Investment in social funds leads to a reduction in charitable donations

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A new Tel Aviv University study, the first of its kind, examined whether there is a connection between the rapid growth of investment in social investment funds and the decrease in donations to charitable organizations. The researchers studied the actual investment behavior of approximately 10,000 clients of an investment app, and found that investors switching to a recently introduced social fund reduced their donations, mainly in charities supporting causes similar to those of the social fund. However, the researchers also found that most of the investors in the social fund had not previously donated to charities, so, looking at the big picture, social funds entice more people to fund social causes.

The study was conducted by Dr. Shai Levi and Prof. Shai Danziger of Tel Aviv University's Coller School of Management, in collaboration with Dr. Jake An of the Australian firm Raiz Investing and Prof. Donnel Briley of the University of Sydney. The study was published in the journal *Management Science*.

In recent years, investment firms have been marketing social investments (Environment, Society and Government, or ESG) as a way for investors to achieve financial returns while making a social impact. For example, such funds avoid investments in certain industries, like oil, and rather invest in others, like renewable energy. In 2018, global social investment assets exceeded $30 trillion, an increase of 34% since 2016. During this same period, in the U.S., total donations to nonprofits—the traditional avenue for advancing social goals—dropped 1.1 percent to about $300 billion. Until now, the causal link between the popularity of social investments and the decline in charitable giving had not been examined.

Dr. Levi explains that the study was conducted using the unique database of the Australian digital investment platform Raiz Investment—a phone app aimed primarily at millennials, young investors with relatively small investment portfolios.

According to Dr. Levi, in 2017 Raiz added the option of investing in an ESG social fund, which invests only in companies that meet certain standards of sustainability, social values and governance. Because the app is connected to users' bank accounts, it was possible to monitor investors charitable donations both before and after they joined the fund. The researchers tracked the investments and donations of about 3,300 investors who invested in ESG, about 4,000 investors who invested in another, non-social fund, and another 3,300 investors in a control group, that were matched on investor characteristics to those that had switched to the ESG fund. They found that, on average, investors who contributed to charitable organizations before investing in a social fund tended to donate less afterwards—that is, some investors saw their ESG investment as a kind of donation.

Prof. Danziger points to the complexity of the findings. "On the one hand, investment firms could use social funds as a marketing ploy to attract investors. For example, say you're told the ESG fund invests only in companies with a low carbon footprint—that doesn't mean that you're investing in companies in the field of renewable energy. It can mean that you're investing in technology giants like Apple, that is, companies that are not necessarily causing damage. Our findings show that after investing in a social fund, investors reduce their traditional contributions to environmental and social nonprofits. On the other hand, since 79% of investors in the ESG fund did not make any charitable contributions before investing, the overall effect must be assessed. Ultimately the question is whether ESG contributions to society outweigh the decrease in investor donations that result from substitution. In our study, we estimate that overall, funds will have a positive impact on society only if their annual contribution to social causes exceeds 3.2% of the balance invested. In practice, this is difficult to measure, and we don't know whether the contribution of the social funds crosses this threshold, so it is not clear whether their impact on society is positive."

In conclusion, the researchers say, "The trend that emerged from the study indicates that investors may replace charities with social funds.

This could have a major impact on charities, who will lose a significant source of income and find it difficult to continue to function."

More information: Jake An et al, The Impact of Social Investing on Charitable Donations, *Management Science* (2022). [DOI: 10.1287/mnsc.2022.4339](https://doi.org/10.1287/mnsc.2022.4339)

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