Social Businesses in Israel - How will Policy affect the role of Philanthropy?

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Introduction

Two questions

• Can social businesses attract new financial resources to address social needs?

• What is the role for philanthropy in this new field of practice?

Methodology

• Case of Governmental Social Investment Fund

• Study on attitudes of philanthropists towards Impact Investment (IMIV)
Background – social businesses (SB)

- Organizations that strive to achieve a concrete social mission or outcome under a business model of operation

- Lower-than-market-rate profits due to excess social expenditures
SB Definition

• Limited Liability Company (Hybrid)
  – core social mission locked in articles of incorporation
  – Partial limit on profit distribution – 50%

Can it attract new financial resources to address social needs?
The Institute for Law and Philanthropy

The Buchmann Faculty of Law

Government Initiative II
Social Investment Fund (SIF)

Financial Structure

- Government Funds
- Philanthropic Donations
- Market Investments

First Question

• Can social businesses attract new financial resources to address social needs?

YES

First Question

• Can social businesses attract new financial resources to address social needs?

YES
Role for Philanthropy I

• Government SIF designates traditional donations to serve as risk mitigation to attract investments at market rate interest

• Risk mitigation is necessary due to:
  – SB profits are lower-than-market-rate
  – SB are limited on profit distribution
Philanthropy vs. Impact Investment
study findings

Impact Investments
- Investments in organizations or companies intended to generate social or environmental impact alongside financial returns

Study & Survey
- Jewish Funders Network
- March 2015
- Some 250 respondents
- Philanthropists, professionals in the field, impact investors
Philanthropy vs. Impact Investment study findings

How would you consider an impact investment with a below market financial return?

- Philanthropic Strategy: 63%
- Market Investment: 25%
- Others: 12%
- Philanthropic Strategy: 74%
- Market Investment: 16%
- Others: 10%

Most philanthropists and impact investors consider it a philanthropic strategy (67%).

Amongst JFN members - 73% consider it a philanthropic strategy.
Philanthropy vs. Impact Investment study findings

6. Would you rather invest for impact or donate?

When we framed impact investing as a philanthropic strategy:
- 73% Low interest loan
- 27% Donation

When we framed impact investing as a market strategy:
- 52% Low interest loan
- 48% Donation

The tendency to invest for impact, rather than donate, grows when IMIV is framed as a philanthropic strategy.
Discussion

• How can we explain the tendency to perceive impact investing as a philanthropic act?

  – the willingness to forgo some profit is easier if perceived as a gift rather than a loss on investment

  – Raises expectations to collect tax benefits on investment
Role for Philanthropy II

• Survey findings – notion of gainful investment as philanthropy

• SB extra social expenses, and limit on profit distribution – may deter market investors
  • Philanthropy as investment for lower-profit.
Implications and further research for Practice

Role I - Risk mitigation
- Creating expectations for unrealistic gains in SB
- Raises concerns for long-term sustainability of attracting market investments

Role II - Investments
- Will this opportunity divert philanthropy or attract new resources?
Implications and further research for Policy

• Tax incentives for loss of profit?
  – Investment related?
  – Philanthropy related?

• Which would attract more new resources?

• Measurement tools for loss of profit
Implications and further research for Theory

For Philanthropy

• How does for-profit investment fit in philanthropy theoretical frameworks?

For Social Business

• Social expenditures as defining attribute of social business

• Can it replace the limit on profit distribution as a proxy for a candid intention to pursue a social mission?
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Thank you
Lack of adequate corporate structure for SB

Non-profit Organizations
- Devoted to social mission
- Profit distribution prohibited
- May generate income from sale of products and services

Limited Liability Corporations
- Profit maximizing
- Profit distribution
- May strive to create positive social impact but profits come first - no leeway for management decisions that may risk profit
Government Initiative I
Tri-sector Roundtable Discussions

SB Definition

• Non profit generating income from core social mission

And also

• LLC (Hybrid)
  – core social mission locked in articles of incorporation
  – Partial limit on profit distribution – 50%

Can it attract new financial resources to address social needs?
Government Initiative II
Social Investment Fund (SIF)

Financial Structure
- Government Funds: 40%
- Philanthropic Donations: 33%
- Investment Capital: 27%

Investment Mix
- Loans to NPO’s
- Equity for SB