The Institute for Law and Philanthropy

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

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ERNOP presentation

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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

Government Initiative I
Tri-sector Roundtable Discussions

SB Definition

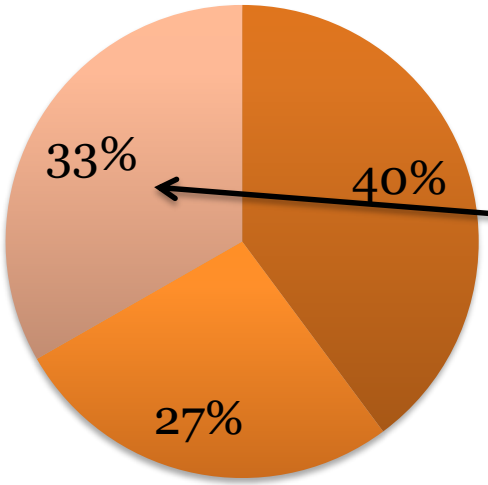
- Limited Liability Company (Hybrid)
  - core social mission locked in articles of incorporation
  - Partial limit on profit distribution – 50%

Can it attract new financial resources to address social needs?

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

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

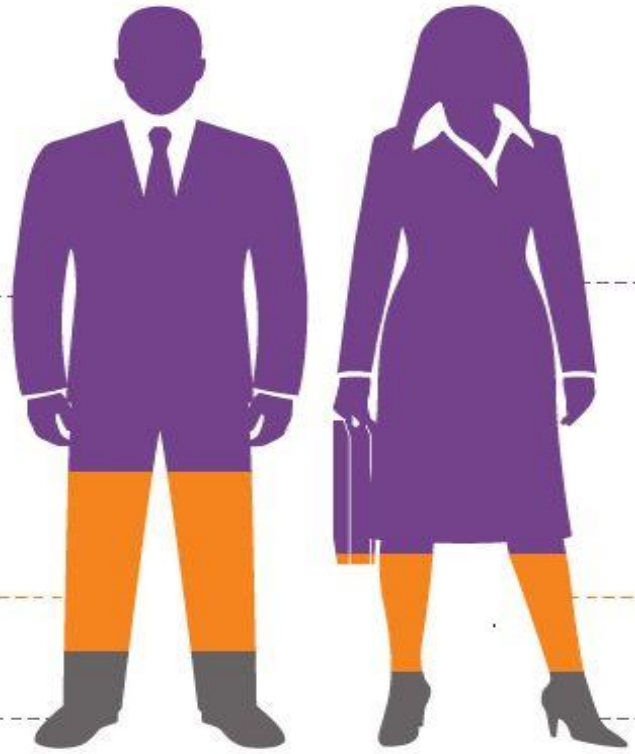
Study & Survey

- Jewish Funders Network
- March 2015
- Some 250 respondents
- Philanthropists, professionals in the field, impact investors

Philanthropy vs. Impact Investment study findings

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

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



Philanthropic Strategy **63%**

Market Investment **25%**

Others **12%**

Philanthropic Strategy **74%**

Market Investment **16%**

Others **10%**

Amongst JFN members - 73% consider it a philanthropic strategy.

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Philanthropy vs. Impact Investment study findings

?6 Would you rather **invest** for impact or **donate**?

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

When we framed impact investing as a **philanthropic strategy:**
Read more

When we framed impact investing as a **market strategy:**
Read more

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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?

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

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  - Partial limit on profit distribution – 50%

Can it attract new financial resources to address social needs?

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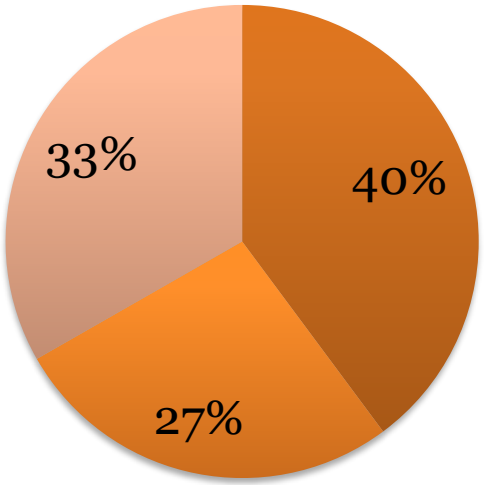
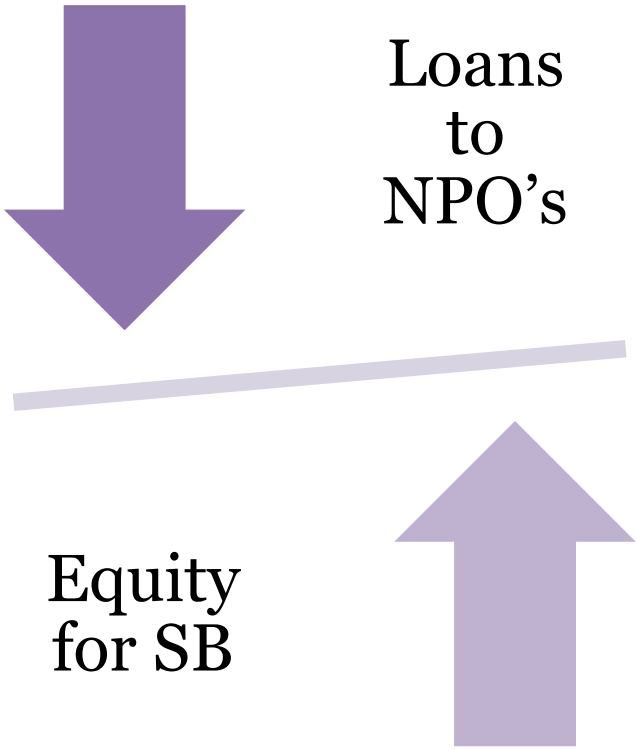
Social Investment Fund (SIF)

Financial Structure

- Government Funds
- Philanthropic Donations
- Investment Capital



Investment Mix