and support agencies in charge of SE through technical assistance and training. It would enable public (and private) actors to better evaluate investment projects and contribute to the implementation of socially responsible and inclusive projects. In addition, it would allow enterprises to know how to truly engage to improve the impact of their activities and strengthen communication surrounding social innovation.

4. Provide more innovative financing mechanisms and funding options for social and environmental entrepreneurs. Overall, there needs to be larger funding opportunities and more equity or royalty investment funds. The alternative would be to work on educating the current investors in the South Med around the concept of impact measurement and impact investment, and encouraging them to actively include impact entrepreneurs in their portfolios. However, more impact investors who deeply understand the field of social innovation could ensure long-term growth for the sector. Local actors should look into the implementation of social impact bonds (SIBs) or other hybrid funding models that could encourage collaboration between the government, foundations, and investors.

5. Involve "traditional entrepreneurs" of the private sector : Currently, collaboration between the private sector and the social innovation ecosystem is weak in many SMCs. Most SEs seek funds from seed investors and angel investors, when perhaps companies would be interested in investing, but they don't know how to bridge the gaps to reach entrepreneurs. The difference with corporate investors is that they would likely be strategic investors, partnering with their investees and remaining more long-term than seed investors looking to exit in five years. An even more poignant point is that corporations should be considering social procurement, and including social enterprises in their supply chains. Especially in the smaller South Med markets, these collaborations are absolutely key to growth for these social enterprises. Small SEs at this juncture can't compete with the large corporations, but if corporations were to strategically partner with these changemakers, it could be a win-win situation.

6. Link all ecosystems in an EU-Med mechanism that matches social impact investments with the needs of social entrepreneurs: Such a system could be in the form of a regional online platform which would be adjacent to the EU's Social Challenges Innovation Platform. This online platform would use the mapping of intermediate support structures for SE in order to connect them with social entrepreneurs. The platform would be created in two stages, with a first registration phase for intermediate social finance structures followed by a second phase of registration for Mediterranean social entrepreneurs. When registering online, they could specify the characteristics of their social enterprise (size, sector, etc.), their clients, their objectives in terms of social impact, the challenges encountered, their traditional sources of financing, etc. The responses obtained could then be visualized in a digital map which would allow match-making and provide a means for financial structures to better define, prioritise and support social challenges. All this work could be carried out with the impetus of the EU on the basis of European co-financing (grant or call for tenders), and with a share to be borne by the national/local authorities concerned.

7. Ensure inclusion of marginalized populations and exchange of best practices : Once social enterprises have access to more supportive infrastructure and funding, inclusivity can and should extend beyond these ecosystems to bring in innovators from marginalized and under-resourced populations, especially the youth and women. It is important to actively include entrepreneurs from underprivileged backgrounds, considering that many of them suffer from the pains that the upper class never sees, and that these individuals could become the most effective changemakers in their communities if given the proper support. The creation of a specific ERASMUS for SE could be a measure to allow such inclusion and cultivate entrepreneurial skills with a social impact across the Mediterranean. Such program would include social enterprises from SMC's and the EU and would allow new social entrepreneurs from the South Mediterranean to acquire or exchange socially innovative entrepreneurial knowledge and ideas with an experienced entrepreneur from the North or another South country, where they could stay for a few months. The stay for South Med social entrepreneurs, or at least for under-resourced social entrepreneurs, could be co-financed by the European Commission and the authorities of the Southern countries. It would be facilitated by local contact points (e.g. chambers of commerce, incubators, DLAs, etc.) and by networking, which could also be done via the Social Challenge Innovation Platform. In addition to knowledge transfer, this would be a mutually beneficial collaboration, allowing on either side the discovery of new markets and partners, new commercial practices, the development of a EuroMed relational network and a true culture of inclusion.

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ANNEX

Case Studies (Hausser, 2018)

Community Development Case Study: Tunisian Center for Social Entrepreneurship (TCfSE) : TCfSE started in May 2011 as a competition for idea-stage entrepreneurs, at a stage in which there were almost exclusively actors from the private sector involved in entrepreneurship. The center has grown over the years, taking on the role of a community support center creating an enabling environment for social entrepreneurship in Tunisia – educating, spreading awareness and know-how, and building networks.

TCfSE runs programs called “opportunity days”, where social entrepreneurs and associations come and the Center helps them apply for funding from abroad and other interesting funding opportunities. Outside of funding assistance, they help social entrepreneurs with ideation phase experiments, logistics of R&D, market testing, legal aid, connection to industry experts, mentorship pairing, and HR. They have a planned curriculum of 20 hours per month that involves peer mentoring, training and flexible topics based on the needs of each group of social entrepreneurs. *Interview with Asma Mansour, 13 June 2018.*

Social Enterprise Case Study: ShareQ : ShareQ, a social enterprise started by Samer Sfeir, provides vocational training opportunities to disenfranchised women and youth in Lebanon, helping to place them in steady employment across multiple sectors. ShareQ has a social catering line (M Social Catering) that uses an impact model called “learn and earn”, where women are trained by a certified chef how to prepare and present foods and practice the soft skills associated with professional catering jobs. Alongside the catering, the organization has launched an innovative food product called Hum n’Go, and hires disadvantaged women and youth to prepare and package the item, from which profits are reinvested in ShareQ’s programs. ShareQ also runs a vocational training program called Proabled that connects Lebanese employers to jobseekers with physical, social, and financial challenges.Through their various programs, ShareQ has trained 32 NGOs on Microsoft, distributed 50,000 healthy meals and trained 150 youth and women. *Interview with Samer Sfeir, 4 June 2018.*

Impact Investor Case Study: Fondation Diane : As the only impact investor focused on environmental start-ups in Lebanon, Fondation Diane works with early stage environmental entrepreneurs to fill a gap in the ecosystem. Fondation Diane started in 2016, with three main pillars of work: the Viridis Investment Fund (VIF), the Chair of Civic Awareness and Sustainable Development at Universite Saint Joseph, and Citizen Circle.

Viridis Investment Fund identifies the best green initiatives, encourages them and provides them the necessary financial and operational support to help them grow and achieve their goals. The fund aims to help tomorrow’s green businesses emerge and serve as examples for the country. Due to nascent funding, Fondation Diane connects many startups to other investors and does seed co-investing as well. With their investing events, their goal is also to convert more investors’ mindsets towards impact. Currently partnered with SwitchMed and CEWAS, Fondation Diane carries out green startup trainings for idea-stage entrepreneurs, helping them frame their ideas in the circular economy, develop a business plan, and present their canvas. Out of an average applicant pool of 40 entrepreneurs, four are selected to continue one-on-one coaching and mentoring.

More recently, Fondation Diane has adopted a new strategic axe for its investment strategy, labeled «Turn SMEs into green». Accordingly, VIF invests in SMEs upon condition that they adopt concrete measures to make their processes eco-friendlier and put in place efforts to maximize their environmental and social impact. *Interview with Tracy Achkar, 20 June 2018.*

Hybrid Organization Case Study: Shanti : Shanti is a Tunisian social enterprise dedicated to helping organizations implement their social innovation strategies. Shanti helps with skills training and implementation, taking the form of strategic reflection, coaching, project assistance, good practice analysis, and raising awareness around Tunisian success stories. Shanti also supports the creation of social innovation projects responding to needs in local communities, and has co-created multiple social enterprises. Another great example of North-South collaboration, Shanti co-founded Process Mediterranée, a program of cooperation around academic programs for social entrepreneurship on the three shores of the Mediterranean, with French, Tunisian, and Lebanese partners. In collaboration with L'Institut Francais, Shanti runs the Forum Jeunesse, where Tunisian and international students partake in workshops. They brainstorm social projects over the course of three days, and a number of ideas are chosen from the group to be financed and mentored by Shanti. Since 2016, Shanti has run 5 study abroad programs in the aforementioned countries, with 150 students, 30 social enterprises visited, 10 social enterprises supported, and 4 documentaries produced. Shanti is currently working on a concept called the "AutoIncubateur", in which they are starting and incubating projects from within Shanti, ideated there and funded by the association, in order to see if these initiatives can scale in a way that others can model in the future. *Interview with Mehdi Baccouche, 23 June 2018.*

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