IMPACT INNOVATION IN ISRAEL

Ecosystem Overview

July 2019
Executive Summary

Israel has claimed the brand name of *Startup Nation*, with over 6,600 startup companies; 430 registered investors, VCs, and funds; 225 hubs; and 320 multinational technological companies, totaling $6B in investments in 2018.¹

Meanwhile, the impact ecosystem has about 20 impact venture funds, over 23 proficient incubators/accelerators/hubs, 11 academic programs, and only one academic center – ACTO at the College of Management – proactively investing large-scale resources in the development of this discipline, alongside an unknown number of impact ventures. There is also early interest in impact investing, among leading institutional investors (starting to invest in ESG).

The aggregate impact AUM in Israel is estimated to be between $260² and $622M³, and the total AUM of MENA is only 5% of global impact investing assets (in 2017).⁴

The Israeli definition of impact is very wide and rather vague, with different actors in the field refusing to accept each other’s definition of the term. It can refer to the target market of the venture, the product itself, or the founders’ identity. Thus, to obtain a better understanding of the local ecosystem, we should compare it to others.

In 2009, as the impact industry started to gain momentum, Deloitte’s Monitor Institute issued a report⁵ examining the emergence of this industry and outlining

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¹ [Start-Up Nation Central Annual report 2019](#)
² [Impact Investing in Israel: Status of the Market, OurCrowd (March, 2019)](#)
³ [Impact Investing in Israel, Yes, It’s a Thing, Vanessa Bartman (Feb, 2017)](#)
⁵ [Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry (2009)](#)
necessary next steps. The industry’s evolution was meant to take place in four phases: uncoordinated innovation, marketplace building, capturing the value of the marketplace, and maturity.

The Deloitte report recently served as the basis for the Global Impact Investors Network (GIIN) 2018 report *Roadmap for the Future of Impact Investing*, assessing the current state of the industry and suggesting next steps to be taken over the short and long term. According to this report, between 2007-2017, the ecosystem moved from the end of phase 1 – uncoordinated innovation, towards the beginning of phase 2 – capturing the value of the marketplace with leaders in this field, to some extent already at this phase. The report outlines the developments that accrued on three levels: intermediation, infrastructure, and absorptive capacity.

When examining the Israeli ecosystem in light of this model, it is challenging to place Israel exactly at the end of marketplace building, alongside the global ecosystem. However, it does have some outstanding achievements – international organizations such as the Global Steering Group for Impact Investing, established under the UK’s presidency of the G8, and Toniic, the global action community for impact investors, opened branches in Israel. Furthermore, there are three Social Impact bonds and the Capital Market Authority issued a "Statement of Expected Investment Policy in Investment Institutions".

In line with GIIN’s “Six Categories of Action” report and the lessons learned from the global impact arena, several recommendations for the Israeli ecosystem at its current state can be made. First, a GIIN-like framework, recognizing the range of definitions

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of impact innovation shaping an identity for this industry can enhance public awareness and highlight success stories. Such an umbrella organization would also contribute to the development of local fundamental investment theory, changing behavior and expectations.

New products and frameworks must be developed to tackle the need for hybrid financial models. Simultaneously, a commitment to early stage, high-risk, startup capital for funded pilots, as well as an injection of capital into mature accelerators (for pilots) is necessary. Furthermore, the development of tools and services, such as locally adapted impact measurement schemes and a local database, are necessary.

Moreover, an investment should be made in education and training for professionals in the financial and social fields, as well as the general public. Finally, to address essentially needed policy and regulation, the proposed GIIN-like framework can resolve, as one of its goals, to promote collaboration and create a unified voice in government lobbying for regulatory changes, adopting an inclusive and sustainable agenda.

Different sectors have specific roles to play in the creation of this ecosystem, and philanthropy, for one, should promote ecosystem-centric models and practices, both as impact philanthropy and impact investment.

As impact philanthropists, donors, foundations, and federations can help build and strengthen the intermediaries needed to support this ecosystem. As investors, philanthropists can commit to venture philanthropy alongside MRI (mission-related investments) and PRI (program-related investments) at rates of return.
We take this dual role very seriously and have built an impact innovation arm within the Foundation (in 2018), while simultaneously committing 3-5% of its endowment to impact investments. Our first investment enabled the formation of Israeli’s first Social Impact Bond, aimed at reducing dropout rates from higher education.

Our strategy is aimed at developing the local Israeli ecosystem wholly, while taking into account hyper-local ecosystems (within specific areas and communities in Israel), as well as examining the role that Israel should play in the global ecosystem. We assume a holistic approach and view impact as a sector – from supply to demand through intermediation.

Coming from a long philanthropic legacy of sector pioneering and building, the strategic measurement and management practices of the Edmond de Rothschild Foundation (IL) allow us to evaluate key interventions on the micro and macro levels, engage various stakeholders, and create strong coalitions, while fulfilling our mandate in the area of higher education.

To do so, we have adopted a model-based approach – creating innovative models that can be piloted, tested and replicated. Each model is based on several strong organizations, all aiming to achieve the same goal, jointly taking the next steps towards making Israeli an “impact nation”.

We encourage other impact philanthropists, donors, foundations, and federations to embrace this dual role as well. Together, we can help build and strengthen the infrastructure needed for this ecosystem to flourish.
Impact Innovation in Israel – Ecosystem Overview

Israel has claimed the brand name of *Startup Nation*, with over 6,600 startup companies, 430 registered investors, VCs and funds, 225 hubs, and 320 multinational technological companies, totaling $6B in investments in 2018.⁷

Meanwhile, the impact ecosystem has about 15 impact venture funds; about 23 proficient incubators/accelerators/hubs; 11 academic programs; and a single academic center proactively investing large-scale resources in the development of this discipline, alongside an unknown number of impact ventures.

The definition of impact in Israel is very wide and rather vague, with different actors in the field refusing to accept each other’s definition of the term. Impact encompasses a wide variety of models: from social entrepreneurship to impact innovation, from social businesses to financially sustainable NGOs. It can refer to the target market of the venture, the product itself, or the identity of the founders.

The first Israeli fund focusing on impact was Impact First (a member of Pitango), established in 2011, and the latest to join was OurCrowd, launching its impact fund in March 2019. Israel’s impact investors range from small-scale (e.g. Zora) to large-scale venture funds (e.g. Bridges Israel), as well as charitable foundation (e.g. ARC Impact Foundation) and global Jewish organizations (e.g. UJIA), alongside family offices (e.g. Beyond) and angel groups (e.g. EdTech).

Their definition of *impact*, as well as their expected returns, vary drastically. While some funds are focused on social businesses (e.g. Dualis), others promote scalable

⁷ Start-Up Nation Central Annual report 2019: Finder Insights Series - The State of the Israeli Ecosystem in 2018
technological impact (e.g. 2B community); some define the entrepreneurs themselves within the measurement of social ROI (e.g. Takwin), while others target SDG in the global south (e.g. Vital). There are also several venture funds investing in cheap renewable energy and affordable AgriTech (e.g. Terra) or inexpensive MedTech (e.g. aMoon) but they do not necessarily define themselves as impact funds. The aggregate AUM of impact funds in Israel is estimated to be between $250\textsuperscript{8} and $622M\textsuperscript{9}, and the total AUM of MENA is only 5% of global impact investing assets (in 2017).\textsuperscript{10}

Alongside the funds, there are some 23 accelerators and incubators focusing on ideation, incubation, and early-stage field implementation of social and impact ventures. These can be divided into different categories: from field building (e.g. Tech for Good) and capacity building (e.g. PresenTense) organizations to vertical/product-centric hubs (e.g. 8400). From programs focusing on entrepreneurs with specific needs (e.g. Hybrid) to those focusing on solving the needs of specific communities in Israel (e.g. A3i) and around the world (e.g. Pears Challenge). From hyper-local (e.g. TRDC) and national (e.g. 8200 social), to international with local chapters (e.g. Mass Challenge) or local entrepreneurs (e.g. GATHER).

Beyond the industry-led accelerators and incubators, most local academic institutions have an innovation program incorporating, to some extent, social innovation. Currently, the only academic institution proactively investing large-scale resources in the development of this discipline is ACTO, the Academic Center for

\textsuperscript{8} According to a survey published by the Israeli National Advisory Board (Aug, 2018)
\textsuperscript{9} Impact Investing in Israel. Yes, It’s a Thing, Vanessa Bartman (Feb, 2017)
Impact Investing and Entrepreneurship at the College of Management – Academic Studies (COMAS), founded by the Edmond de Rothschild Foundation and Dualis.

Together with the traditional actors in the fields, several field builders support this ecosystem, from individual consultants (e.g. Dalia Black), to financial leaders (e.g. SFI) and global impact forums (e.g. TONIIC), as well as government agencies (e.g. Israel Innovation Authority). Moreover, complementary ecosystems are currently also being developed, focusing on Israeli innovation targeting the implementation of the SDG in the global south and ESG related investments.

Notably, Israel’s institutional investors are showing some interest in the field of impact and more so in ESG. IBI offers a responsible investment portfolio and, in June 2019, Psagot became the first Israeli institutional investor to commit to the UN’s PRI (Principals for Responsible Investment), in partnership with Green Eye. Furthermore, Psagot and Discount Bank invested in Bridges and Leumi Bank has invested in the social impact bond aimed at reducing dropout rates from higher education – initiated by the Edmond de Rothschild Foundation (IL), managed by SFI and implemented by Aluma.

**Israel in comparison to other ecosystems**

In 2009, as the impact industry started to gain momentum, Deloitte’s Monitor Institute issued a report\(^\text{11}\) examining the emergence of this industry and outlining necessary next steps, together with a suggested timeline. The industry’s evolution was meant to take place in four phases: uncoordinated innovation, marketplace building, capturing the value of the marketplace, and maturity. The report lists the

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actions to be taken at each step, and claims that in order to achieve success, there is a need for bold leadership, comprehensive coordination, and capitalization, through intermediaries, and via infrastructure development.

As mentioned earlier, this report served as the basis for GIIN's 2018 report *Roadmap for the Future of Impact Investing*\(^\text{12}\), assessing the current state of the industry and suggesting next steps to be take in the short and long term.

According to the GIIN report, between 2007-2017, the ecosystem moved from the end of phase 1 (uncoordinated innovation) towards the beginning of phase 2 (capturing the value of the marketplace) with field-leaders already, to some extent, at this phase. The report outlines the developments that accrued on three levels: intermediation,

infrastructure, and absorptive capacity. Intermediation refers to organizations supporting demand (potential investors), infrastructure focuses on the impact ecosystem itself (data and network), and absorptive capacity hones in on supply (entrepreneurs).

While there some challenges remain to be resolved, as outlined in the report, during this marketplace building phase, it seems there have been numerous large-scale achievements in the field globally. Highlights include the establishment of LeapFrog Investments, the formation of the GIIN Investor’s Council and the global National Advisory Boards, the development of IRIS, and creation of the Unreasonable Institute.

However, the threats outlined in the initial Monitor Institute report still hold true. As they feared, it is too hard for some investors to move towards impact-driven portfolios (e.g. institutional investors) and too easy for some investors to claim they are impact-driven, while actually engaging in “feel good” rather than “do good” investments.
When examining the Israeli ecosystem in light of this model, it is challenging to place Israel exactly at the end of marketplace building. However, there have been some outstanding achievements in the sphere of impact innovation.

On the one hand, Israel is not a part of the G8 or the G20, but it is part of the Global Steering Group for Impact Investing developed by the G8, and the Israeli NAB includes serious key players. Furthermore, while there is no local consumer market for large-scale impact innovation (unlike India for example), it is home to brilliant clean-tech, agro-tech, and med-tech startups operating around the world.

Israel also has a spectrum of impact investing, with investors seeking to avoid harm; impact-driven investors accepting disproportionate risk-adjusted returns; and even
philanthropists, who accept partial capital preservation (considered to be outside the boundaries of “impact economy”).

The government does not yet have an agency focusing on impact investments (e.g. the Canadian Government’s Impact and Innovation Unit) but there is a Social Impact Bond to enhance math achievements for Bedouin youth in collaboration with the Israeli Ministry of Education.

Notably, Israel lacks the vast past experience in micro financing or community development finance that other countries have, but global Jewry active in Israel has been involved in local philanthropic giving, supporting such frameworks around the world. Moreover, Israel is a part of the OECD and, as the organization shapes its strategic approach towards impact investing, Israel will also need to take a more serious look at its own strategy in the matter.

Creating a strategy for an impact ecosystem requires an analysis of the breadth of impact, a clear understanding of where social impact investing can be most useful, and data-driven insights into the depth of impact and the effectiveness of social impact investing. “For a country to identify as a possible ‘market space’ for SII (social impact investment), data is needed for assessing the business case across multiple sectors or social target areas,” claims an OECD report. However, there is no up-to-date local data, both on the demand and the supply – information about both investment sizes and the financial and social performance of impact funds and

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startups is missing. This is only part of the reason there is no match between supply and demand within this ecosystem.

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<tr>
<th>Summary of progress across platforms, Israel 2018</th>
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<tr>
<td><strong>Intermediation</strong></td>
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<tr>
<td>1. Less than 20 impact investing funds with only one large-scale international fund (Bridges)</td>
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<td>2. Almost no support from investment banking services</td>
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<td>3. Three social impact bonds</td>
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<td>4. Lack of early stage, high-risk capital</td>
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<td>5. Strong need for institutional investors</td>
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<td>6. No engagement of MNCs directly with impact locally</td>
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Recommendations

In line with GIIN’s *Six Categories of Action* (see chart below), and based on the lessons of the global impact and micro financing ecosystems, recommendations can be formulated specifically for the Israeli impact ecosystem at its current state.16

*Identify* – In order to form the identity of the impact industry and movement in Israel, a GIIN-like umbrella framework is needed. Alternatively, incorporating more actors into the NAB and creating a platform for professionals in this sphere, with the aim of sharing best practices, may be a solution at this challenge. This framework should recognize the range of locally accepted definitions of *impact innovation*, work to demonstrate and communicate impact, while nurturing and highlighting beacons of success.

*Behavior and expectations* – the framework suggested above should be able to update the local investment theory, thus addressing the need for a change in *behavior and expectations*. This change is currently led by private and philanthropic efforts; however, Israeli institutional investors and multinational corporations with large operations in Israel can have a tremendous influence on the field.

*Products* – the development of new *products* and models is required, as there is a clear need for hybrid models that utilize a combination of instruments to blend traditional grants with social investment funds, pair experience and assets among commercial investors and pay for success models, and shape public-private partnerships17.

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16 *The impact investors handbook*: Lessons from the World of Microfinance (2011)
Tools and services – alongside these new products, tools and services must also be established, such as locally adapted impact measurement schemes and a local database.

Education and training – for both financial and social professionals, programs within (but not limited to) academic programs is essential. Education should focus on relevant impact tools, methods and methodologies, while also connecting them to global trends (e.g. SDGs). To enable the formation of educational and training frameworks, demand must be demonstrated and funds, angel investors, and individuals (i.e. savers via institutional investors) should be encouraged to invest according to their values. Investments should be accompanied by measurement of social outcomes, and not just outputs and financial viability.

Policy and regulation – to develop Israel's impact ecosystem, policy and regulation are a must. The formation of a GIIN-like framework can promote collaboration and create a unified voice to lobby the government for regulatory changes (e.g. Social Investment Tax Relief in the UK), adopting an inclusive and sustainable Israeli investment agenda. Placing purpose at the heart of public spending and creating relevant mechanisms and regulation align with this cause.

Simultaneously, a commitment to early-stage, high-risk, startup capital for funded pilots, as well as an injection of capital into mature accelerators are necessary.
Global Impact Investing Network
Roadmap for the Future of Impact Investing

Six Categories of Action

1. Identity
   - Strengthen the identity of impact investing by establishing principles and standards and articulating a shared purpose across capital with different risk-return profiles and impact objectives.
   - Priorities addressed: Clarity/Standards, Accessibility

2. Behavior and Expectations
   - Change the paradigm that governs investment behavior and expectations about the responsibility of finance in society via asset owner leadership and updated finance theory.
   - Priorities addressed: Clarity/Standards, Feasibility

3. Products
   - Expand impact investment products for investors across the spectrum (from retail to institutional), including risk-sharing vehicles and products that better meet the needs of investors.
   - Priorities addressed: Feasibility, Accessibility

4. Tools and Services
   - Develop tools and services (for portfolio allocation, investment analysis, and benchmarking) that integrate impact alongside risk and return.
   - Priorities addressed: Feasibility, Accessibility

5. Education and Training
   - Bolster education and training of rising and mid-career finance professionals and entrepreneurs launching businesses aimed at addressing social/environmental problems.
   - Priorities addressed: Accessibility

6. Policy and Regulation
   - Advocate for policy and regulation that creates incentives for — and crowds in — impact investments, removes constraints (such as those related to fiduciary duty), and requires impact reporting.
   - Priorities addressed: Accessibility, Clarity/Standards
The role of philanthropy

The Edmond de Rothschild Foundation (IL) works to create an inclusive and collaborative Israeli society, by promoting excellence, diversity, and leadership through higher education. We continue a legacy of philanthropic innovation, investing in change agents and promoting a pioneering spirit.

The Foundation, which operates within the framework of the international network of the Edmond de Rothschild Foundations worldwide, initiates dozens of innovative and impactful projects throughout Israel aimed at reducing social gaps and fostering young leadership. Through impact entrepreneurship, we aim of encourage the flow of new capital to meet local and global social and environmental needs.

To build the impact ecosystem in Israel, we believe that all sectors have a role to play and that philanthropy, for one, should promote ecosystem-centric models and practices, both as impact philanthropy and impact investment.

We take this dual role very seriously and have built an impact innovation arm within the Foundation (in 2018), while simultaneously committing 3-5% of its endowment to impact investing. Our first investment allowed for the formation of Israel’s first Social Impact Bond, aimed at reducing dropout rates from higher education.

Our strategy is aimed at developing the local Israeli ecosystem wholly, while taking into account hyper-local ecosystems (within specific areas and communities in Israel), as well as examining the role that Israel should play in the global ecosystem. We assume a holistic approach and view impact as a sector – from supply to demand through intermediation (support).
Coming from a long philanthropic legacy of sector pioneering and building, the strategic measurement and management practices of the Edmond de Rothschild Foundation (IL) allow us to evaluate key interventions on the micro and macro levels, engage different stakeholders, and create strong coalitions, all while remaining faithful to our higher-education mandate.

Educating the next generation of entrepreneurs, venture capitalists, accountants, lawyers, consultants, and others to be impact-minded and proficient in this nascent field is crucial. To do so, we have adopted a model-based approach – creating innovative models that can be piloted, tested, and replicated (e.g., our $1 million Matching Grant program to build and strengthen the impact ecosystem). Each model is based on several strong organizations, all aiming to achieve the same goal and jointly taking the next needed steps towards making Israeli an “impact nation”.

As impact philanthropists, more donors, foundations, and federations can help build and strengthen the intermediaries needed to support this ecosystem. As investors, philanthropists can fund early-stage, high-risk startups and new asset classes through direct investments; and provide first loss capital for impact funds through indirect investments. Both approaches can benefit from venture philanthropy alongside MRI (mission-related investments) and PRI (program related investments). Taking on investments, even below market rates of return, can help bridge existing gaps between supply and demand for impact capital in Israel today.

We encourage other impact philanthropists, donors, foundations, and federations to embrace this dual role as well. Together, we can help build and strengthen the infrastructure needed for this ecosystem to flourish.