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**The Implications of the Decline in Philanthropy**  
**on Israeli Non-profit Organizations and Social**  
**Services**

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## 1. Israeli Philanthropy

The roots of giving and philanthropy in the Jewish tradition stretch back to biblical times. The source for the Jewish commandment to give charity is found in Deuteronomy: "If there be among you a needy man, one of thy brethren, within any of thy gates, in thy land which the Lord thy God giveth thee, thou shall not harden thy heart, nor shut thy hand from thy needy brother." (15:7-8, mechonmamre.org translation)

In modern times, Israel has also enjoyed a tradition of philanthropy, stretching back over a century. In the pre-state era, funds were raised and transferred to *Eretz Israel* and the practice even strengthened once the State of Israel was established in 1948 (Haski-Leventhal & Kabalo, 2009).

Israeli philanthropy is a world unto itself. On the one hand, it is one of the largest in the Western world (Rudich, 2007). According to the John Hopkins Comparative Nonprofit Sector Project<sup>1</sup>, philanthropy accounted for 1.34% of the GDP in Israel in 2003, second only to the United States (with 1.85% of the GDP).

On the other hand, Israel is the largest importer of foreign giving among the developed countries. Yet, the share of the foreign giving is decreasing. Until around the year 2000, most of the philanthropic revenue of Israel's non-profit sector came from donors in the Jewish Diaspora giving to Israel; a very small proportion came from Israeli corporations and private donors (Reichel et. al, 2000; Silver, 2007). In the last decade, we have witnessed a shift in domestic philanthropy in Israel, with a steady stream of donations within the Israeli public rising steadily (Silver 2007), on both the corporate and individual levels.

In contrast to the historic tradition of philanthropy in Israel, current Israeli philanthropy is characterized by an increasing shift from collectivism to individualism and pluralism in giving (Haski-Leventhal & Kabalo, 2009). In accordance with a trend experienced in other developed countries, local philanthropists have become increasingly involved in the dissemination and monitoring of their gifts. They have called upon nonprofit organizations to exhibit performance and effectiveness as well as to adopt business-like management methods (Shimoni, 2008; Silver, 2007). Israeli philanthropists draw their motivation to give from a host of different sources:

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<sup>1</sup> Johns Hopkins Comparative Nonprofit Sector Project. Retrieved June 2, 2007 from <http://www.jhu.edu/~cnp/research/compdata.html>

religious values, family tradition, altruistic feelings, and a desire to “give back” to society (Schmid & Rudich, 2009). Findings from a recent study reflect a high level of giving in the year 2006. The average contribution of an Israeli philanthropist is NIS 2.7 million, which amounts to 6.89 percent of their income. Figures for 2008-2009 are not yet available (Schmid & Rudich, 2009).

In addition to a rise in new Israeli donors, fundraising from the general public has also expanded of late, and many organizations rely on new and old methods to raise funds from Israeli households (Haski-Leventhal & Kabalo, 2009; Silver 2007). According to the social survey of the Central Bureau of Statistics (Central Bureau of Statistics, 2009 c), 66.5% of the entire adult population (20 years old and above) donated to voluntary non-profit organizations in 2007. Among them, 13.4% contributed sums over NIS1000. The estimate of the donations amounts to NIS 1.242 billion.

Another new contributor to the philanthropy world is the business sector. As part of an increasing trend in corporate philanthropy, the business world has allocated resources - including money, volunteers, and knowledge- to third-sector organizations. Yet, it is responsible for approximately 5% of the philanthropy pie - NIS 1.5 billion (Schmid & Rudich, 2009).

As for the giving of Diaspora Jewry to Israel, in 2008 the total of foreign philanthropic transfers to Israel amounted at \$2.438 billion, approximately NIS10 billion (Schmid & Rudich, 2009). A large part of donations from abroad were made via the approximately 1500 foreign foundations operating in Israel (Gidron et al., 2006). In the last decade, Diaspora Jewry giving to Israel has shifted from a federation-dominated practice to private-foundation giving; this change has resulted in a decrease in the scope of giving to Israel and to Jewish communal institutions and an increase in funding of secular and universal causes. Less than 10% of Mega-gifts (which are defined as gifts between one and ten million dollars) are devoted to Jewish causes. Within Jewish causes, more money “stays at home” (namely, in their respective communities), with a steady decline in the percent of federated campaigns allocated for overseas (Solomon, 2008; Haski-Leventhal & Kabalo, 2009).

Academic research on Israel’s emerging philanthropy is currently in its nascent stage. As such, a comprehensive dataset by which to evaluate philanthropic donations by source and allocation in Israel does not yet exist. Yet, as noted earlier in this report, we do have some data on the scope of foreign philanthropy to Israel as well as corporate philanthropy. We know that in 2008, NIS18.69 billion was given to

nonprofit organizations by Israelis and Jewish philanthropy, which constitutes 18% of their revenue. (Central Bureau of Statistics, 2009) Whereas the lion's share of donations given to Israeli nonprofits that year was gifts from abroad, Diaspora and other foreign philanthropy to Israel accounted for only 55% of total philanthropy; the remainder comprised Israeli giving on the part of individuals, corporations and foundations (Schmid & Rudich, 2009).

## **2. The Role of Philanthropy in Israel**

Philanthropy has many roles in modern society. One may think about philanthropy's role vis-à-vis civil society institutions (NPO's and the like) as providing the financial infrastructure needed to convert civil society's initiatives and ideas into social programs and organizations (Frumkin, 2006 pp. 374). Regarding the relationship between philanthropy and the government, it can be viewed as: cooperation and collaboration, adversarial, and as a complementary arm to government services (Najam, 2000).

In our understanding, the role of philanthropy in Israeli society is complementary and supplementary, functioning as an entrepreneur and as an initiator of new programs and services. Philanthropy's role is also supplementary and innovative in that it develops and initiates services that the government cannot or will not develop by itself due to budgetary constraints. Philanthropy is not a substitute the government activities. The Israeli public also acknowledges the contribution and added value of philanthropy, as reflected in a study conducted by the Center for the Study of Philanthropy at the Hebrew University of Jerusalem on public opinion concerning philanthropy. Israeli philanthropy as well as the generations-old tradition of Diaspora Jewry giving is perceived to be a value that has contributed tremendously to Israeli society. In the aforementioned study on philanthropy, 92% of the general Jewish population, 91% of the ultra-Orthodox, and 80% of the Arab Israeli population view philanthropy as fulfilling a complementary role to government, providing and funding social programs and services (Schmid & Rudich, 2008).

## **3. The Effect of the Current Economic Slowdown on Philanthropy to Israel**

The current economic slowdown reached the Israeli philanthropy arena in the midst of these developments, threatening its ability to play its role in supporting the “third sector” and other activities. Philanthropy has sustained a combination of blows:

The first was the ongoing erosion of the dollar exchange rate in 2007, hovering for extended periods at around NIS 3.10 to the dollar. This translated into a decline of some 15% - 20% in overseas donations to a large number of non-profit organizations.

Second, the global financial crisis of mid-2008 adversely affected all social sectors: it diminished foundation profits from their investments; it harmed the equity of organizations; and it eroded the size of the grants that the foundations distributed and will be able to distribute in future. Donations to Israel from American donors via the federated system and private philanthropy are at risk. It was expected that Jewish philanthropy in the US would be badly hit, with a strong tendency to increase giving close to home due to the economic crisis in the US. However, data from 2008 shows a lower decrease than expected. In the United States, charitable giving dropped in 2008 over 2007, a 5.7 percent drop adjusted for inflation. This is the first decline in giving since 1987 (GivingUSA, 2009). It seems that Mega-gifts were hit more dramatically during 2008 than individual giving; foundations faced a decrease of 22.2 percent adjusted for inflation in 2008 from 2007, whereas individual giving dropped only 3.3 percent, after adjusting for inflation. In addition, most endowments have lost 30%-35% of their value since October 2007. While figures for 2009 are not yet available, the Council on Foundations Survey found that 62% of American foundations plan to cut grant-making in 2009. Estimates were made that many foundations will reduce their grant making in Israel significantly (Caspi, 2009).

In terms of Diaspora-Jewry giving, federated giving from campaigns in 2008 decreased from 2007, yet this decrease was lower than expected. In 2008, the combined campaigns of all 144 Jewish federations in the United States raised \$912 million. That is up slightly from the 2007 total of \$911 million. While the number of donors to the federations fell, the size of each gift by repeat givers—those who gave the previous year—grew by 1.3 percent (UJC, 2009). The UJC data for 2009 is partial, but the campaign pledges so far for 2009-2010 demonstrate that giving to the federations is down significantly; thus far, the federations have received \$608 million in pledges, while at the same time last year the federations had taken in \$714 million. The size of the average gift to the federations has dropped by 4.3 percent (UJC, 2009).

It is predicted that many federations will be cutting grants to Israeli organizations as much or more than they are cutting locally (Caspi, 2009).

Added to all of this is the Madoff scam, which harmed many organizations, non-profits and foundations that were directly or indirectly invested with him and some of which have ceased to exist altogether. According to recent data, 51 foundations were closed and 143 were significantly damaged resulting from Madoff investments. However, this list is not comprehensive, as it does not include those invested in "feeder" funds. Most estimates assume that tens of millions of dollars of annual support were lost. The scandal and its results have severely undermined donors' confidence in the way organizations invest contributions and how they conduct themselves financially.

#### **4. The Effect of the Global Economic Crisis on Israeli Philanthropy**

The global economic crisis hit Israel's rich dramatically. Israeli millionaires and billionaires<sup>2</sup> saw their wealth fall by 19.5% in 2008, as opposed to 2007. In 2008, the number of Israeli millionaires decreased by 2,300 individuals, down from 8,200 in 2007 to 5,900 (Merrill Lynch and Consulting Firm Capgemini report as cited in *Ha'aretz*, Ora Coren, "Crisis costs Israel 2,300 millionaires," June 26, 2009). It is not clear to what extent this decrease will damage Israeli giving, since the data on Israeli mega philanthropy is not yet gathered; yet, it does suggest a prospective decrease in Israeli philanthropy.

In addition, despite the forecast of decreased corporate giving, the current figures for 2008 corporate philanthropy are ambiguous. MAALA stock exchange index shows that the biggest companies in Israel did not decrease their corporate giving. Quite the contrary; the average giving increased from NIS 6.88 million in 2007 to NIS10.51 million in 2008. The average contribution of the annual volume of trade rose from 0.16% in 2007 to 0.17% in 2008 (Maala, 2009). Yet, it is too early to determine the implications of the current economic recession on Israeli corporate philanthropy. We certainly should not expect corporate philanthropy to rise during 2009.

#### **5. The Implications of the Crisis on Israeli and Jewish philanthropy**

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<sup>2</sup> The definition of millionaire is someone with at least \$1 million in liquid assets, not including their home.

The approximated decrease in philanthropy from Israel and Diaspora Jewry will have several implications and risks for the Israeli third-sector organizations and social services.

First, the financial stability and autonomy of the nonprofit organizations is undermined; additionally, self-generated programs will be limited. The reaction of the Israeli third-sector to these events was dramatic; some researchers argue that the sector is facing collapse in a manner that will affect the greater part of society in Israel. A survey conducted by Ben-Gurion University of the Negev argues that the robustness and stability of the third-sector are at risk. In 2008, about one half of non-profit organizations experienced an increase in expenses and a decrease in income compared to the preceding year; close to a third have already been forced to cut back on services; only 42% feel "stability" at present; one in five claim to be currently suffering from "grave financial strain"; and 15% have laid off employees, with another 20% considering doing so imminently. Approximately 4000 nonprofits are at risk of closure (Katz & Yogev, 2009). Yet, the actual effect is not yet clear. There is no information of mass failure and closure of Israeli non-profits, as the survey predicted. One way to cope with the economic situation is to apply for government assistance. The Israeli government allocated a NIS 200 million financial aid package to help struggling social welfare organizations for the years 2009-2010. One of the criteria for assistance is compensating an amount equivalent to the decrease in philanthropic support. We perceive this shift as potentially resulting in a greater dependence on government policy and programs, conformism, and a lack of autonomy (Schmid, Bar & Nirel, 2008). Non-profit organizations will become quasi-governmental agencies per se, losing their autonomous identity and distancing them from their espoused ideology.

The second implication and more visible one is the closure of foundations and nonprofits and cut-backs in the income of academic institutions as well as the income of numerous organizations invested in Madoff in one way or the other: the Chase Family Foundation, Yad Sarah, Hadassah, U.S. women's Zionist organization, and the American Technion Society.

Third is the harm caused to social service programs and initiatives where a large portion of their income was financed by philanthropy. Their ability to provide the services to their clients has been undermined.

Fourth, another major aspect concerning the crisis is psychological and strategic rather than economic. It allows philanthropists to reconsider and assess their philanthropic

investments and support. Projects, initiatives, social programs and organizations that have not met donors' expectations and goals will probably lose their philanthropic contributions. The growing competition for philanthropic support will serve as justification for philanthropists to enforce the organizations to be more efficient and effective, to seek cooperation and collaboration, and to merge and cut down on unnecessary expenditures.

The crisis can also offer an opportunity for a clearer definition of the division of labor between philanthropy, government and voluntary non-profit organizations and the way they cooperate, to the benefit of the Israeli citizen.

The crisis can also serve as a driving force for organizations to reassess their projects and programs, reorganize, and adopt efficient administrative technologies and cut out unneeded organizational functions. While adjusting to the new conditions and constraints concomitant with this economic situation, non-profit organizations must create alliances amongst its member organizations and must work to reduce unhealthy proliferation and duplication. In its present condition, Israel's third sector is too large. Joint ventures and alliances will enable a reduction in overhead and a more efficient and rational system.

This economic situation offers nonprofit organizations an opportunity to develop alternative sources of finance while reducing the share of government support and increase self-generating revenues. Initial findings of a new study conducted by the Israel Center for the Study of Philanthropy at the Hebrew University of Jerusalem indicate that an effect of conversion exists in non-profit human services between philanthropic contributions and governmental financing: when government reduces its financing of nonprofits, philanthropy increase its share. There is no need for panic-reduction in income from one source causes the increase of the other in certain areas (Hazan, in process).

In addition, self-income constitutes the most stable source of financing for nonprofit organizations and is, as such, the most immune to the various crises.

## **6. Conclusions**

The recession and decrease in philanthropic support will surely result in some painful implications for Israeli social services and their providers, primarily non-profit organizations. Yet, the crisis offers opportunities as well as challenges. It will probably lead to the demise of some non-profits, yet others will flourish. The future of the



organizations is dependent on the steps non-profits are willing to take in order to survive this crisis: stronger streamlining, re-considering areas of activity and programs, and innovations. Undoubtedly, there are some risks, including laying off employees. Yet, governmental assistance to nonprofits should not be the solution to the problem. It bears great risk for the non-profit sector to develop a strong dependence on government while losing their identity as civil society organizations.

As for philanthropy, the crisis is an opportunity for philanthropists to reconsider their involvements, priorities and contributions to different areas in Israeli society. It should also be clear what types of relations are established with the government regarding the role of the philanthropist in the arena of public policy-making.

Non-profit organizations should also consider their relations with the philanthropists. They should make an effort to raise funds and support by improving communication with philanthropists, submitting challenging and innovative programs suitable to their area of interest and values, fostering businesslike advanced technologies, creating business plans with articulated goals and objectives, and focusing on efficient and effective administrative systems, enhancing their performance.

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