



Edmond de Rothschild Foundation (Israel)

IMPACT INNOVATION IN ISRAEL

Ecosystem overview



Executive Summary

Israel has claimed the brand name of *Startup Nation*, with almost 6,000 startup companies, 378 registered investors, VCs and funds, 198 hubs, and 295 multinational technological companies,¹ totaling \$4.17B in investments in 2017.² Meanwhile, the impact ecosystem has about 14 impact venture funds, about 23 proficient incubators/ accelerators/ hubs, 11 academic programs, and only one academic center proactively investing large-scale resources in the development of this discipline, alongside an unknown number of impact ventures. The aggregate AUM of impact funds in Israel is estimated at \$250³ - \$622M⁴ and the total AUM of MENA is only 2-3% of global impact investing assets (in 2017).⁵

The Israeli definition of impact is very wide and 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.

To obtain a better understanding of the local ecosystem, we should compare it with the global one. In 2009, as the impact industry started to gain momentum, Deloitte's Monitor Institute issued a report⁶ examining the emergence of this industry and outlining 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 GIIN's 2018 report *Roadmap for the Future of Impact Investing*⁷, 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

¹ [Startup nation finder](#) (April, 2018)

² [Geektime Annual report 2017](#): Startups and Venture Capital in Israel

³ According to a survey published by the Israeli National Advisory Board (Aug, 2018)

⁴ [Impact Investing in Israel. Yes, It's a Thing](#), Vanessa Bartman (Feb, 2017)

⁵ Global Impact Investing Network: Annual Impact Investor Survey (2017)

⁶ [Investing for Social and Environmental Impact](#): A Design for Catalyzing an Emerging Industry (2009)

⁷ [Roadmap for the Future of Impact Investing](#): Reshaping Financial Markets (2018)



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.

Summary of progress across platforms, Israel 2018		
Intermediation	Infrastructure	Absorptive capacity
1. Less than 20 impact investing funds with only one large scale international fund 2. Almost no support of investment banking services 3. Two social impact bonds 4. Lack of early stage, high risk capital 5. Strong need for institutional investors	6. NAB and TOIIC opened branches in Israel, serving specific niches 7. Some use of international impact measurement and management tools 8. Capital Market Authority issued a <i>"Statement of Expected Investment Policy in Investment Institutions"</i> 9. Some public awareness 10. No coherent data base 11. No well-known success stories (of exists) 12. Lack of robust leadership	13. Numerous accelerators/ incubators/ programs mainly supporting early-stage impact entrepreneurship 14. Lack of tools to support the research and development of innovative scalable models



In line with GIIN’s “Six Categories of Action”⁸ and the lessons learned in the global impact arena, recommendations for the Israeli ecosystem, at its current state, include establishing a GIIN-like framework that recognizes the range of definitions of impact innovation, that would enhance communication and highlight success stories, while also contributing to the development of local fundamental investment theory, thus changing behavior and expectations.

Another recommendation refers to the need of developing new products and frameworks, in light of the clear 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 is necessary. Furthermore, the development of tools and services, such as locally adapted impact measurement schemes and a local data base are needed.

Thirdly, 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 set, as one of its goals, to promote collaboration and create a unified voice in government lobbying for regulatory changes, adopting an inclusive and sustainable Israeli investment agenda.

It is also important to note philanthropy’s dual role in this context– promoting infrastructure-building organizations and programs, while also granting high-risk capital (without equity) to pre-seed impact startups acting – as a bridge between impact entrepreneurship and impact funding.

⁸ [The impact investors handbook](#): Lessons from the World of Microfinance (2011)



Israel's Impact Ecosystem

Israel has claimed the brand name of *Startup Nation*, with almost 6,000 startup companies, 378 registered investors, VCs and funds, 198 hubs and 295 multinational technological companies⁹ at a total of \$4.17B in investment in 2017¹⁰. Meanwhile, the impact ecosystem has about 14 impact venture funds, about 23 proficient incubators/ accelerators/ hubs, 11 academic programs and an un known number of ventures.

The definition of impact in Israel is very wide and 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 NGO's. It can refer to the target market of the venture, the product itself or the identity of the founders.

Israel's impact investors range from small-scale (e.g. [Zora](#)) to large-scale venture funds (e.g. [Bridges](#) Israel), as well as family offices (e.g. [Beyond](#)) and angel groups (e.g. [iAngels](#)). 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 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 at \$250¹¹ - \$622M¹² and the total AUM of MENA is only 2-3% of global impact investing assets (in 2017).¹³

Alongside the funds, there are 23 accelerators and incubators focusing on ideation, incubation, and early-stage field implementation of social and impact ventures. These can be divided into different

⁹ [Startup nation finder](#) (April, 2018)

¹⁰ [Geektime Annual report 2017](#): Startups and Venture Capital in Israel

¹¹ According to a survey published by the Israeli National Advisory Board (Aug, 2018)

¹² [Impact Investing in Israel. Yes, It's a Thing](#). Vanessa Bartman (Feb, 2017)

¹³ Global Impact Investing Network: Annual Impact Investor Survey (2017)



categories: from field building (e.g. [Tech for Good](#)) and capacity building (e.g. [Presentense](#)) organizations to vertical-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. InnoNegev) 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 the College of Management – Academic Studies ([COMAS](#)).

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. [TONIC](#)), as well as government ministries (e.g. [Israel Innovation Authority](#)). Moreover, a separate but complementary ecosystem is being developed – of Israeli innovation targeting the implementation of the SDG in the global south, based on impactful technological solutions for dire problems.

Israel in comparison to other ecosystems

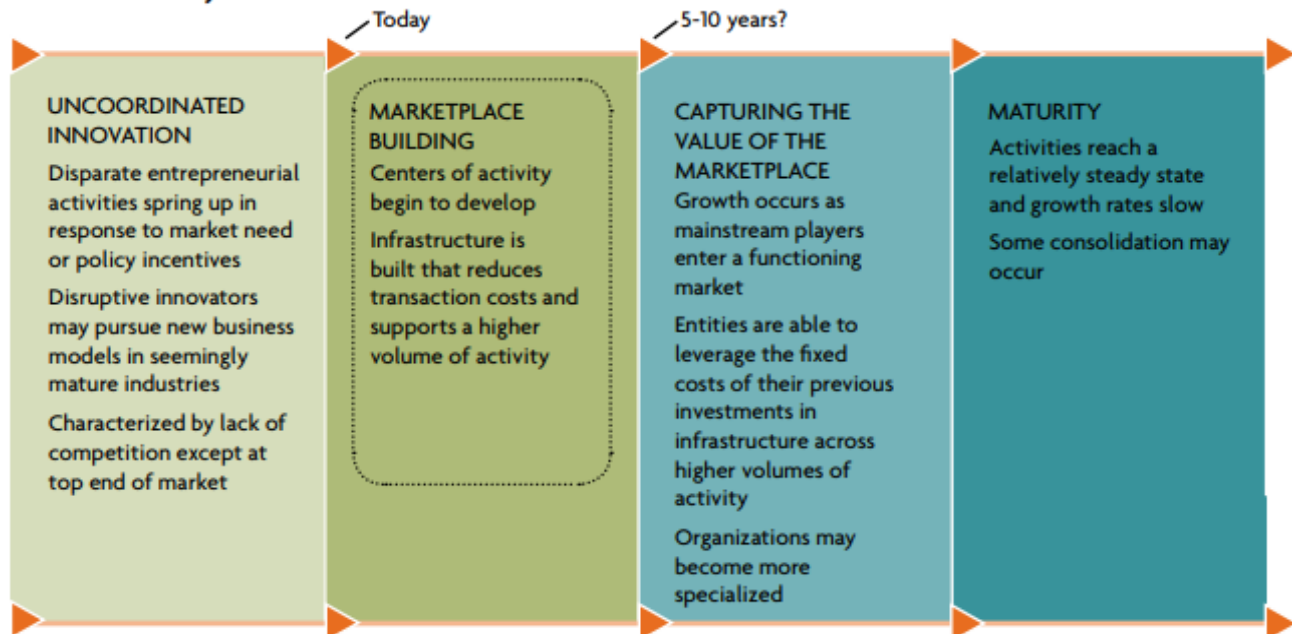
In 2009, as the impact industry started to gain momentum, Deloitte’s Monitor Institute issued a report¹⁴ examining the emergence of this industry and outlining necessary next steps, together with a suggested timeline. The industry’s evolution was meant to take place in four phases: uncoordinated innovation, marketplace building, capturing the value of the marketplace, and maturity. The report lists the 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.

¹⁴ [Investing for Social and Environmental Impact](#): A Design for Catalyzing an Emerging Industry (2009)



A Critical Transition Point for Impact Investing: Building a Marketplace

Phases of Industry Evolution



As mentioned earlier, this report served as the basis for GIIN's 2018 report *Roadmap for the Future of Impact Investing*¹⁵, assessing the current state of the industry and suggesting next steps to be taken 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 are some challenges that 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

¹⁵ [Roadmap for the Future of Impact Investing](#): Reshaping Financial Markets (2018)



[GIIN Investor’s Council](#) and the global [National Advisory Boards](#), the development of [IRIS](#), and the 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.

Summary of Progress across Three Platforms, 2007–2017		
INTERMEDIATION	INFRASTRUCTURE	ABSORPTIVE CAPACITY
<ul style="list-style-type: none"> • Large increase in number of funds across a wide variety of investment strategies, and development of resources to identify funds. • Several large-scale funds with proven track record, but still concentrated in the financial services sector. • Need to further develop fund manager capacity. • Greater awareness of blended finance, but greater need to convert awareness to action. • Limited investment banking services to support investors and investees raise, place, and structure capital and to better match investee needs with investor parameters. 	<ul style="list-style-type: none"> • Development of robust leadership groups playing a critical industry-stewardship role. • Proliferation of investor networks serving different niches. • Widespread development of tools and resources for impact measurement and management, but continued lack of consensus around core dimensions or approaches. • Growing evidence base to support benchmarking risk and return. • Select policy wins in some countries, though limited progress on specific policy or regulation for impact investing in most countries; recent emergence of national policy advocacy groups. 	<ul style="list-style-type: none"> • Establishment of several incubators, accelerators, and specialized consultants to support entrepreneurs. • Strong need to develop many more enterprises seeking to positively address social or environmental challenges. • Continued need to improve the management capacity of enterprises.

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 features 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 philanthropist, who accept partial capital preservation (considered to be outside the boundaries of “impact economy”).¹⁶

The government does not yet have an agency focusing on impact investments (such as the U.S.’s White House [Office for Social Innovation and Civic Participation](#)) but there is a successful [Social Impact Bond](#), aimed at reducing higher education dropout rates, and other bonds are being developed in collaboration with public-sector factors.

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 on 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 investing¹⁷. “For a country to identify as a possible ‘market space’ for SII, data is needed for assessing the business case across multiple sectors or social target areas¹⁸” claims an OECD report. However, there is no up-to-date local data, both on the demand and the supply – information is missing about both investment sizes and the financial and social performance of impact funds and startups. This is only part of the reason there is no match between supply and demand within this ecosystem.

¹⁶ [The Rise of Impact](#): Five steps towards an inclusive and sustainable economy. UK NAB (2017)

¹⁷ [G8 Social Impact Investment Forum](#): Outputs and Agreed Action (2013)

¹⁸ [Social Impact Investment](#): building the evidence base. OECD report (2015)



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Recommendations

In line with GIIN's *Six Categories of Action*, and based on lessons learned from the global impact and micro financing ecosystems, recommendations can be formulated specifically for the Israeli impact ecosystem at its current state.¹⁹

¹⁹ [The impact investors handbook](#): Lessons from the World of Microfinance (2011)

FIGURE 4. Six Categories of Action



In order to form the identity of the impact industry and movement, in Israel, a GIIN like framework is needed. Alternatively, incorporating more actors into the NAB and creating a platform for professionals in this sphere, to share best practices, may be a solution. This framework should recognize the range of locally accepted definitions of *impact innovation*, work to demonstrate and communicate impact, nurturing and highlighting beacons of success. Such a framework should also be able to update the local investment theory, thus tackling the need for a change in behavior and expectations.



Furthermore, the development of new products and models is required, as there is a clear need for hybrid models – utilizing 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 partnerships²⁰. Simultaneously, a commitment to early-stage, high-risk, startup capital for funded pilots, as well as an injection of capital into mature accelerators is necessary. Alongside these products, tools and services must be established, such as locally adapted impact measurement schemes and a local database.

Serious education and training are essential – for both financial and social professionals, within (but not limited to) academic programs. 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.

Finally, policy and regulation are key to developing Israel’s impact ecosystem. 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.

The role of philanthropy is a dual one – both in promoting infrastructure-building organizations and programs, and granting high risk capital (without equity) to pre-seed impact startups acting as a bridge between impact entrepreneurship and impact funding.

²⁰ [Social Impact Investment](#): building the evidence base. OECD report (2015)