

Market Overview

Israel continues to experience robust economic growth,¹ with science and technology being the significant drivers of the economy. The country is performing well on a variety of innovation-focused indicators such as its R&D expenditure (accounts for 4.25% of GDP).² Nevertheless, there are still substantial socioeconomic inequalities and nearly 18% of the population live in poverty. While Israel's impact market is still in a nascent stage, impact investments doubled from USD 130mn to more than USD 260mn in assets under management (AUM) in two years. New sources of capital are emerging, and government bodies are beginning to participate in market development through various early stage R&D funding initiatives.³

IMPACT INVESTMENTS HIGHLIGHTS³

Supply of Impact Capital

- ▲ The highest value actors include pension funds, banks, foundations, family offices and fund managers.
- ▲ There are 65 Israel-based limited partners (up from 15 seven years ago), with over USD 1.1tn AUM.⁴ Though very few are actively engaged in impact measurement or practice intentionality around impact investing.

Intermediation of Impact Capital

- ▲ In the last two years, four venture funds with an impact strategy were launched: New Era (USD 60mn), Bridges Israel (USD 60mn), OurCrowd (targeting USD 30mn) and Zora (USD 10mn). Arc Impact has invested USD 3mn and UJIA's Social Impact Investing Initiative (SI3) has announced a new round of support for social enterprises in Q1 of 2019, with 12 investments in local social enterprises.
- ▲ Social Finance Israel (SFI) is pioneering SIBs in Israel. Four SIBs have been launched, with several more in development. SFI is also developing income share agreements to promote employment among marginalized groups.
- ▲ Several charitable foundations are examining impact investment opportunities.

Demand for Impact Capital

- ▲ As of Q1 2019, Israel's impact-tech market was valued at USD 260mn AUM,² with enterprises operating in the health care, information technology, assistive technology, clean technology, food and agriculture technology, and education sectors.
- ▲ 40% of Israel's 6,500 start-ups are active in SDG-aligned sectors according to research undertaken by OurCrowd, Social Finance Israel, and the IVC Research Center. In 2018, SDG-aligned companies raised USD 1.6bn, 23% of total capital raised in Israel.² Yet, few investors employ a dedicated impact management strategy.
- ▲ Topics important to the impact landscape: employment, education, gender equality, urban renewal and community development, accessibility, elderly care, health, welfare, and well-being.

Government and Regulation⁵

- ▲ The National Insurance Institute (NII) funds a welfare and health accelerator; the Israel Innovation Authority (IIA) operates a 'Societal Challenges Division' that provides grant-matching assistance to tech start-ups engaged in gov-tech, assistive technology, humanitarian crises and international development.
- ▲ In June 2019, IIA established a consortium to manage a food-tech incubator in northern Israel.⁶
- ▲ IIA, the Ministry of Environmental Protection, and the Ministry of Economy and Industry will support the establishment of a new technological innovation lab specializing in environmental protection and sustainability USD 3.97mn¹ innovation lab.⁷

Market Builders

- ▲ TechForGood has incubated 35 tech companies; the Pears Program for Global Innovation accelerates solutions to global challenges; 8200 Impact supports tech-oriented social ventures; Hackaveret supports social entrepreneurs that address vulnerable populations.
- ▲ In 2019, the Jewish Funders Network and the Edmond Rothschild Foundation launched a USD 1mn grant-matching program for impact entrepreneurs.
- ▲ In May 2019, ACTO and TechForGood organized the Israel Impact Summit, attracting 1,500 participants from 20 countries, and further expanding the circles of impact investing and tech innovation addressing the UN SDGs.
- ▲ SFI provides advice on impact strategy and measurement tools and products; Dalia Black Consulting and Beyond Family Office advises new philanthropic players entering impact investing.
- ▲ The Academic College launched an MBA focused on impact investing; the Milken Institute and Peres Center for Peace promote research and innovation.
- ▲ Start-up Nation Central connects international partners, businesses and investors with Israeli start-ups.

Indicators^A

GDP PPP (2011 USD, billions)	288.7
Total Population (millions)	8.3
GINI Index	41.4
HDI	0.903
MPI	N/A
EPI	75.01

KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
Bank Hapoalim	UJIA	EyeControl
Israel Discount Bank	Bridges Israel	N-Drip
Psagot IH	New Era	Clique.ai
Bank Leumi	OurCrowd	Wasteless
The Rothschild Caesarea Foundation	Impact First Investments	Twine
Arc Impact	Zora	WaterGen

SPOTLIGHT DEALS^B

Company	Total Funding	Investor	Sector
Venn	USD 40 mn	Pitango VC, Hamilton Lane, Bridges Israel	Housing
Netafim	USD 500 mn	Mexichem, Mizrahi T Bank, HSBC, Migdal Group	Agriculture
Zebra Medical	USD 20 mn	aMoon Fund, Aurum V., JJDC, OurCrowd	Health
"Improving Math Achievement among Bedouin High School Students (Social Impact Bond)"	USD 4.2 mn (NIS 14.8 mn)	Mizrahi Tefahot Bank & 6 more investors	Education
"Reducing the Onset of Type-2 Diabetes" (Social Impact Bond)	USD 5.5 mn (NIS 19.4 mn)	Social Finance Israel, UBS	Health
Games for Peace	USD 100k (NIS 400K)	UJIA's SI3 Initiative	Education

¹ Exchange rate used throughout this document: NIS 1 = USD 0.28

ABCs of the Israeli Impact Economy^C

An impact economy is a just and equitable economic system in which positive impact – alongside risk and return – are embedded. In an impact economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sections of society while taking concerns regarding our planet and its environment into consideration.

The following table shows actions undertaken by various stakeholders in Israel that exemplify the adoption of strategies that **A**void harm, **B**enefit all stakeholders and **C**ontribute to solutions. While Israel's impact economy is still in a nascent stage, several social enterprises and impact initiatives have been created, and impact investment activities have strongly accelerated in recent years. Business and investment impact has been greater than impact achieved through government action.

	Avoid Harm		
	Benefit all stakeholders		Contribute to Solutions
IMPACT IN BUSINESS	<ul style="list-style-type: none"> ▲ Maala is a non-profit membership organization that promotes CSR in Israel. The organization has 110 members, including Israel's largest companies. Maala publishes the annual Maala ESG index on the Tel Aviv Stock Exchange (TASE). Since 2016, Maala has organized an annual international CSR conference in Tel Aviv. 	<ul style="list-style-type: none"> ▲ According to a ministry directive in 2009, government-owned companies are mandated to prepare an annual sustainability strategy and to report on the strategy's progress. 	<ul style="list-style-type: none"> ▲ In 2018, there were approximately 200 social enterprises, 20 social accelerators and incubators, and 600 NGOs with more than USD 1mn in Israel.⁸ ▲ Impact First Investments released the ImpacTech Compass, an impact management tool for tech companies.
IMPACT IN INVESTMENT	<ul style="list-style-type: none"> ▲ In November 2017, TASE launched two sustainable investment indices in the form of the Tel Bond-CPI Linked Maala and the Tel Bond-Shekel Maala.⁹ As part of Maala's annual investor conference, the Israeli NAB and Maala hosted a training workshop on sustainable investing for CIOs of asset management firms in November 2018. ▲ Israeli investment firms (e.g., IBI and Clarity Capital) offer responsible investment portfolios to clients. ▲ Meitav Dash operates a local ESG mutual fund. ▲ The Value Squared Responsible was launched in February 2019. The fund invests in global equities that demonstrate high ESG performance and companies that generate revenue from SDG-aligned products. 	<ul style="list-style-type: none"> ▲ Abraham Hostel, which is part of Bridges Israel's portfolio, is an award-winning chain of hostels and a leading tourism company. The chain, which currently operates hostels in Tel Aviv, Nazareth and Jerusalem, promotes social and sustainable tourism, generates socioeconomic benefits for a variety of stakeholders, and supports cultural diversity and tolerance. 	<ul style="list-style-type: none"> ▲ Israel's impact capital market is valued at USD 260mn AUM with 12 impact funds.¹⁰ ▲ In 2019, SFI partnered with the global investment platform OurCrowd to launch an SDG-aligned impact fund. ▲ SFI has launched four SIBs to date, focused on diabetes prevention and on improving educational outcomes.
IMPACT IN POLICY	<ul style="list-style-type: none"> ▲ In December 2017, the commissioner of Capital Markets Insurance and Savings issued a memorandum compelling institutional investors to publish their ESG and impact investment policies, with 2019 being the first year the decision will be enforced. 	<ul style="list-style-type: none"> ▲ Over the last seven years, the Ministry of Environment has produced an environmental impact rating of public companies in Israel. ▲ The Ministry of Housing launched an initiative to fund urban renewal in peripheral cities. The initiative awards up to USD 7mn on condition that 30% of the total project is supported by impact investors or philanthropy. 	<ul style="list-style-type: none"> ▲ The government is still learning about impact investing. Currently, the government does not provide specific forms of technical assistance or other support to build capacity in the fields of impact investing or social entrepreneurship. ▲ In terms of acceleration support, the NII partially supports the Hackaveret accelerator, a program dedicated to supporting innovative social enterprise start-ups. ▲ In partnership with other government offices, the IIA's Societal Challenges Division runs three funding tracks for start-ups in the domains of gov-tech, assistive technologies, international development and global challenges.

Avoid Harm		
		Benefit all stakeholders
		Contribute to Solutions
IMPACT IN POLICY		▲ In 2015, with the cooperation of the Ministry of Finance and the National Economic Council, two funds encouraging the development of social businesses (Yozma funds) were launched. These funds provide financial backing to social enterprises working to increase employment among vulnerable populations.
IMPACT ON CONSUMPTION	▲ Consumption in Israel is likely to pursue greater sustainability as demand side issues are emphasized by initiatives such as the Sustainable Consumption and Production Roadmap. Nonetheless, sustainable consumption within Israeli industry and society still has a lot of room for improvement. ▲ Numerous Israeli companies are advancing innovative solutions for sustainable packaging and operations.	

SDG Dashboard and Trends

CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges ■ Significant challenges ■ Challenges remain ■ SDG achieved ■ Information unavailable

SDG TRENDS



↓ Decreasing → Stagnating ↗ Moderately improving → Maintaining ↑ On track ●● Information unavailable

Key Initiatives

Access to capital

▲ The government of Israel supports funding programs for impact start-ups. Moreover, various ministries (e.g., education, agriculture and health care) fund pilot programs for tech start-ups. However, the ministries do not yet require recipients to implement impact management practices. Several ministries are exploring ways to encourage entrepreneurs to strengthen their contributions to Israel's SDGs through reporting and evidence gathered during the funding application process.

Educational programs

▲ Established by the Edmond de Rothschild Foundation and Dualis, the Academic Center for Impact Investing and

Entrepreneurship at the School of Management is the first academic program dedicated to impact investing and social entrepreneurship. The program launched its inaugural MBA program in impact investing in 2019.

In 2018, Bar Ilan University launched Israel's first student-run impact investment fund. Endowed with USD 1mn, the fund will be managed by second year MBA students and will be accompanied by coursework on responsible investing.

Road to Impact Economy

PATH TO TIPPING POINT 2020

Broaden the use of outcomes-based commissioning

Israel has made a good start, issuing four SIBs. The government could look at deepening its partnerships with the private and social sectors to find further solutions to societal challenges. Moreover, the creation of a Central Outcomes Fund could facilitate financing for these types of contracts and boost outcome-oriented commissioning.

Regulatory and tax incentives for impact investments

Israeli stakeholders have explored opportunities to advance legislation that would create a legal form for impact businesses and enable the establishment of private foundations. With both in place, impact businesses and impact investors would benefit from targeted incentives that reward investors who allocate capital to this industry.

Increase awareness around impact investing

There is a continued need for greater market awareness among private and public stakeholders around the principles and key practices of impact investing. Greater engagement by and more training programs for institutional investors, investment advisors, lawyers and government officials would help bridge this knowledge gap regarding impact investing.

Dedicated unit within the government

Establishing a dedicated unit for impact investing within the government would help to improve government understanding around impact investing and to craft policies for promoting the industry.

Creation of a wholesaler

The Israeli NAB advocates for the creation of a wholesaler for impact investing in Israel. A wholesale impact fund would be instrumental in financing impact projects, as it would provide a pool of funds and connect investors to social enterprises.

TRANSITION TO IMPACT ECONOMY 2030

With its high innovation ability, technical know-how and high-skilled workforce, the conditions exist to develop Israel's impact economy. Various stakeholders are exploring possibilities to deepen the reach and improve the positioning of Israeli technology to achieve Israel's SDGs, and tackle other global social and environmental challenges.

Closing the social gap

Investor intentionality and financial innovations are needed to sustain businesses and develop solutions that promote economic advancement and social mobility for marginalized and vulnerable groups. Such investment products have the potential to increase capital flows to underserved populations and markets, generating new market potential.

Reduction of structural barriers for impact organizations

The government could speed up the transition to an impact economy by promoting legislation and regulation that eases and incentivizes capital flows to social enterprises, and by creating a wholesale impact fund that would build out various aspects of the market, including intermediation and engagement.

Increase impact awareness among investors

Strategic coordination among key actors and widening the circle of impact investors would accelerate the transition to an impact economy, and increase the engagement of government bodies, and institutional and private investors.

Footnotes:

^A **Environmental Performance Index** Available in: <https://epi.envirocenter.yale.edu/>; All other **indicators** available in: <http://hdr.undp.org/en/countries>

^B Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, 'Total Funding' refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.

^C The **ABC of the Israeli Impact Economy** table is adapted from the IMP framework.

Sources:

- ¹ OECD: Israel Economy Snapshot. Available at: <http://www.oecd.org/economy/israel-economic-snapshot/>
- ² The Canadian Trade Commissioner Service. Israel: Market Overview. Available at: <https://www.tradecommissioner.gc.ca/israel/market-facts-faits-sur-le-marche/0002032.aspx?lang=eng>
- ³ Social Finance Israel (2019). Impact Investing in Israel: Status of the Market. Available at: <http://www.socialfinance.org.il/userfiles/banners/Status%20of%20the%20Market%20Report.pdf>
- ⁴ Preqin (2018). Private Capital Investors in Israel. Available at: <https://docs.preqin.com/reports/Preqin-Special-Report-Private-Capital-Investors-in-Israel-August-2018.pdf>

⁵ GSG (2018). Catalyzing an Impact Investment Ecosystem. A Policymaker's Toolkit. Available at: <http://gsgii.org/wp-content/uploads/2018/10/GSG-Paper-2018-Policy.pdf>

⁶ Available at: <https://www.timesofisrael.com/foodmakers-vc-consortium-selected-to-run-foodtech-incubator-in-north/>

⁷ Available at: <https://innovationisrael.org.il/en/news/new-environmental-protection-and-sustainability-innovation-lab>

⁸ Propper (2018). Analysis of barriers to impact investing in Israel for JFN. Available in: <http://jfn.org.il/wp-content/uploads/2019/07/JFN-Impact-Israel-public-final-02.2019.pdf>

⁹ Finsmes (2019). OurCrowd and Social Finance Israel Launch \$30m Impact Fund. Available at: <http://www.finsmes.com/2019/03/ourcrowd-and-social-finance-israel-launch-30m-impact-fund.html>

¹⁰ ibid

¹¹ ibid

SUPPORTED BY:

