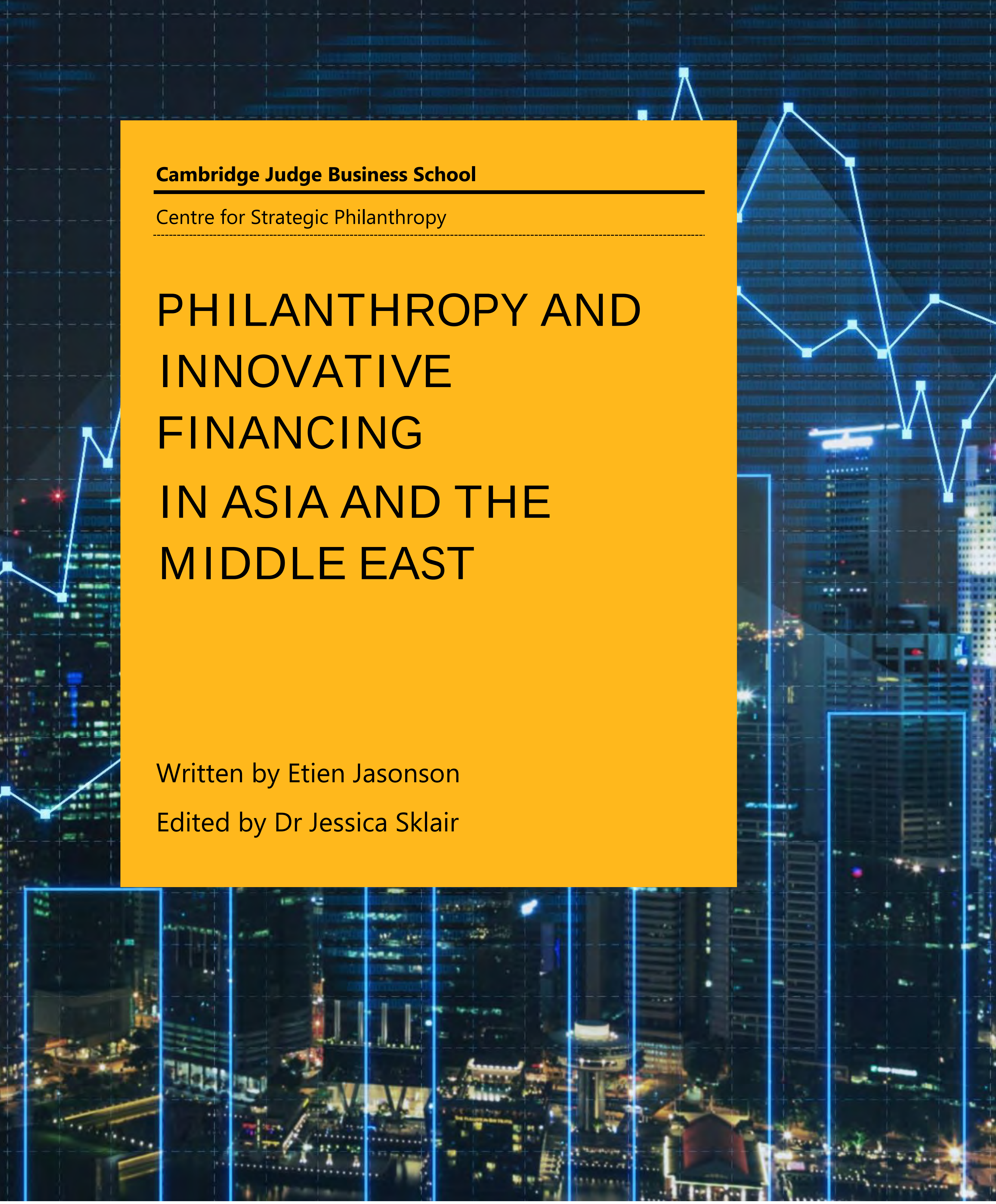

Cambridge Judge Business School

Centre for Strategic Philanthropy

PHILANTHROPY AND INNOVATIVE FINANCING IN ASIA AND THE MIDDLE EAST

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The Centre for Strategic Philanthropy (CSP) at University of Cambridge Judge Business School believes that changemakers from global growth markets are vital providers of solutions to societal and environmental problems, supporting global development. Consequently, the CSP aims to inform, cultivate and catalyse strategic philanthropy in and from these markets, and encourage collaboration between international and local impact-orientated initiatives. The Centre is designed as a global convening body to research philanthropy, elevate practitioner voices and disseminate best practice in three specific growth markets: Africa, the Middle East and Southeast Asia.

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Executive Summary

The use of innovative financing in philanthropy is on the rise globally, but in Asia and the Middle East it remains a relatively fledgling industry which is only now taking shape. In this report, we use the term 'innovative finance' to describe a broad range of practices designed to attract mainstream finance to the task of finding solutions to social and ecological challenges. We look most closely at microfinance, other forms of impact investment, public-private partnerships (PPPs), and blended finance.

The majority of innovative financing in Asia and the Middle East is currently invested by actors based in, broadly speaking, Western Europe and North America; this is especially true for impact investment. Many philanthropists in Asia and the Middle East still hold culturally specific, traditional conceptions of philanthropy which are at odds with the integration of for-profit motives with philanthropic work. However, the number of philanthropists from these regions looking to explore innovative financing is demonstrably on the rise, though this holds more true in Asia than in the Middle East.

A few key trends are behind the increase in interest in innovative financing among Asian and Middle Eastern philanthropists. Firstly, the development and proliferation of microfinance, which predates the notion of innovative finance but which has been influential in challenging the traditional separation of philanthropy and business, particularly in Asia, the birthplace of microfinance. Secondly, the rise of new generations within existing philanthropic organisations, as well as the establishment of new foundations by 'new wealth' philanthropists, who are looking to make their mark and rethink traditional philanthropy. The third is explicit support for the innovative financing agenda by Development Finance Institutions (DFIs) and actors in the Global North, evident in the proliferation of impact investment and blended finance.

The growth of innovative financing in Asia and the Middle East presents the philanthropy sector in these regions with a number of opportunities, but also notable challenges. Developing a sufficient regulatory and legal environment which supports innovative financing vehicles is a major task which most countries across these two regions are currently facing, particularly in the Middle East, where progress is slower. The threat of impact washing and the difficulty of impact measurement also loom over some innovative financing vehicles and are pressing concerns, particularly among impact investors. Finding ways for actors in Asia and the Middle East to effectively use existing impact measurement and management (IMM) systems, or to develop simpler, more affordable and context sensitive IMM systems for each region both remain important challenges.

Continuing challenges for innovative financing in philanthropy involve scepticism and an unwillingness to risk capital. Although it is becoming increasingly common to see business interests and philanthropic activities merge towards new forms of strategic philanthropy, by no means has it become a widespread practice among philanthropists in Asia and the Middle East. To boost the appeal of innovative financing vehicles to philanthropists, it will be beneficial to couch innovative financing models in terms of pre-existing philanthropic concepts or practices and to reduce complexity and jargon where possible.

The political context in which philanthropists operate forms perhaps the biggest determinant in the expansion of innovative finance in Asia and the Middle East. Countries whose governments strongly support the growth of innovative financing tools, such as Indonesia, and who are willing to cooperate closely with philanthropists are far more likely to make innovative financing work. Where the relationship between philanthropists and government actors is rooted in suspicion and mistrust, as is the case in some countries in the Middle East, philanthropists may prefer to focus on more traditional philanthropic practices. Although networking and intermediary organisations, including the Arab Foundations Forum (AFF) and AVPN, help increase cooperation among philanthropists and regional governments, those who wish to make use of innovative financing tools in relatively unsupportive political contexts and legislative environments currently face an uphill and expensive challenge.

What role innovative financing will play in the future of Asian and Middle Eastern philanthropy is unclear, although it is likely to grow. The uncertainty surrounding innovative financing means that early adopters among philanthropists may help shape the sector as it emerges, and establish effective, proven models which can be replicated elsewhere. Importantly, while innovative financing can be an additional model for philanthropists in Asia and the Middle East, practicing and improving existing forms of philanthropy should not be overlooked.

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Introduction

This report explores the ways in which philanthropic foundations across Asia and the Middle East are engaging with innovate financing strategies in their work. While we are aware that the term 'innovative finance' is not always clearly defined or understood within the philanthropy sector, we use the term here to describe a broad slate of practices designed to attract mainstream finance to the task of finding solutions to social and ecological challenges. These innovative financing practices include (but are not limited to): impact investing, blended finance strategies, microfinance, public-private partnerships (PPPs) and social impact bonds.

Innovative finance is broadly understood to have originated over the last two decades in the Global North, and the role of Northern philanthropists in both supporting the development of innovative financing practices and putting them to use in their own work is now relatively well-documented. Less research exists, however, on the extent to which philanthropic foundations in the Global South are engaging with or working to promote innovative financing practices in their own countries, or on how philanthropists in the Global South are adapting these practices in line with their own cultural, political and social contexts. There has also been very little research on early forms of philanthropic practice in Asia and the Middle East that may have incorporated aspects of what we now call innovative financing, long before this term was adopted in the Global North. This report explores these themes, in the hope that future research can build on this objective.

Before turning to the use of innovative finance among philanthropies in Asia and the Middle East, we briefly explore below the origins of these practices in the international development sector. Innovative finance takes a multiplicity of forms, with new models and strategies still appearing across development and philanthropy. Common to all of these, however, is the objective of drawing in mainstream investment to increase the capital available for seeking solutions to social and ecological challenges. Innovative finance models draw on a wide variety of debt and equity instruments. In blended finance, philanthropic and/or public funds play a key role in providing 'first loss', 'patient' or 'risk' capital, designed to reduce the financial risks associated with social investment and thus to leverage capital from mainstream markets. Organisations such as the Global Impact Investing Network (GIIN) provide excellent overviews of how different innovate financing models operate, the sectors in which they are put to use, and the current size and scope of the innovative financing landscape as a whole.

While earlier examples exist, the origins of innovative finance usually trace to the 2002 United Nations International Conference on Financing for Development (the outcomes of which are broadly known as the Monterrey Consensus). Here, concerns around the ability of traditional development financing (including donor states, multilateral organisations and philanthropy) to meet the rising costs of the development industry led to the emergent idea of new funding mechanisms, designed to draw in funds from mainstream financial markets. The global financial crisis of 2008-2009 deepened concerns about the need to find new sources of development funding. In 2015, the Millennium Development Goals (MDGs) were replaced by the Sustainable Development Goals (SDGs), with a calculated funding gap of between USD 1.9 and 3.1 trillion to meet the 17 SDGs by the target date of 2030.[1] These calculations further cemented commitment to the innovative financing agenda.

Philanthropists and philanthropic foundations have played a central role in designing, promoting and adopting innovate financing practices over the last two decades, with both new and older philanthropic foundations partnering with multilateral and private partners to pursue new financing initiatives in different forms. The term 'impact investing' itself was first used at a meeting hosted by the Rockefeller Foundation at its Bellagio Center in 2007.[2] There has been a steady rise in philanthropic funding for development, from USD 24 billion between 2013 and 2015, to USD 42.5 billion between 2016 and 2019,[3] and philanthropists around the world have increasingly drawn on innovative financing to support this work. Foundations have partnered with leading international development initiatives to develop innovative financing models, as in the case of the Bill and Melinda Gates Foundation's partnership with the World Bank, UNICEF and the World Health Organisation for the GAVI Vaccine Alliance and the International Finance Facility for Immunisation (IFFIm). More recently, the global Covid-19 pandemic has seen further philanthropic engagement in a proliferation of new public-private partnerships (PPP)s, blended finance initiatives and vaccine bonds; the pandemic also spurred further innovations in this field. Finding their grant-making budgets insufficient to meet the unprecedented needs created by the pandemic among their beneficiaries, philanthropic organisations including the Ford, MacArthur, Bush, Kellogg, Mellon and Rockefeller foundations all turned to the bond market, issuing bonds to private investors in order to raise extra capital for pandemic-related grant-making.[4]

In what follows, we explore the landscape of innovative finance and philanthropy across Asia and the Middle East. Our report is organised around three main sections. The first provides a broad overview of the size and scope of the innovative finance sector across the two regions. In the second section, we discuss the history and origins of philanthropy's engagement with innovative finance in Asia and the Middle East, focusing particularly on microfinance as a precursor to more recent innovative financing practices in Asia, and on intersections between innovative finance and traditional and distinctive forms of giving in the Middle East. In the third section, we look to the future to explore challenges and opportunities for innovative financing and philanthropy in both regions. Here, we analyse the regulatory, legal and political contexts in which innovative finance is developing (or finding limited space for development) in both regions. We touch on specific regional contexts for challenges around impact measurement in Asia and the Middle East, the extent of appetite for philanthropic engagement with innovative finance, and the role that regional intermediary organisations are playing in promoting these practices. Finally, we provide some brief conclusions to our study and – drawing on the expertise of intermediaries and philanthropists working in this field in Asia and the Middle East - broad recommendations for moving the innovative finance agenda forward across these regions.

Section 1: Laying out the landscape

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In both Asia and the Middle East, innovative financing within philanthropy serves as a fledgling endeavour only just beginning to take shape. The future of innovative financing in philanthropic activity in these regions remains unclear, despite significant support from development finance institutions (DFIs) like the World Bank for the integration of philanthropic and privately held capital. In the Middle East, philanthropy still predominantly involves charitable giving, in-house foundation projects, and grant-making. In Asia, greater support for innovation in financing tools from within the sector exists,[5] though philanthropy is still seen by many within the industry to be a solely charitable enterprise, with no expectation of financial return.

Speaking broadly, much philanthropy in Asia and the Middle East is not institutionalised and lacks long-term strategic planning. Instead, philanthropy in these regions is often characterised by ad hoc giving to address moments of crisis, support local communities, or strengthen particular and temporary social movements.[6] This is in part due to the importance of key religious values in communities across both regions which have fostered strong cultures of individual giving and communitarianism, something we explore in greater depth below. The piecemeal and unorganised nature of individual giving, in conjunction with popular perceptions of philanthropy as a purely charitable endeavour, means that the introduction of innovative financing tools within philanthropy has largely been limited to a small handful of philanthropic foundations and family offices. These institutions, in comparison to networks of individual giving, possess a greater capacity for organised, planned giving in collaboration with private-sector actors looking for reliable partnerships with regular financial returns.

Across both regions, impact investment forms one of the most prevalent innovative financing mechanisms among philanthropists, in large part due to its well-established status among foreign investors in Europe and North America. The GIIN estimates that there are USD 1.164 trillion in impact investing assets under management (AUM) worldwide.[7] The GIIN further estimates that in 2020, 16% of global impact investing AUM were allocated to Southeast, South, and East Asia, whereas just 2% of AUM were allocated to the Middle East and Northern Africa.[8] However, ownership of impact investment AUM continues to be primarily limited to organisations in the USA, Canada, and Western Europe, with 71% of surveyed organisations located in those areas.[9]

While philanthropic foundations and family offices in Asia and the Middle East are beginning to show an appetite for impact investing, this remains on a much smaller scale than that seen in countries across Europe and North America. As such, we must explore the specific conditions necessary to support the further development of impact investment in regions like Asia and the Middle East. As Annelotte Walsh from the Centre for Asian Philanthropy and Society (CAPS) notes, more research is needed on impact investment "... from the perspective of what works in Asia. There is a lot of research emanating from the Global North on philanthropy and social investment and there are great models, but these models don't always work in Asia."[10]

PPPs, another form of innovative financing for development, are currently relatively well-established in both Asia and the Middle East, although uptake of these partnerships toward development ends remains uneven. In the Middle East, PPPs have historically played a crucial role in the rapid expansion of state-controlled energy and water sectors. Recently, governments in the Middle East introduced PPP-specific legislation which provides for their use in sectors beyond utilities. Although this legislation is incomplete, it represents significant progress for the region in catering to the demand for greater use of innovative financing mechanisms in meeting national development goals and SDG targets.

In Asia, government support for development-minded PPPs has been more forthright; see, for instance, the examination of Indonesia's Impact Investment Alliance later in this report. A stronger environment for foreign investment, coupled with greater political willingness from governments in the region to engage with and provide the infrastructure for sustained cooperation with DFIs and the private sector, has resulted in much more frequent use of PPPs in Asia. However, PPPs in the region still predominantly target the energy sector.[11] Some Asian states (e.g. China, India and Indonesia) also receive significantly more investment through PPPs than others (e.g. Myanmar and Nepal).

The Continuum of Capital

To understand the use of innovative financing within the philanthropy sector, it can be helpful to think in terms of a 'continuum of capital', a concept first used in the philanthropy sector by AVPN (formerly known as the Asian Venture Philanthropy Network). This concept makes clear how different financial tools can be used to develop diverse and sustainable investment strategies, both for individual philanthropists and across the sector as a whole. As depicted in the AVPN figure below, the continuum positions impact-minded investment tools onto a spectrum, with the most impact-focused tools at one end and more financially motivated (though still in some way impact-oriented) tools at the other.

Thinking in terms of a continuum of capital matters because it reflects two important trends within philanthropy. The first is that, as traditional views of philanthropy change (as we discuss later in this report) and philanthropists incorporate innovative financing tools into their portfolios, the boundaries between commercial and philanthropic investment will continue to blur and philanthropic actors will span a wider portion of the continuum. Secondly, philanthropists increasingly seek out ways to increase their financial sustainability in order to expand their operations, integrate their philanthropy into their business activities, and/or move beyond traditional forms of giving like grant-making. The continuum of capital highlights how different investment tools, with varied levels of emphasis on financial return, can be used in conjunction with one another to secure a philanthropic investment portfolio and maximise impact.

AVPN argues that thinking in terms of a continuum of capital, and leveraging investment tools from across the continuum, are important strategies for supporting the success of social purpose organisations (SPOs), defined by AVPN as non-profits, ESG-compliant businesses, and social enterprises. Only by making use of the full continuum of capital, they argue, as well as a diversity of financial and non-financial tools, can investors "support the needs of SPOs at different growth stages" and achieve maximum impact.[12]

The extent of current philanthropic involvement in PPPs from within the Middle East remains unclear, whereas in Asia we see demonstrated enthusiasm. When philanthropic capital is leveraged in PPPs in the two regions, it may originate from major Western organisations like the Rockefeller Foundation or Bill and Melinda Gates Foundation, especially in the Middle East. These organisations, of course, do not represent the majority of philanthropic foundations or family offices, who command significantly less staff, resources, and influence. However, a study conducted by the Centre for Asian Philanthropy and Society (CAPS) identified numerous examples of Asian philanthropic corporate and family foundations engaging in PPP projects with varying levels of expected financial returns.[13]

Annelotte Walsh from CAPS notes that one reason for the growing popularity of philanthropic engagement in PPPs in Asia can be traced to the specific role of Asian business leaders. "In Asia," she tells us:

"Many companies in Asia are still often predominantly privately owned, and so the philanthropists are also business leaders. If they want to address social issues they will on one hand give personally through their private foundation, but they will also use their corporate giving structures to do this. Combined with an increasing confidence that the private sector can directly contribute to social delivery, PPPs are a logical choice for many Asian companies."[14]

CAPS' report found that 88% of the ultra-high-net-worth individuals surveyed believed that PPPs for social good will become more common in the next five years, with 80% reporting that their companies already engaged in PPPs for social good.[15]

Section 2: The origins of innovative finance in changing regional contexts

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In examining the origins of innovative finance in Asia and the Middle East, we must recognise that although the terminology is relatively new, it speaks to some ideas and practices that have existed in different forms and which predate this new vocabulary. For instance, the RS Group in Asia have used what they term the 'total portfolio approach' for over twenty years. This involves leveraging a range of investment tools from the continuum of capital to "maximize an appropriate mix of social, economic and environmental performance" across their whole portfolio.[16] Philanthropic intermediaries working in Asia remind us that a small minority of philanthropic actors from beyond Europe and North America were employing ideas seen in innovative finance before – or at least separately and alongside – the coining of such terminology in the Global North. Sangeetha Watson from the AVPN notes that:

"We often call these practices new, but actually our members have been doing this in many different ways for so long, and it's the terminology that's new. Some of our members, like the RS Group in Hong Kong, have been long-committed to a 100% portfolio approach and have engaged in impact funds and do direct investments. We spoke to some impact investors as part of our Catalytic Capital work and they've seen so many impact investing exits across India. These are investors who have been working in this space for decades and are willing to deploy that patient capital that we're speaking to."[17]

This is not to say, however, that there is a rich history of innovative financing in either Asia or the Middle East. Many traditional understandings of philanthropy in these regions conceive of it as a form of charity distinct from profitable commercial activities. These views are changing, but they remain one of the most obvious challenges to the growth of innovative finance into a mainstay of contemporary philanthropy in all areas of the world. Nonetheless, Sangeetha notes that the regional forms of innovative financing mentioned above have "been in play for a long time, and are now slowly starting to gain wider traction. Where there would have only been a handful before, I think many are converging to this place now."[18]

Below, we provide a summary of the particular philanthropic contexts surrounding innovative finance in Asia and the Middle East, as well as an examination of early undertakings which have laid, or are laying, the groundwork for the expansion of innovative financing.

Asia

While charitable giving in Asia is well-established, institutionalised philanthropic giving remains a relatively new phenomenon in many Asian countries, though the number of philanthropic organisations in the region has grown quickly in recent years. Despite an uneven evolution of philanthropy in the region, there is a growing demand for new financing mechanisms, as well as greater appetite for rethinking traditional conceptions of philanthropy.

Religion has played a central role in shaping how different Asian communities think about and conduct charitable giving, with religious institutions and ideologies often providing the earliest examples of organised, regular giving. Buddhism, Islam, Hinduism, Christianity and Confucianism have all been instrumental in configuring the socio-cultural values towards giving which provide foundations for contemporary philanthropy. In certain countries, most philanthropy continues to be explicitly tied to religious ideas and systems, like in Indonesia where the vast majority of individual giving is comprised of *zakat* payments; in some cases, non-religious forms of giving are actively shunned.[19]

National political settings have also significantly impacted the nature and extent of philanthropy in different Asian countries. Countries where civil society organisations have historically flourished, such as India, now host a greater relative number of formal, institutionalised philanthropic organisations. By contrast, nations historically more hostile to the development of civil society, such as Malaysia and China, tend to have a less developed philanthropy sector, with giving generally less institutionalised and more limited in scope.[20] The majority of Asian states facilitate some level of civil society engagement with varying degrees of constraint, allowing political space for philanthropic actors to operate in meeting national development goals.

Popular understandings of philanthropy across Asia characterise philanthropic activity as charitable giving, conceptually separated from the world of business. Generally speaking, for-profit and non-profit activities are understood as distinct domains, resulting in corresponding regulatory limitations, and reluctance among some to engage with innovative finance tools like impact investment. AVPN writes that socio-cultural understandings of philanthropy and misconceptions around innovative financing mechanisms in Asia have "resulted in a rigid investing spectrum consisting of only for-profit and non-profit investments. There is no provision for utilizing private capital for public good."[21]

This separation of commercial and charitable action forms a general disinclination in Asian markets towards language and tools which cannot be neatly transposed onto this binary investing spectrum. For instance, as noted by AVPN, the “general stereotyping of impact investment as a form of philanthropy… often dissuades some investors from market entry,” while “organisations also shy away from referring to themselves as ‘social enterprises’ fearing the label may hamper their future funding stages.”[22]

The many economic booms across Asia have spurred on the establishment of more philanthropic organisations, and catalysed a slowly changing approach to philanthropy. More families, companies and individuals now have the economic means to set up philanthropic foundations and family offices that are able to give in structured, formalised ways, while existing organisations have more resources to hand. Many longer-standing organisations are currently witnessing a change of leadership as new generations take over philanthropic operations from their parents, bringing with them a desire to innovate. ‘New wealth’ philanthropists who have only recently begun their philanthropic endeavours also lean towards innovation, though for subtly different reasons. As Sangeetha Watson from AVPN notes, ‘new wealth’ philanthropists tend not to “want to do it the way it’s been done before, and maybe philanthropy as a concept doesn’t resonate with them in the same way.” These philanthropists, she tells us, are often more concerned with asking “how do I line up my business and investment interests with my philanthropic endeavours for more sustainable impact?”[23] Whereas ‘old wealth’ philanthropists may wish to leave their mark and modernise their activity, ‘new wealth’ philanthropists may thus seek to rethink philanthropic giving altogether. As such, among both groups there is an interest in innovative financing mechanisms which promise sustainable funding and an ability to bring business interests into line with charitable interests.

The success of microfinance in Asia has also played a major role in laying the groundwork for the expansion of innovative finance within the region, as well as among philanthropists. Early microcredit lenders in the 1970s and 1980s were well ahead of the innovative financing turn, creating financially sustainable, formal organisations which provided high-impact, regular giving to some of Asia’s poorest populations. As these programmes were scaled up, they exerted influence across the region by demonstrating that private capital can be used to ‘do well by doing good’ and that commercial and charitable investments can mix with successful outcomes. According to a report by Investing in Women, an Australian government initiative, over 80% of impact investments made in South Asia between 2007 and 2016 were investments into microfinance, although that number has since decreased as investments into other areas (primarily other financial services, energy, and agriculture) have grown at a faster rate.[24] Microfinance effectively opened the door for private impact investors across Asia, and remains the most developed example of innovative financing in philanthropy in the region.

The rise of microfinance in Asia – a precursor to innovative financing

Microfinance was first conceived of in the 1970s with the entrance of microcredit programmes in which rural women received small cash loans with no or very low interest rates. In the latter case, returns made on the loans were reinvested to reduce interest rates, extend repayment deadlines, and expand the reach of microfinance programmes to neighbouring areas. The 1980s began with a severe economic downturn across Asia which encouraged some lenders to begin moving away from the non-profit model.

Microcredit was proven to be commercially viable by Muhammad Yunus' Grameen Bank in Bangladesh, resulting in microcredit becoming popularised elsewhere and recommended by India's National Bank for Agriculture and Rural Development as an alternative approach to development. Legal provisions to support small scale lending soon followed, and economic liberalisations in the 1990s further increased the popularity of microcredit lending, as well as other microfinance programmes which emerged to provide India's poor with access to savings accounts, insurance products, and remittances. In the 2000s, microfinance exploded in popularity across Asia and was championed by prominent voices in the charitable, international development, and private sectors. Today, Asia is home to the highest proportion of global microfinance borrowers, with estimates ranging from between 40% and 45% of the global total.[25]

The historic and continued success of microfinance in Asia has translated into much high-profile support for microfinance among philanthropic organisations. Significantly, the Bill and Melinda Gates Foundation and the Michael and Susan Dell Foundation have both supported microfinance as an arm of philanthropy since the early 2000s. Currently, the Dell Foundation has over USD 44 million in active commitments with a total of 33 projects in India.[26] Though the exact figure is not clear, the Gates Foundation has issued grants to microfinance organisations to the sum of tens of millions of USD. The Grameen Foundation, the non-profit counterpart to the Grameen Bank founded in 1997, claims to have reached just over 16 million people with its programmes,[27] most of which centre around improving access to financial services.

Challenges still remain for the incorporation of microfinance into philanthropic activity, however. For all of the highly publicised success of programmes in the early 2000s, microfinance has also attracted criticism, particularly of microcredit lenders who have extracted significant profits from their borrowers through high interest rates. This resulted in microfinance suffering a crash in 2011, particularly in India, as popular opinion turned against microfinance due to the social ills created by predatory lenders.[28] Proponents of microfinance, such as Muhammad Yunus, argue that there is a distinction which must be made between genuine microfinance and for-profit commercial lending. However, this distinction often remains unclear and in much of Asia, regulation is limited, leaving borrowers open to exploitation. Again, India leads in the region with the most mature regulatory environment for microfinance institutions. Clear regulations which engender transparency and trust within the sector will enable philanthropic organisations to better leverage their capital, either with their own lending programmes or by working in partnership with existing microfinance institutions.

The Middle East

Charitable giving has a long history in the Middle East, but strategic, development-oriented philanthropy remains limited in the region. In the words of Catherine Roe, former director of the Saïd Foundation, historically, philanthropy in the Middle East "responded to social problems but did not seek to address them."[29] Although some interest in innovative finance among philanthropists exists in the region, progress in its scaling and implementation remains slow. The issues impeding the growth of organised and strategic giving are being addressed, but the nature of these obstacles means that they will likely take many years to overcome.

Underpinning philanthropy in the Middle East – both contemporary and historic – is a combination of communitarian principles and Islamic values. In tandem, these created "an embedded culture of giving and the will to give towards social good and change" in the region.[30] The Arab Spring momentarily changed philanthropic habits, with many foundations, family offices and supporting NGOs moving from a religious/charitable focus to a national developmental one. However, as noted by Atallah Kuttab, founder of the Arab philanthropy advising organisation SAANED, the political crackdowns which occurred in the proceeding years meant that "in 2012 and 2013 we saw a change, but it has now flipped back to old habits."[31]

The post-Arab Spring political contexts which surround philanthropy in the region form a significant force shaping the sector. State opposition to politically charged activities inhibits the scope of issues which philanthropy can address, and also places important constraints on how philanthropists talk about their work. For instance, in Saudi Arabia, "referring to a 'sufficiency line' for a decent living rather than a poverty line is more acceptable."[32] Atallah Kuttab tells us that in the Middle East, it is helpful to think of philanthropy as existing across three levels of governmental support.[33] Philanthropic projects in areas such as health and education form the first level, that of broad support. Philanthropy which seeks to address poverty sits at the second, more controversial level, as the drivers of poverty are often politically sensitive areas. Finally, any philanthropic activity which explicitly seeks systemic social change, such as human rights advocacy, belongs to the third level, where government opposition is almost universal. Government mistrust toward philanthropic organisations also translates into limited co-operation between organisations in the sector, a reduced number of supporting and implementing NGOs, and a reduction of foreign investment into certain sectors.[34] The threat of conflict is also an obstacle to institutionalised philanthropy in the region, in terms of both ease of operation and access to funding.

The political environment surrounding philanthropy in the Middle East significantly drives one of the region's most distinct trends; as Atallah Kuttab summarises, "In the Arab region, effecting social change directly as implementers of programmes rather than as grant-makers to NGOs on the national or local level is the norm; grant-making is the exception."[35] Depending on their ambitions, philanthropists often fear that NGOs are either too closely aligned to governments, or are not aligned enough, making partnership difficult. A general lack of trust thus permeates Middle Eastern philanthropy, which may stifle the adoption of innovative financing tools that require long-term cooperation, often with foreign entities. Shonali Banerjee of the Cambridge Centre for Strategic Philanthropy evidences this in a recent study, where interview respondents in the Middle East were less interested in exploring novel philanthropic financing vehicles and instead were "more concerned with local regulatory frameworks, building sound organisational governance structures, and how to achieve successful grant-making."[36]

The proliferation of lending practices in the 1980s and 1990s that were compliant with Shariah law in the region has, however, helped blur the boundaries between commercial and charitable activities. Charitable giving has long been understood in the region to be an act of giving with no expected financial returns. But while some still hold this view, it is no longer taboo to integrate business interests and social causes. As in Asia, the cultural mainstreaming of merging these domains forms an important prerequisite for the extension of innovative financing tools into the local philanthropic sector; this is one of the most important ongoing changes for philanthropy in the region today.[37]

Impact investment, microfinance and PPPs have become legitimate charitable tools in the Middle East. Atallah Kuttab suggests that, in terms of innovative financing vehicles, "microfinance remains the most interesting model" in the region.[38] Many in the sector believe, however, that social enterprises will be at the forefront of innovation in Middle Eastern philanthropy moving forward. Naila Farouky of the Arab Foundation Forum writes that "the future of Arab philanthropy, given the size of the youth demographic, may not be in more foundations but instead may appear in the form of a youth population with a sense of social purpose and the ability to create their own businesses that are both financially viable and able to resolve a social challenge at scale."[39]

Section 3: Challenges and Opportunities Moving Forward

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The future of innovative financing in philanthropy faces clear challenges in Asia and the Middle East. However, initial adoption of some innovative financing options also shows promise for philanthropy in the region, both in terms of increasing the capital available to philanthropic organisations and in extending the reach and impact of their work.

Regulatory limitations and legal challenges

As mentioned above, the regulatory environments for innovative financing in both Asia and the Middle East are presently underdeveloped. This is expected given the novelty of the ideas and the upset which they present to certain traditional notions of philanthropy and to the long-held separation of charitable and business interests. However, if governments do not intervene and provide adequate regulatory and legal support for innovative financing, its use will remain a costly uphill challenge for philanthropists looking to explore new options.

In Asia, many governments in the region have already produced supporting legislation and regulations for specific areas in innovative financing, though these remain underdeveloped and inconsistent. Microfinance and PPPs look to be the best-supported instruments in the region, with numerous governments making explicit their encouragement for these programmes. Despite significant and growing non-microfinance impact investment activity in Asia since the 2000s, this is an area where regulation and legislation fall short, even in some of the region’s impact investing hotbeds. For example, while Indonesia has received the largest sums in impact investments in Southeast Asia from both private impact investors (PIIs) and DFIs,[40] as noted by Nadya Pryana from AVPN, Indonesia still has "room for improvement regarding regulations specific to social entrepreneurship. Impact organisations are often legally constituted as NGOs, and they are separate entities from corporations. There is no law or legal infrastructure on social enterprise.”[41]

The Indonesian Impact Alliance

The strongest example of state support for innovative financing in Asia comes from Indonesia, which launched the Indonesian Impact Alliance (IIA) in May 2023. The IIA is a collective effort by the Indonesian government, the United Nations Development Programme (UNDP), the Ford Foundation, several social enterprises and impact investment organisations to rapidly develop impact investing within Indonesia and thus better support impact-oriented start-ups in the country.

An integral part of the Alliance's work is the use of blended finance to "address the mismatch between demand and supply of capital in early stage investment (100,000 to 1 million USD)."[42] Blended finance is an important arm of innovative financing, referring to the use of development finance from philanthropists or public institutions (such as national governments or international development organisations) to mobilise private sector investments towards addressing social and environmental needs.[43] Private sector investment is encouraged by leveraging development financing as concessional capital to reduce the risk for the private sector through a range of de-risking mechanisms. For the IIA, blended finance represents the main strategy by which the Alliance intends to increase the flow of capital into impact investments and social enterprises in Indonesia.

In order to better facilitate the influx of capital created by blended finance initiatives and to support the expansion of impact investment in Indonesia more broadly, one of the IIA's core missions is to improve the regulatory environment for private impact investors (PIIs). In their own words, the IIA hopes to "create a more dynamic and supportive investment landscape in Indonesia, one that is better able to support and nurture high-impact companies over the long term."[44] This will see organisations, both within and external to the Alliance, working with the Indonesian government to address the regulatory shortcomings identified above.

Whereas such close cooperation with the state might prove difficult in a region like the Middle East, where certain governments do not support civil society involvement in matters of national development, Indonesia and many other Asian countries are well positioned to make a collaborative effort like the Alliance work. A report by CAPS notes that the Chinese concept of guanxi, summarised as "having personal trust and a multifaceted, long-term relationship with someone," is "particularly important in Asia where business has traditionally been conducted on the basis of good relations."[45] This desire within the Asian business community to build lasting and trusting relationships with other businesses, intermediaries, and government bodies reflects a tendency among the private sector in Asia to work with the state.

The IIA anticipates continuing this cooperative dynamic as it works with both philanthropists and the public and private sectors towards a common goal of supporting social enterprises by expanding the use and improving the efficiency of innovative financing tools like PPPs, blended finance and impact investment. Though its efficacy is not yet proven, the IIA illustrates clearly that government support for innovative financing in Asia exists. The scope for philanthropists in the region to involve themselves in innovative financing and leverage their own capital is thus likely to increase.

In the Middle East, the regulatory environment for innovative financing is also unevenly developed. Among Gulf Cooperation Council (GCC) countries, recently developed support for PPPs beyond the utilities sectors should open up opportunities for philanthropists to participate in government-backed development projects and partner with private investors in sectors like education. In countries like Yemen, Afghanistan, and Syria where conflict has been prolonged and widespread, however, provisions for innovative financing will likely continue to stall from lack of government interest, stability, and private sector willingness to invest. Depending on the country, garnering governmental support for innovation within the region might be insurmountable for some philanthropists in the immediate future.

Impact washing and the difficulty of measuring impact

One threat to the future of innovative financing in philanthropy in both regions is that of 'impact washing', referring to the disingenuous construction of commercial investment activities as impact investments, which may be done to improve brand image, solely to meet ESG targets, or to gain access to capital earmarked for impact investment. A report commissioned by AVPN and the GIIN flags impact washing as a key concern for the future of impact investing in philanthropy, arguing that it "undermines the integrity of the industry and adversely impacts its growth."[46] These concerns are reflected in the private sector, where the GIIN reports that 66% of respondents in their annual impact investor survey cited impact washing as a challenge facing the industry going forward.[47] The next most prominent concern – inability to demonstrate impact results – was raised by 35% of respondents. Clearly, impact washing and difficulties around demonstrating impact have rapidly become urgent challenges for the future of impact investing and other similar innovative financing tools in philanthropy.

How, then, can philanthropists ameliorate concerns of impact washing within the industry? The introduction of formal – and better yet, standardised – impact measurement and management (IMM) guidelines offers one potential solution, given the progress made in recent years, at least at a global level. The GIIN estimates that ten years ago, nearly 90% of PIIs used proprietary measurement and management tools. In their 2020 study, however, they reported that 72% of PIIs were making use of the SDGs for IMM, while 48% were using the IRIS Catalogue of Metrics, 38% were using the Iris+ Core Metrics Sets, and 33% were using the Impact Management Project's Five Dimensions, with numerous other tools and frameworks used by under a third of respondents.[48]

As discussed earlier in this report, the vast majority of impact investing AUM remain in the Global North, including the majority of those invested in the Global South. For philanthropists in Asia and the Middle East, implementing proven and standardised IMM frameworks or tools can be prohibitively expensive and complex, especially for smaller organisations that lack the staffing or financial resources of PIIs headquartered in the Global North. Concerns raised within the industry reflect questions on how suitable such tools and frameworks are in Asia and the Middle East, in contexts where even basic business performance metrics may be unavailable.[49]

Many international IMM systems mentioned above assume a more developed supporting environment for data collection, sharing and processing than those readily available in many countries across Asia and the Middle East. Looking forward, finding ways to make IMM processes more accessible for philanthropists outside the Global North constitutes an important step in combatting impact washing within these regions. This may be achieved through PPPs with private sector actors, or through the creation of simpler and more affordable IMM systems specifically designed with regional contexts in mind.

Appetite for innovative finance within the philanthropy sector

Scepticism and unwillingness to risk capital will remain challenges for innovative financing in philanthropy in the future. Although merging business interests and philanthropic activities towards new forms of strategic philanthropy has become increasingly common, it has thus far failed to achieve widespread practice among philanthropists in Asia and the Middle East. The Cambridge Centre for Strategic Philanthropy's System Change in Philanthropy for Development report found that 86% of study respondents had an interest in research focusing on new giving vehicles,[50] however, this does not translate into an immediate willingness to put money towards such vehicles. Nadya Pryana from the AVPN notes that "we see in our membership funders who are pioneers in this approach, so we see examples of innovative finance a lot. But in reality, that might not represent the whole universe of social investors in the region." For certain philanthropists the AVPN works with, she says, "it could be a challenging journey for them. Not only do they need to come up with a new giving vehicle that works legally, but they also need to understand how it will help their family achieve their impact as well as financial return. However, this approach is emerging, and many funders are trying to do more on this front."[51]

Reluctance to engage with innovative financing in Asia and the Middle East, at least on a significant scale, exists for myriad reasons including those explored elsewhere in this report: the lack of supporting regulation and legislation, prohibitive costs entailed in establishing new funding vehicles (as in the case of IMM systems for impact investments). However, it is important to recognise that philanthropists across the two regions often have little confidence in what innovative financing aims to achieve, along with how it will do so.

A lack of real clarity around innovative financing tools pervades this uneasiness. Impact investment has become a perfect example, where despite growing popularity the concept lacks a clear, standardised international definition and impact washing remains a notable concern. New terminology surrounding innovative finance and the complexity of the financial models emerging across this sector also deter philanthropists from experimenting within this space. As Annelotte Walsh of CAPS notes, innovative financing models can "become very jargony and technical, and you can lose people when you talk about these things. Unless you're a development financer and are working in this space, it is too technical for many philanthropists."[52] While many highlight the novel nature of innovative financing, overemphasising this aspect can lead to philanthropists becoming alienated from the concepts and uncomfortable with their implementation. Portraying these financing vehicles as being far removed from points of reference which philanthropists find comfortable may indeed increase the perceived risk of their use. A more helpful approach, Walsh tells us, might be "showcasing models that say, actually, this isn't so difficult. In fact, you're probably already doing this and you should do more of it. Framing it like that will open up a lot more opportunities I think."

Reluctance to engage with innovative financing also stems from certain philanthropists not believing that innovative financing can deliver on its promises or bring added value to their philanthropy. Sangeetha Watson notes that philanthropists she has worked with through AVPN have been wary that innovative financing vehicles, such as blended finance, might serve simply as a way of "subsidising some type of corporate fund or mainstream investor" rather than a means of "really scaling up the work that they could have otherwise done."[53] Following the criticism attracted by microfinance models, particularly after the 2011 crash in India,[54] some within the industry are concerned that introducing for-profit motives into philanthropic activity could lead to profit extraction increasingly taking priority over impact objectives in innovate financing initiatives.

For those who are willing to engage with innovative financing, however, its novelty and uncertain nature also provide opportunities for philanthropists to influence the future of philanthropy in their regions. Philanthropists define their own approach to using these vehicles and, in countries with strong state support for their adoption (such as Indonesia), foundations can potentially work with government to define innovative financing vehicles and shape supporting infrastructure. Furthermore, early adopters can shape the industry by establishing successful examples of innovative financing that encourage other, more risk-averse actors to follow suit.

Navigating future political contexts for innovative finance in Asia and the Middle East

As discussed above, national political contexts in both Asia and the Middle East vary, and government support for innovative financing - or in some cases any kind of strategic philanthropy - remains uneven. Although certain governments in Asia and the Middle East may wholeheartedly support the expansion of innovative financing into philanthropy, such enthusiasm will be absent elsewhere. In the post-Arab Spring Middle East, a lack of trust and cooperation between philanthropists, governments and NGOs presents numerous obstacles for the adoption of innovative financing in philanthropy. In political settings where the government lacks the inclination and/or the capacity to support the expansion of innovative financing, many philanthropists may prefer to perfect the use of strategies they already know, such as grant-making,[55] while those who do wish to make use of innovative financing tools face an uphill challenge.

For philanthropists interested in innovative financing tools, important tasks going forward include navigating political contexts and finding ways to address obstacles to cooperation with governments and intermediaries. With a few exceptions, such as Myanmar and Malaysia, Asian philanthropists in particular can still benefit from closer cooperation with their peers, governments, and NGOs to expedite the creation of legislative environments that better support innovative financing.

Network and advisory organisations such as the AFF, SAANED, CAPS and AVPN help philanthropists navigate their political contexts – be they difficult or generally supportive. By bringing philanthropists into dialogue with one another, as well as with state actors, NGOs and other intermediaries, these network organisations create supportive contexts for philanthropists by generating opportunities for clear communication and trust-building. In challenging environments, like those experienced in many Middle Eastern states, network organisations can also support philanthropists in better communicating their objectives to government actors, thus helping to reduce government distrust and scepticism. In the words of Naila Farouky, network organisations help address, "the need for more collaborative approaches, and a more cooperative relationship between the sector and regional governments – one that is built on foundations of trust and respect, rather than one that is punitive and based on suspicion."[56]

Network organisations thus prove particularly helpful for philanthropists in these regions by connecting the sector and enabling knowledge-sharing around innovative financing tools, helping philanthropists better navigate issues specific to their local setting. Within a healthier enabling environment, philanthropists will be better placed to explore innovative financing tools and overcome obstacles to their effective implementation (see Indonesian Impact Alliance discussed earlier).

Section 4: Recommendations for philanthropists and foundation staff working with innovative finance in Asia and the Middle East

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Below, we draw on the expertise of intermediaries and philanthropists working in innovative finance in Asia and the Middle East, to suggest how these practices can be better incorporated into the work of regional foundations:

- Develop cooperation between philanthropists, supported by network organisations like AVPN, CAPS, AFF and SAANED, to help philanthropy become more strategic and effective across Asia and the Middle East.
    - Engendered partnerships and knowledge-sharing support philanthropists in setting and meeting long-term goals and making better use of new financing tools.
    - Investing in and strengthening intermediary organisations is crucial to developing and professionalising the philanthropy sector in Asia and the Middle East.
- Work with governments to establish a supportive environment for novel philanthropic financing vehicles.
    - Ultimately, national governments serve as the most important actors in determining how difficult it will be for philanthropists to make effective use of innovative financing tools.
- Showcase examples of successful innovative financing tools from across Asia and the Middle East to establish best practices, and identify which innovative financing models work best in particular regional or national contexts.
- Combat impact washing by adopting context-appropriate IMM systems where possible.
    - This may involve greater international cooperation to support organisations which lack the capacity to use existing IMM systems, or necessitate the development of IMM systems specifically designed to meet the challenges of social investment in Asia and the Middle East.
- Ensure that traditional philanthropic activities are not overlooked.
    - Grant-making will remain a core part of philanthropy and getting that right is just as important as exploring new forms of innovative financing, particularly in settings where challenges to basic philanthropic activities persist.
- Be mindful that the technical complexity and jargon involved in some innovative financing models may be off-putting.
    - Ensure that new financing tools are easy to understand and implement, encouraging more risk-averse philanthropists to explore new options.
    - Relate innovative financing models to pre-existing philanthropic concepts or practices.
- Remember that innovative financing tools should be a means to effective and sustainable philanthropy.
    - New financing tools must demonstrate their value and should not be adopted purely for their novelty, especially among philanthropic organisations with limited resources.

Conclusions

Innovative financing is likely to play a role in philanthropy in Asia and the Middle East, though its exact parameters remain undetermined. Its adoption will likely be uneven, both between the two regions and within them. How philanthropists, governments, intermediaries, DFIs and the private sector engage with the challenges and opportunities facing the innovative financing agenda laid out above will ultimately establish the efficacy and popularity of novel financing mechanisms. As we have shown throughout this report, communication and cooperation will clearly be central to the success and expansion of innovative finance moving forward. Philanthropists who operate within a supportive enabling environment will likely get the most out of these new financing vehicles. For this reason, innovative financing will see greater use among philanthropic organisations in Asia than in the Middle East in the immediate future.

As traditional approaches to philanthropy continue to be challenged, and commercial and charitable interests merge, we see that definitions of philanthropic practice also begin to change. In light of this, innovative financing vehicles must work to support philanthropy's continuing core mission of aiding those in need. If innovative financing aims to truly enable the work of philanthropists within Asia and the Middle East, we encourage proponents to take seriously fears of impact washing and the dilution of philanthropic objectives. If used appropriately, however, innovative financing can potentially serve as an excellent tool for philanthropists looking to make their giving more structured and strategic. Professional philanthropic organisations, with a long-term focus and a portfolio that spans the continuum of capital, may prove to be powerful local drivers of systems change to address the most pressing social and ecological challenges facing Asia and the Middle East.

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