Why It's Time for Philanthropies to Invest in Israel

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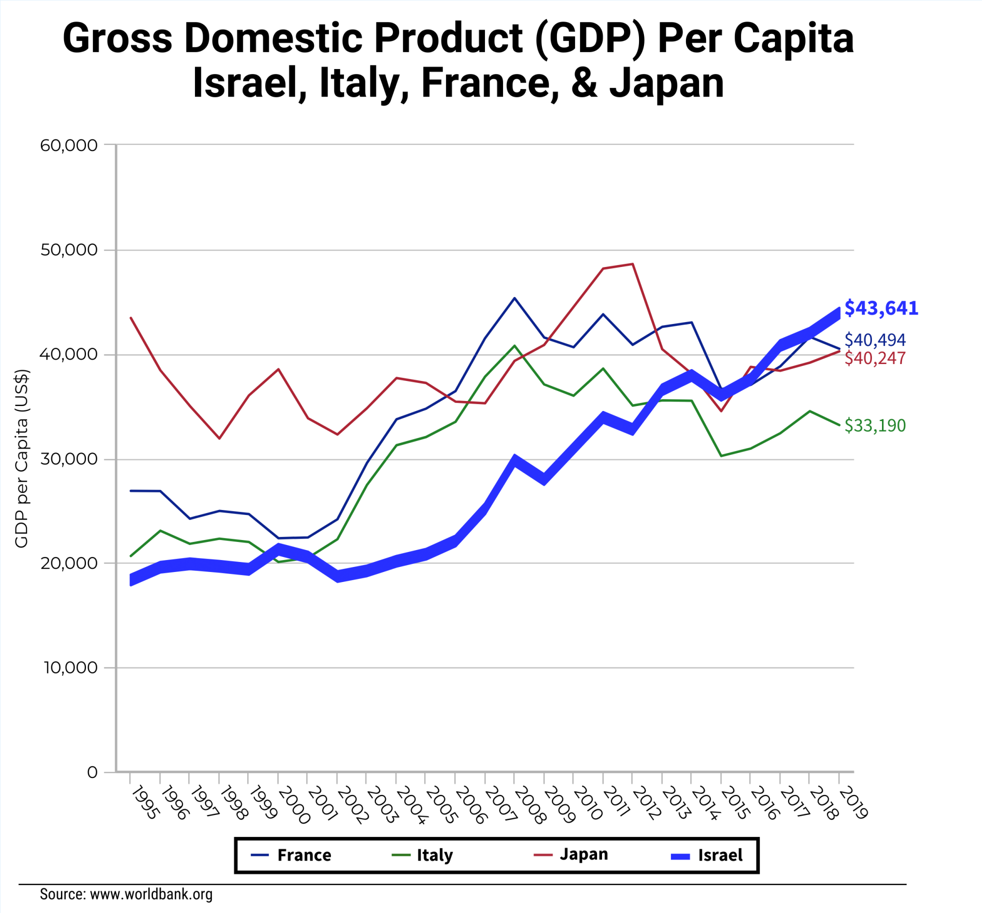
Contrary to popular handwringing, Jewish philanthropy to Israel has not waned. In fact, according to the Jewish People Policy Institute, North Americans donated steadily increasing sums to Israeli causes in recent years, reaching $3.1 billion last year. Philanthropy is central to Jewish communities, but changes in our current economy are expanding possibilities in this arena. ***North American philanthropies and philanthropists are missing a major opportunity to bolster their impact on the Jewish state while earning returns for their endowments: the Israeli stock market.***

The Evolving Role of Foreign Philanthropy in Israel

Historically, foreign philanthropy has played an outsized role within the Israeli economy and remains important today. In the 1950s and 1960s, penniless Holocaust survivors and Jewish refugees from Arab countries flooded into Israel. Industrial activity was nascent, and exports limited. Material needs were great, but capital was scarce, particularly foreign currency. During this period, German reparations payments and donations from North American Jews helped finance Israel's remarkable 10% annual economic growth.

Chart 1



In the 1970s and early 1980s the Israeli economy suffered from stagnation and hyperinflation. After the 1973 Yom Kippur War, North American philanthropy and U.S. government aid were critical lifelines, supporting 10% to 16% of Israeli Gross Domestic Product (GDP). Since that time, Israel has shifted from distress to success as it transitioned toward a market economy. GDP per capita in Israel now exceeds $40,000 per year, up from $6,000 in the mid-1980s. Impressive growth, but even more so when compared with other countries (see Chart 1). Philanthropic dollars and American military assistance remain consequential but now comprise just 3% of Israel's GDP.

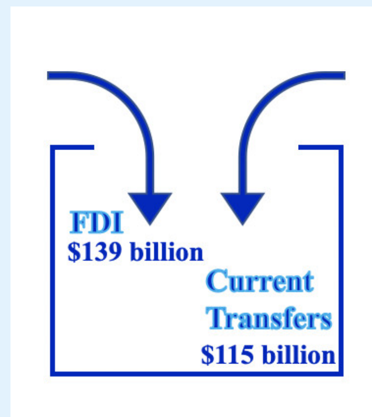
Investments in Israel – Then and Now

For Israel, foreign philanthropy has always been a critical source of investment capital. Bank Leumi, Israel's second largest bank, was started by Theodore Herzl in the early 20th century to funnel philanthropic donations from Jews in Europe to fund the Zionist project. After the destruction of European Jewry in World War II, North American Jews supported critical Israeli parastatal institutions such as the Jewish Agency, the Joint Distribution Committee (JDC), and the Jewish National Fund through well-organized philanthropic networks like the Jewish Federations of North America.

Based on tax return disclosure data, estimates of endowments with an Israel giving priority range between $30 billion and $65 billion. According to estimates extrapolated from the Federal Reserve "Financial Accounts of the United States" and various Jewish income and demographic surveys, Jewish households likely possess financial assets exceeding $2 trillion. Of course, Jewish philanthropists donate to a wide variety of worthy non-Jewish causes, and not every Jewish household prioritizes Israel in the same way. Nonetheless, small shifts in our investment allocation would amplify capital flows and impact.

A subset of economic accounts tracking GDP is called the Balance of Payments (BOP). BOP accounts monitor financial inflows and outflows for a country. Investment flows are typically divided into three major categories: Foreign Direct Investment (FDI), Portfolio Investment, and Current Transfers. FDI occurs when foreign companies establish operations or acquire assets in another country. Portfolio Investment tracks financial investments into securities, and Current Transfers are donations, including foreign aid and charity.

According to government BOP statistics, Israel received $139 billion in FDI over the past decade. Much of this investment targeted the technology sector, as major companies such as Intel, Microsoft, and Google established or expanded operations within the country. About $22 billion came from foreign venture capitalists investing in Israeli technology start-ups. During the same period Israel received $115 billion in Current Transfers, including $43 billion in U.S. government military aid and other foreign government assistance. North American philanthropies channeled approximately $25 billion into Israel. Surprisingly and sadly, $4 billion in foreign Portfolio Investment flowed out of Israel since 2010.



Due to its small size, Israel is not currently represented in major international stock indexes. In the world of indexed investing, therefore, large international asset management companies generally ignore the increasingly robust opportunities available in the Israeli capital markets. While this is unfortunate, it is tragic that Jewish and pro-Israel endowments and investors do the same. An almost infinitesimal shift of 0.2% in Jewish investment allocations would reverse the entire capital outflow of the past decade. A 5% allocation could rival Israel's FDI.

Of course, stock market investing benefits the investor with expected returns, but stock market investing also benefits Israel in a variety of ways. For example, technology start-ups punch well above their weight in Israel, but they hit significant barriers as they grow. Technology pundits in Israel often lament the "early exit" problem. They usually blame founders, investors, or managers for selling out to larger companies too soon, but ***they often miss the true culprit: an underfunded stock market***.

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If Not Us...

The future of Israel as a "Scale-Up Nation" in complement with its reputation as the "Start-Up Nation" resides with the potential for more vigorous capital markets. It is unlikely Intel, Google, or Microsoft could have become global behemoths without access to capital on the stock exchange.

In America, we take initial public offerings, stock and bond issues, and mergers and acquisitions for granted (or often complain about their excesses). These tools facilitate the immense scale and competitiveness of American companies. None of these things would exist without active stock market investment and investors from around the world.

There is a capital markets revolution underway in Israel, yet global investors seem unaware. They do not track Israel on major international stock indexes, but they may also be unaware of extensive policy reforms that are reshaping Israel's economy beyond the technology sector. Since 2005, Israeli lawmakers removed barriers to competition in the securities industry, corporate lending, credit cards, mortgages, and other financial products.

As financial sector competition intensified in the past decade, Israeli companies raised $154 billion selling corporate bonds and stocks to domestic investors. Israel's savings rate is high, financial assets are growing, and the government debt burden is modest in comparison to other developed countries. The financial services sector is burgeoning. Intensified competition in the financial sector is improving capital access in Israeli society, thereby fostering improved business competition.

Israel has firmly laid the foundation for heightened global investor interest. Who will these global investors be? ***If not us, then who? If not now, then when?***

This newsletter is adapted from an article by Brian Friedman originally published by Inside Philanthropy on December, 2020. The original article is accessible at **https://www.insidephilanthropy.com/home/2020/12/13/why-its-time-for-philanthropies-to-invest-in-israel**

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