

A Conceptual Map of Poverty in Israel: Good Philanthropy Needs Good Information

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We are now at the height of the most serious economic crisis since the Great Depression, and our interest in getting the most out of every philanthropic dollar is especially strong. Given the daily news of our dwindling available philanthropic resources, we are interested more than ever in thinking how we can invest our resources most effectively.

A major finding of Tobin's important needs assessment of Jewish foundations conducted in 1999 was that foundations felt they did not have adequate knowledge and information about needs, ideas, institutions, and programs they could support in the Jewish world and in Israel. For many years collecting information about Israel was especially challenging because of the distance, language differences, and its less developed professionalism in the nonprofit sector. During the past decade collecting such information has been made easier because of major changes in three significant areas:

1. Legislation and awareness have increased the effort made by Israeli government ministries to provide greater access to information about government activities and funding, as well as statistics and research on the needs of various population groups.
2. An increasingly professional philanthropic sector in Israel has started generating much more knowledge, research, and expertise on needs and best practices in Israel's social sector.
3. New initiatives and awareness are increasing the transparency and data available regarding nonprofit organizations; these include a new organization, Midot, that is rating Israeli nonprofits and the expected inauguration of Guidestar Israel in 2009.

Philanthropy from the Jewish Diaspora to Israel has been a significant component in its strong relationship with Israel from before the creation of the state. This philanthropic effort has been an expression of shared responsibility and values and has been led and administered by the federated giving system. However, over the past decade the character of Diaspora philanthropy has changed enormously. Private philanthropy has blossomed and flourished, while the allocations of the federated system to Israel have decreased consistently. The influx of private donations has greatly surpassed the UJC allocation to Israel.

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The growth of private philanthropy is a major opportunity for Israeli society and for an enhanced relationship and connection of Jews to Israel. Unfortunately, we also know that this change has brought with it some frustration and misunderstanding.

The allocation of donations to Israel through the federated system was based on a strong relationship with the Israeli government and guided by the expertise of two Israeli-based affiliates—the Jewish Agency for Israel (JAFI) and the American Jewish Joint Distribution Committee (JDC). Individuals and foundations that now make their own funding decisions no longer use these channels of information.

Many funders rightly claim that any process of strategic grant making needs to be based on thorough research of the field of interest, the current situation, and alternative strategies of intervention, but this research is especially important for long-distance funding, even for more reactive funders. Any funder needs a conceptual map of a field to make informed and efficient decisions. One of the great advantages of local funding is that the continuous collection and processing of information enable the construction of this type of map.

Effectively funding programs in Israel is a major challenge for private philanthropy as most Jewish donors have not lived in Israel, are not fluent in Hebrew, and most importantly are not familiar with the frameworks and environment of the social sector. In particular, it is difficult for them to learn about these critical areas before making decisions: the perception and understanding of the division of labor and responsibility between government and community; familiarity with social, political, and cultural contexts; knowledge of policies, laws, and regulations; and an understanding of relevant players, networks, and organizations.

This article exemplifies the type of conceptual map and information that foundations need to make good funding decisions in Israel. It enables funders to put various proposals and funding options into the appropriate context on an issue that has attracted considerable attention over the past few years: poverty in Israel.

UNDERSTANDING CURRENT POVERTY IN ISRAEL

Israel's economy has demonstrated impressive economic growth in the past few years; the average annual GDP per capita increased by 3% between 2004 and 2007 and the GDP per capita adjusted to purchasing power parity (PPP) reached \$24,000, only a little behind Western countries such as Spain, for example, with a PPP of \$25,000.¹ However, despite recent economic growth, Israel has a higher rate of poverty than most developed countries. Poverty rates have increased in the past few years, reaching a new peak in 2005. During that year, the poverty rate of households was 20.6% (representing 410,000 households, 175,000 of which have an unemployed provider). The poverty rate of individuals was 24.7% (representing 1,630,500 people), twice the average rate of developed countries. Analysis of 2006 data shows a change in this trend: stability was recorded in the poverty rate of households, whereas the rate of poverty among children and the elderly declined slightly for the first time. Concurrently, improvement was

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¹ This analysis was written before the current economic crisis of October 2008. Because I am unable to even begin to contemplate if, what and how this might affect everything said here, I have not tried to relate to this crisis.

recorded in employment rates, and average disposable income per family increased by 1.5% in real terms.

Defining the Poverty Line

The most common measure of poverty in the United States is the “poverty line” set by the U.S. government. This is an absolute measure that recognizes poverty as a lack of the resources necessary to meet the basic needs for healthy living; that is, having insufficient income to provide the food, shelter, and clothing needed to preserve health. The official threshold was determined based on the cost of fulfilling these needs and is adjusted for inflation using the consumer price index.

In contrast, the poverty line in Israel is based on a relative measurement—it is set at 50% of the median available household income. Thus, poverty statistics are linked very strongly to income inequality rather than material deprivation or hardship. In addition, this standard does not take into account property ownership and various benefits received through subsidies and discounts on public services. Hence, for example, 58% of the poor in Israel own their apartment.

What Causes Poverty in Israel?

In Israel's early years, there was a relatively equal distribution of resources, although the country's overall standard of living was much lower in comparison with Western countries. Over the past 20 years, Israel has enjoyed massive economic growth and an equalization of the standard of living to that of the Western world. In this process, some groups were left behind. Governmental policies aimed at alleviating poverty, in fact, resulted in widespread welfare dependency. Deep cuts in the social welfare safety net in 2000–2005, particularly the severe cut in the generous child allowances and in the assistance to families with many children, were financially devastating for many Israeli families. In addition, as Israel's economy is increasingly information-dependent and technologically advanced, underprivileged groups face greater challenges in making the cultural and educational transition into the modern Israeli workplace.

Cuts in Social Spending In 2002–2004, a policy of budget cuts continuously eroded government expenditures for social services. Social services as a share of the government budget decreased between 2002 and 2005 from 57% to 51%. Per capita expenditure on income support benefits decreased by 18% in real terms. Specifically, child allowances for poor families in 2004 declined from 17.6% of total welfare allowances to 11.4%. The “Second Lebanon War” of 2006 annulled plans for cutting defense expenditures and reviving a more generous welfare policy.

Changes in the Economic Structure Economic development in Israel over the past two decades has been based on advancements in technology and information, utilizing its comparative advantage in human resources and initiative. In 2006, Israel was third, after California and Massachusetts, in hi-tech investments. The growth of this sector and the decline of traditional industries (as a result of competition from other countries with much cheaper labor) have created a significant gap between skilled, educated workers and low-skilled, uneducated workers. To make matters worse, in the 1970s, the average wage of an

unskilled worker represented 80% of the average wage, whereas today it reaches only 60%.

Dependency Trap Today, 160,000 households in Israel rely on welfare payments (as compared with 75,000 in 1995 and 25,000 in 1985). The number of households receiving such benefits increased 6.5-fold and the number of unemployed increased approximately 2.5 times in less than 20 years, while Israel's population grew by only 150% during the same period. Today, monthly income support benefits range from \$255 (for an unemployed single person under the age of 25) to \$805 (for a single person aged 55 or for those with two children or more), whereas the minimum wage is less than \$835 and the average monthly wage is approximately \$1,720. With little incentive to work at minimum wage jobs, an increasingly large percentage of Israelis have grown dependent on income support benefits.

Who are Israel's Poor?

Low Participation in the Workforce With 54.3% of Israelis working, the Israeli rate of participation in the labor force is 10% lower than its American equivalent. Overrepresented sectors among the poor in Israel are those with the lowest participation in the labor force: the ultra-Orthodox and Arabs, with employment rates of 45% and 39%, respectively. Both structural barriers and choice prevent many members of these groups from working. As a result, 24% of the Arabs and 40% of the ultra-Orthodox live on government allowances.

Working and Yet Poor Being employed does not provide economic security or guarantee an escape from poverty. In 2003, 49% of the poor came from working families, in which one provider or two were earning the minimum wage. Forty-one percent of salaried employees today earn less than the monthly minimum wage for full-time employment (up from 27% a year before), whereas 57% of all hired workers who are poor earn less than the minimum monthly wage. Currently, 47% of working Israelis do not pay income tax because their income is lower than the minimum tax bracket.

Low-Skilled Workers Economic growth over the last couple of years has benefited mostly the upper echelons of society. The decrease in unemployment rates from 10.5% of the workforce in 2004 to 9.2% in 2005 and to 7.7% by the end of 2006 was salient mostly among the highly educated workers. Whereas unemployment among highly educated Israelis decreased to 4.4%, the less educated suffer from a 15% rate of unemployment. Moreover, low-skilled employment characterizes certain population groups regardless of their educational attainment.

One in Every Three Children Is Poor Cuts in child allowances for low-income families with children have worsened the situation of these families. In the first half of 2006, 35.2% of children—775,000 youngsters—lived in households below the poverty line. While one-third of Israel's children live in poor families, ultra-Orthodox Jews and Arab Muslims have even higher rates of child poverty, in part because these groups are characterized by a much higher number of children per family—5.6 and 4.0, respectively, compared with the national average of 2.84.

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Elderly Israel has a relatively young population, but large numbers of aged people with no source of income or pension have arrived in recent waves of immigration. However, as a result of a recent increase in supplemental allowances, poverty among the elderly decreased from 24.4% in 2005 to 22.9% in 2006 (the latter representing 89,600 households where the head of the family is over 65 years of age).

Where Are We Now?

Reports from 2007 indicate that the rate of poverty is no longer rising. The number of poor households has decreased slightly—by 1.5%. The actual number of poor children increased between 2005 and 2006, but their relative share of the total population remained stable (35.2%) and the condition of the elderly improved. Unemployment rates have decreased by 20% in just two years and economic growth has stepped up. Despite the war in the summer of 2006, the GDP increased by 5.1% in 2006. In the first quarter of 2007 the government's income from taxes increased by 9.2%, evidence of accelerated economic activity. All in all, the Israeli economy has proven to be resilient and an attractive target for foreign investment. Israel's financial risk premium (credit default swap) decreased from 1.90 in 2002 to 0.22 in 2006.

RESPONDING TO POVERTY

Government Intervention

Government involvement in addressing poverty includes macro-economic and structural policies as well as direct and indirect strategies to tackle specific pockets of poverty. At the macro-economic level it provides assistance for industrial R&D, encourages foreign investment, provides benefits and incentives for factories in areas of national priority, encourages and supports exports, and provides funds to increase the efficiency of Israeli manufacturers. The government is also involved directly in efforts to increase the potential of poor people to break out of the cycle of poverty, mainly through individual income support benefits, but also by funding and encouraging a wide range of programs that develop employability and professional skills.

Three government ministries play major roles in issues related to poverty:

1. The Ministry of Finance is responsible for planning and implementing the government's economic policy.
2. The Ministry of Trade, Industry, and Employment (TI&E) is responsible for promoting economic growth. It focuses on improving human capital, increasing the rate of participation in the labor force, conducting vocational training, supporting small businesses and exporters, encouraging economic investment in the periphery, and improving competitiveness of the Israeli economy.
3. The Ministry of Welfare and Social Services is responsible for welfare support and allowances intended to provide for the basic needs of the poor. The National Insurance Institute (NII) is an autonomous governmental body under the ministry's supervision responsible for executing government policy in regard to income support benefits.

Some semi-governmental organizations are also relevant to the issue of poverty. The Employment Bureau is responsible for job placement of the unemployed.

The Israel Small and Medium Enterprises Authority promotes entrepreneurial small businesses. Small Business Development Centers (Mati), a chain of 27 centers countrywide, work to create a supportive environment and provide business mentoring for entrepreneurs, focusing on new immigrants, women, and Arabs.

Recent Israeli government policy has encouraged the unemployed to seek employment. The government has reduced the number of foreign workers in Israel and introduced incentives for employers to hire new employees in certain geographic and industrial areas. This reflects a shift in socioeconomic strategy, accompanied by severe cutbacks in all forms of cash subsidies other than assistance to the elderly and the disabled. Additional new measures reflecting this trend and costing up to \$1 billion include an earned income tax credit for people with low wages and mandatory pension insurance for all employees.

In August 2005, the Ministry of TI&E initiated *Mehalev* ("from welfare to work"), also known as the Wisconsin Program. Through this program, four private companies operate job placement centers, providing the chronically unemployed with a mandatory framework of services creating employability (and making welfare benefits conditional on participation).

Since the program's inception, 13,000 clients in the program's four regional pilot centers—57% of initial enrollment—have found jobs. Yet many of these were only temporary and low-paying jobs. There is great debate as to how successful this model is and a number of ethical issues have arisen. However, despite criticism of the program—including on the part of the Minister of TI&E—the government has decided to extend the program for another year and expand it to additional regions.

Philanthropy and Nonprofit Intervention

Nonprofit organizations addressing poverty use a wide variety of approaches, from lobbying and advocating to direct services. The third sector in Israel is very heterogeneous in terms of size, nature, strength, capacity, experience, expertise, and goals; however, nonprofit organizations have demonstrated, especially in times of emergency, that their unique characteristics contribute a great deal to their success. They have shown initiative, entrepreneurship, and innovativeness; they are flexible and able to collaborate despite potential conflict of interests and competition; they have cadres of passionate professionals and volunteers with an eagerness to learn; and they cover a widespread area of activity where other sectors are often deficient.

Current responses to poverty in Israel can be framed in several broad categories: alleviating the symptoms of poverty through support of basic needs; improving the situation of poor families by helping them maximize the use of existing resources; empowering individuals to reach their full potential and act as positive role models to others in their communities through confidence-building initiatives; tackling unemployment through the provision of vocational training and support of micro-enterprise that can create income generation; supporting programs that provide employability skills and financial backing for entrepreneurs, who as a result can generate good jobs for themselves and for others; and providing professional support and convenient financing for small businesses, ensuring their survival and growth.

Addressing Basic Needs

Provision of In-Kind Goods Israel has witnessed the mushrooming of locally based and national organizations dedicated to the provision of food for the needy.

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These initiatives provide two basic services: baskets of basic food products and hot meals at soup kitchens. Food is obtained from donations of prepared food, contributions from food producers, and direct purchases. Ultimately, however, even those leading these endeavors agree that this short-term solution, although necessary, sometimes harms the chances of the clients becoming independent and does not provide a real solution to the problem. Despite the creation of hundreds of nonprofit organizations and the investment of significant resources, the estimate is that this type of service is only providing about 20% of the poor with support.

After-School Programs Among the fastest growing response, these programs are perceived as a comparatively cheap solution for ensuring basic nutrition for poor children through the provision of a daily hot meal. Simultaneously, these programs address the educational and developmental needs of poor children, with the hope of preventing intergenerational poverty. (This is a major program throughout the country but is only noted briefly as it belongs primarily to the field of education.)

Financial Support A wide range of organizations provide some type of financial support for various specific needs: bills, dental care, special medical needs, clothing, furniture, and others.

Maximizing Utilization of Existing Resources

Managing the Family Budget Many people find themselves in deep financial difficulty and, unable to extricate themselves from their situation, sink deeper into debt. Unaware of their rights or legal options, they tend to waste remaining resources and securities, endangering the future of their families. Initiatives to address such situations may provide bridging loans or actual grants, along with counseling to stabilize a family's economic situation or family budget training programs. The aim is to help families restructure their finances so as to gain independence. Organizations report high levels of satisfaction, but unfortunately cannot provide measurable outcomes of behavioral changes or information regarding changes in the economic well-being of poor families.

Full Realization of Rights Many people, especially immigrants, the elderly, the poor, and those with lower education, are unaware of their rights—whether their legal rights, their right to public housing, consumer rights, foreclosure regulations, workers' rights, immigrant rights, or unemployment or National Insurance rights. Others do not have the necessary knowledge and resources to claim their rights and thus lose vital time and money seeking information or just give up on them. Existing programs provide clients with the necessary information and engage in personal counseling, so that the clients can realize their rights and seek alternative ways to solve their problems. Organizations using this model report 80% to 90% successful and satisfactory interventions.

Self-Sufficiency and Empowerment Training Many underprivileged people lack the confidence and self-esteem to promote themselves and fulfill their potential. Through individual coaching and workshops, programs work with clients on building confidence, changing attitudes, creating a self-vision, designing a plan

for growth, and engaging in volunteerism. Programs often involve engagement in a personal project. Building on this experience, many graduates volunteer as tutors for new clients. Service providers report 65% placement by the end of the first year and a 90% increase in employability for all graduates.

Tackling Unemployment

Vocational Training and Employment Encouragement The Israeli Ministry of TI&E has been supporting vocational training as a tool to increase employment. Despite popular support for the government budget allocated to vocational training for the unemployed and low-skilled workers, this allocation suffered a 60% cut between 2000 and 2004. Alternative models target needy populations that do not participate in the labor market. Such programs promote employability through professional training and provide clients with relevant job-seeking skills, aimed at integrating them into the labor market in culturally appropriate positions, such as computer training allowing ultra-Orthodox women to work from home. Service providers indicate between 38% and 50% successful placement, although only 23% are in permanent full-time jobs; of those, 63% are still employed after a year, 68% of whom earn above the minimum wage.

Supporting Entrepreneurship Often, people with an entrepreneurial spirit find themselves bankrupt when their starting point is flawed. Lacking support, confidence, or experience, their business fails. Such situations are particularly common among new immigrants, single mothers, and ex-farmers. Existing programs provide bridging loans, interest-free loans, financial analysis, financial consulting, assistance in business plan preparation, seminars and workshops, individual support, information and guidance, as well as representation of small businesses to funding resources and banks. These programs report impressive results, higher than the average in small business development research: 50% of graduates start their own business, 80% increase their income, and 56% to 62% of the new businesses survive the first year.

Small Business Loans Small businesses are generally a major source of employment and a key factor in the economic strength of local communities. However, small business owners often find themselves struggling to survive. A number of nonprofit initiatives provide counseling and loan guarantees to facilitate the growth and expansion of small businesses.

Small Business Development Small businesses in many cases are an important source of employment for low-skilled workers, especially in Israel's periphery. Yet owners often lack managerial skills and suffer from strong cash-flow sensitivity. Various programs are using experts to identify ways to help stabilize these businesses and support their growth. Newer programs are applying cluster models and fostering local advantages to support and develop small enterprises and spur economic growth.

MAXIMIZING THE IMPACT OF GIVING IN ISRAEL

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nonprofit sector. Many philanthropists have also found that this new direct relationship provides them with a very different opportunity to experience, learn about, and understand Israeli society. Realizing the potential benefits of this new relationship and expanding it will be greatly facilitated by increasing the availability of comprehensive, well-based data and knowledge and making it available to a wide range of donors and foundations.

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