THE SOCIAL ECONOMIC IMPACT OF PHILANTHROPIC AID TO SMALL BUSINESSES IN ISRAEL DURING THE COVID 19 CRISIS – EVALUATION RESEARCH

[1]RONIT AMIT, [2]YIGAL AMIT

Adva Research & Development
E-mail: ronitamit7@gmail.com

Abstract – The Covid 19 pandemic adversely affected the economic activity of companies and businesses across the globe. The Israeli government decided to provide support to businesses that were adversely impacted by the crisis, provided they could demonstrate that their operations were affected. The WE19 Project is a philanthropic initiative established by the House for Social Solidarity in October 2020, with the aim of providing assistance to small and newly established businesses in Israel that were ineligible for government aid. The project had two primary objectives: an economic objective –to provide grants to enable businesses to resume their growth trajectory; and a social objective – to foster social solidarity and ensure mutual responsibility among the project's business owners. This study evaluated the economic and social impact of the project, examining the extent to which the grant contributed to the businesses and improved their economic situation, as well as what effect the project had on the feeling of solidarity among the businesses that participated. The research method employed both quantitative and qualitative tools: an online questionnaire was sent to all the businesses in the project, to which 744 responded. Ultimately, 105 businesses were sampled, submitting VAT reports that showed their income for the years 2020 and 2021. In addition, interviews were conducted with business owners, project team members and volunteers, and minutes of management meetings and follow-up reports collected by the organization on the businesses of the grant recipients were received.The results revealed that the majority of businesses that received a grant experienced an improvement in their financial situation (75% of the sample and 66% of the questionnaire respondents). Notably, businesses with a low annual revenue saw a greater improvement than larger businesses. About 90% of the grant recipients believed that the grant would have a beneficial impact on their future situation, and 75% of the participants stated that the project significantly increased their appreciation for the contributions of private philanthropists to society, and that it strengthened their own motivation to volunteer in the community.

I. INTRODUCTION

The Covid 19 pandemic adversely affected the economic activity of many companies and businesses across the globe. . Small businesses were particularly hard-hit by the global pandemic, as they struggled to meet financial conditions, due to a drastic decrease in sales, a shortage of workers and other resources due to disruptions in the supply chain. This difficulty resulted in the suspension of activities and the closure of many businesses around the world (Bartik et al., 2020). Small businesses were more limited in their ability to take advantage of opportunities created by the crisis. In Israel too, the Covid 19 crisis had a devastating effect on businesses, particularly those with four or fewer employees, with profits decreasing by an estimated 70% (compared to 57% in medium-sized businesses),with the number of employees decreasing by 56% (compared to 8% in medium-sized businesses). As a result of the dire situation, over 30% of small business owners even considered closing their businesses during the crisis (Ben-Aharon, 2021). In response, the government of Israel decided to provide emergency aid to businesses affected by the crisis, (due to the drop in income, fixed expenses and/or employment of workers), although the compensation was limited and did not addressthe unique needs of small businesses. First, new businesses opened during 2019 and 2020 were not covered. Second, the support was intended for survival. Second, the support was intended for survival, without attention to long-term growth that would allow small businesses to invest in innovative strategies to improve performance (Adam & Alarifi, 2021), optimize their marketing operations and their ability to provide services to their customers (Smith, 2021), and ultimately emerge from the crisis and turn it into an opportunity to prosper (Belitski et al., 2022).

The COVID-19 pandemic also impacted social solidarity. The government's lack of transparency and inability to provide economic and health security severely eroded citizens' trust (West-Oram, 2021). Social distancing, reduced contact and limited human interaction all contributed to feelings of loneliness and mental distress (Pfefferbaum & North, 2020). While individuals mobilized to help those in their immediate community, they were relatively indifferent to the plight of those outside their circle (Kutner & Abrahami Marom, 2021). This damage to solidarity and sense of reciprocal responsibility led to a decrease in volunteering and donations from private individuals in Israel (Phitt & Katz, 2021).

About the project

The House for Social Solidarity is a philanthropic organization founded in response to the crisis caused by the global pandemic. The WE19 project, launched in October 2020, was the first initiative of the

organization, founded out of a desire to provide assistance to small and newly established businesses that had just begun their operations prior to or at the beginning of the outbreak of the virus.

The purpose of the project was to help restore new businesses impacted by the Covid 19 crisis, enabling them to return to a path of growth. The project was born out of a strong commitment to social solidarity and a desire to foster mutual responsibility among the citizens of Israel.

This project is based on an innovative philanthropic concept that seeks to create a dual line of profit that takes into account and measures both the economic and social benefit/output. Achievements and performance are evaluated in terms of both social impact and economic performance (Mair & Sharma, 2012).

An appeal was issued to businesses to apply for a grant. The selection process was conducted using a peer-selection model: business owners who applied for a grant were asked to select and rank peer businesses (which had also applied for a grant) that in their view were worthy of the grant. Each candidate was sent 10 applications (randomly and while maintaining anonymity), and asked to rank them based on their expertise and judgment as a business owner. Of the approximately 8,000 businesses that submitted a complete application, 2,343 businesses were selected. Each selected business received a grant of NIS 30,000-50,000 ($9,000-$15,000).

II. THE OBJECTIVES OF THE STUDY

To evaluate the social-economic impact of the project: to measure how it contributed economically to the recipients of the grant and to assess the social impact it created.
Research questions:

1. Did businesses that received the grant indeed improve financially, with a comparison of their situation before the grant (January 2021) to after receiving the entire grant (August to October 2021)?
2. How did the businesses use the grant money?
3. How did the project affect the sense of solidarity and mutual responsibility among the businesses and their willingness to volunteer in the future?

III. RESEARCH PROCESS AND TOOLS

Online questionnaires were sent to business owners participating in the project (N=2,343), of which 744 responded. The questionnaire was based on self-reporting, asking the businesses to report on the nature of their business, how the grant was used, how the project contributed to their business's economic growth, etc. They were also asked about the extent and nature of the relationship between the businesses, their positions on social solidarity and their willingness to volunteer.

Sample for economic financial analysis – Some300 businesses were randomly sampled out of 1,492 businesses, 105 of which submitted VAT reports for the years 2020 and 2021 (the VAT reports made it possible to obtain a reliable estimate of the businesses' sales revenue). An investigation was conducted to make sure that the businesses represented the general population in terms of type of business, geographic distribution and local socioeconomic level. The improvement in business sales before and after receiving the grant was measured by calculating the average sales in the periods before and after receipt of the grant.
Interviews were held with four business owners, with the founder of the project, the two CEOs and two staff members.
Written data: minutes of meetings of the board of directors, marketing materials, financial information and data on the businesses in the project.

Description of the study population (N=2,343)
An analysis of the 2,343 businesses accepted for the project revealed that the most common industry was hospitality and food services (18%), followed by entertainment and art services (11%). Half of the businesses operated at a local and regional level, while a minority provided services internationally. Most of the businesses had an annual reveneu of up to NIS 500,000 (about 150,000 US$) and employed an average of 1-3 employees. The largest group of businesses that participated came from the center of the country (Tel Aviv + central Israel), accounting for 44%. Approximately half of the participants came from communities with a high socioeconomic ranking.Most (70%) of the businesses accepted for the project met the criterion of small businesses established from 2019 onwards and were therefore not eligible for a support grant from the government.

IV. FINDINGS

Ninety-six percent of the businesses that were accepted persevered and received the full grant (in three installments), and 97% felt that the effort and resources required of them in the reporting process were fair and appropriate for the size of the grant.

Economic change – Most of the businesses that received a grant (75% in the sample and 66% in the questionnaire) experienced an improvement in their financial situation, and 18% stated that their income dropped. An analysis of the businesses in the sample (N=100) revealed that the average increase in income without the grant was 77%.No correlation was found between the type of industry the business belonged to and the economic improvement, but there was a

significant correlation (P>0.00) between the weight of the grant (the ratio between the grant and the average monthly sales before receipt of the grant) and the percentage of improvement in revenues: Small businesses, with an annual revenue of less than NIS 200,000, improved their revenues by an average of 136% (M=63%) compared to larger businesses where the average improvement was 31%.80% of all respondents reported that the grant improved their current situation, and almost 90% said they believed it would have a positive effect on their future situation. Only about 15% maintained that the grant had no impact on their situation. The impact on the businesses' profits was more moderate: Half of the businesses reported an increase in profits, while a third reported a decrease in profits, and most (75%) saw a decrease in the number of employees.
More than 80% of the businesses used the grant to grow and increase business: About 50% asked for assistance in order to enhance their business's marketing and sales system (marketing, advertising, online site, sales promotion). Additionally, a third of the businesses requested financing to upgrade their infrastructure, including equipment, delivery systems, payment processing, and employee recruitment.

Solidarity and mutual responsibility – Solidarity and mutual responsibility were assessed by examining the positions of the respondents. The findings related to the participants' positions in this regard are based on a questionnaire administered to the business owners that related to their attitude as expressed towards the end of the project (there is no comparison with the beginning of the project and consequently the findings do not demonstrate changes).About 94% of the business owners reported that the project had raised their awareness of Israeli citizens who volunteer and/or donate to the less fortunate. In the view of 74%, the project increased their appreciation of people of means who contribute to society. Receipt of the grant also had a positive effect on their willingness to volunteer, with 74% stating that it increased their desire to help others in the community and 66% expressing a willingness to volunteer and assist other businesses.

V. DISCUSSION

The WE19 project had two primary objectives: to assist in the recovery of new businesses adversely affected by the COVID-19 pandemic, enabling them to return to a growth trajectory, and to promote a sense of mutual responsibility among the citizens of Israel. The project's purpose to help small and new businesses, most of which were not eligible for state benefits, was achieved in full. Most of the businesses that participated in the project showed a significant improvement in their income (over 77%) compared to their pre-grant situation. The grant money was largely used for the purpose of growth and to bolster the businesses' confidence in their ability to remain viable in the long term.

However, it should be borne in mind that the selected businesses represent a group with a relatively high profile relative to the general population in Israel: There is a higher representation of businesses located in locales with a high socioeconomic rating and a relatively low representation of businesses from disadvantaged population groups such as Arab society and new immigrants. It may be assumed that the process of identifying eligible businesses affected indicators, such as reaching out to candidates via the media, which is less accessible to underserved populations, and a selection process that focused mainly on writing a personal story, which was less suitable for groups that are not proficient in the Hebrew language and/or business owners who may feel uncomfortable or reluctant to write a personal story. Given that this is a social project, it would be a good idea in the future to see how a desirable social mix can be maintained and how to become relevant to populations less accessible to the various media in which the project was advertised too. This could include reaching out directly to opinion leaders and organizations with knowledge of and expertise in these communities

One of the most significant effects of the project was the change it brought about in the perception of business owners regarding the importance of mutual responsibility. Thanks to the project, they learned that there are people in Israel who are willing to invest and contribute, either through volunteering or by giving money, and this increased their own desire to volunteer in the future and help businesses similar to their own. The recipients of the grant expressed their deep appreciation to the founders and leaders of the project, whose objective was to assist small businesses in distress. They are convinced that it raised public awareness of the fact that there are wealthy individuals who genuinely care about the well-being of others.

The project's positive effect on the perception of mutual responsibility was also due to the manner in which it was conducted. The use of peer selection contributed to the project's credibility ("a democratic selection") and at the same time conveyed to the selected business owners a message that "there are those who believe in them, and they are other business owners like them." This further increased their motivation to succeed and thereby demonstrate that they were indeed worthy of the trust placed in them. The application of the principles of mutual responsibility, addressing issues that arose in the field in a timely manner and being willing to flexibly adapt to the needs raised by the grant recipients also fostered a sense of belonging and solidarity. Finally, the business owners' comments demonstrate that

receiving a grant during such a difficult time provided them with hope and confidence that they could successfully overcome the challenges of the crisis.

LIMITATIONS OF THE STUDY

The economic activity was measured at different points during the pandemic (the first time at the beginning and middle of the pandemic, and the second just before the vaccinations and lifting of the lock- down). It is likely that some of the improvement in business sales would have occurred regardless of the grant. Additionally, it may be assumed that because the grantees were on the "receiving end," there may have been a response bias emanating from a desire to please on their part, resulting in a tendency to give positive responses to questions about solidarity, mutual responsibility and the role of the wealthy individuals who give to the community. The conclusion that the project improved the willingness of the grantees to volunteer and contribute to the community also needs further corroboration, as it is based solely on statements without any evidence of tangible action.

This study highlights the important role of philanthropy in creating an economic and social impact, especially during a crisis. Future research may further validate these findings and help develop strategies to create an impact that combines economic and social aspects.

REFERENCES

[1] Adam, N. A., & Alarifi, G. (2021). Innovation practices for survival of small and medium enterprises (SMEs) in the COVID-19 times: the role of external support. *Journal of Innovation and Entrepreneurship*, 10(1), 1-22.

[2] Bartik, A. W., Bertrand, M., Cullen, Z. B., Glaeser, E. L., Luca, M., & Stanton, C. T. (2020). How are small businesses adjusting to COVID-19? Early evidence from a survey (No. w26989). *National Bureau of Economic Research*.

[3] Belitski, M., Guenther, C., Kritikos, A. S., & Thurik, R. (2022). Economic effects of the COVID-19 pandemic on entrepreneurship and small businesses. Small *Business Economics*, 58(2), 593-609.

[4] Ben-Aharon, N. (2021) *Periodic Survey of the Agency for Small and Medium Businesses*. The Israel Ministry of Economy and Industry, July 2021 (Hebrew)

[5] Kutner, R., Abrahami Marom, A. (2021) Coping with the emergency, due to the corona epidemic: Findings on social resilience in Israel. *The State of Israel, Dealing with the Corona Crisis – Task Force*(Hebrew)

[6] Mair, J., & Sharma, S. (2012). Performance measurement and social entrepreneurship. In *Social Entrepreneurship and Social Business* (pp. 175-189). Gabler Verlag.

[7] Pfefferbaum, B., & North, C. S. (2020). Mental health and the Covid-19 pandemic. *New England Journal of Medicine*, 383(6), 510-512.

[8] Phitt, G., Katz, H. (2021) *Donations and volunteering in Israel during the corona virus epidemic – Research report*, Tel Aviv University and Ben-Gurion University of the Negev.(Hebrew). Published online October 2021

[9] Smith, A.D (2021) *Strategies for Small Business Owners to Succeed Beyond Five Years*, Doctoral Study Submission, Walden University, February 2021

[10] West-Oram, P. (2021). Solidarity is for other people: Identifying derelictions of solidarity in responses to COVID-19. *Journal of Medical Ethics*, 47(2), 65-68.

★★★