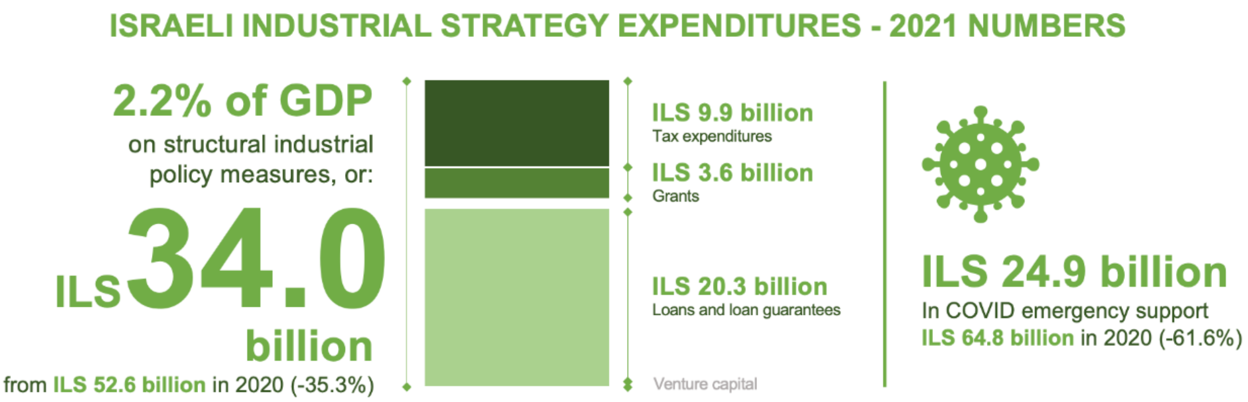
Quantifying Industrial Strategy: Israel Factsheet

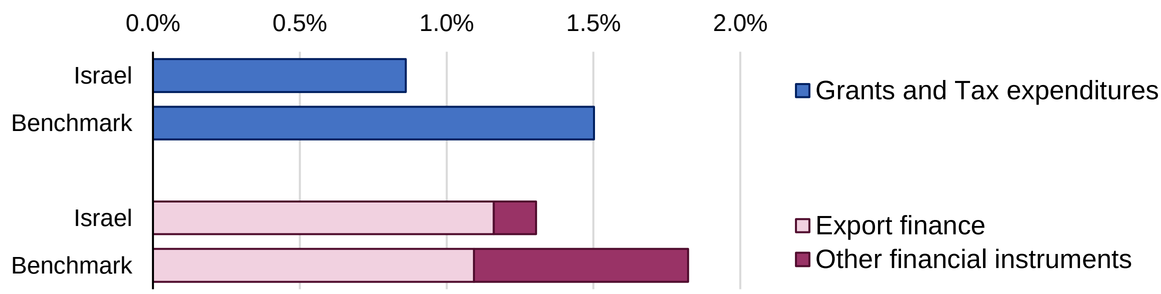
Highlights

- Industrial policy support is lower in Israel compared to other countries, in grants, tax expenditures, and financial instruments (especially when excluding export finance).
- A large share of Israeli industrial policy support targets R&D, whereas support to Jobs/skills and SMEs and young firms is significantly lower than in the benchmark. This is driven by the absence of tax expenditures dedicated to these objectives.
- Israel's sectoral support, which is significantly lower than average, targets the energy, and manufacturing sectors, like other countries. Part of the gap between Israel and the benchmark stems from "The Encouragement of Capital Investments Law" (ECIL), which focuses mainly on the manufacturing and information and communication sectors but does not correspond to the definition of sectoral instruments used in QuIS[1].
- Green support is lower than the benchmark, and largely focused on the energy sector.



Industrial policy support as a percentage of GDP is lower in Israel compared to other participating countries, for financial instruments (1.30% vs 1.82%), and for grants and tax expenditures (0.86% vs 1.50%). Israel's industrial strategy is characterised by its significant support to R&D, 0.23% of GDP through grants and tax expenditures, accounting for 10% of industrial policy grants and tax expenditures. Although lower than in the benchmark, sectoral support tends to be targeted toward the energy and manufacturing sectors, like many other countries. In addition, Israel is the country that spends the least on SMEs and young firms and jobs/skills support through grants and tax expenditures.

Figure 1. Israeli industrial policy expenditures by instrument type in 2021, % of GDP



Note: Includes EU support. Source: OECD calculations based on the QuIS database.

The 'Quantifying Industrial Strategies(QuIS)' project measures industrial strategies across OECD countries through harmonised data on industrial policy expenditures, their composition, their mode of delivery, and the characteristics of their beneficiaries. This allows participating countries to benchmark their industrial strategies expenditures, priorities, instruments and recipients.

1: ECIL is a wide program that does not have a sectoral requirement; hence, it benefits many sectors.

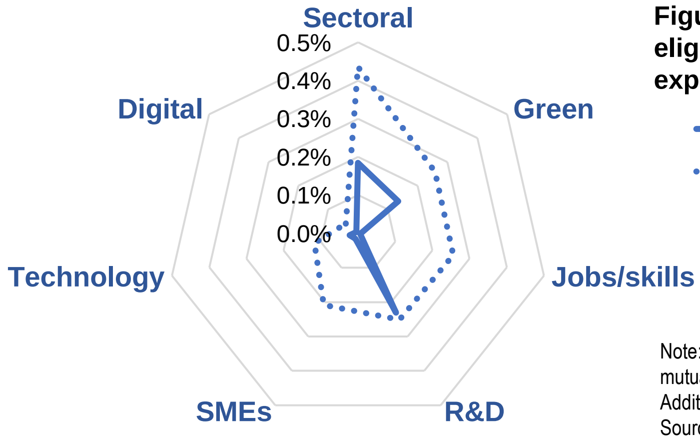


Figure 2. Industrial policy expenditures by eligibility criteria in 2021, grants and tax expenditures, % of GDP

Note: Structural policies (i.e., excluding COVID). Categories are not mutually exclusive, as policies can be tagged in several categories. Additionally, some policies do not fulfil any of these eligibility criteria.
Source: OECD calculations based on the QuIS database.

<u>**Regarding grants and tax expenditures**</u>, besides lower spending than the benchmark, Israel also stands out in terms of composition. First, Israel's industrial policy through grants and tax expenditures places a strong emphasis on R&D (0.23% of GDP in 2021 vs 0.25% in the benchmark). Second, Israel puts less emphasis than the benchmark on SMEs and young firms (0.02% vs 0.21% of GDP), jobs and skills (0.01% vs 0.26% of GDP), sectoral support (0.18% vs 0.44% of GDP), green support (0.13% vs 0.26% of GDP), and digital support (0.01% vs 0.04% of GDP). Third, green Israeli grants and tax expenditures are lower than the benchmark (0.13% vs 0.26% of GDP, 6 % of grants and tax expenditures in Israel vs 9% in the benchmark).

R&D support in Israel is consistent with the R&D spending of its business sector

Israel's industrial policy focus on R&D support is consistent with the large R&D spending of its business sector (4.14% of GDP in Israel vs 0.75% of GDP in the benchmark in 2019).

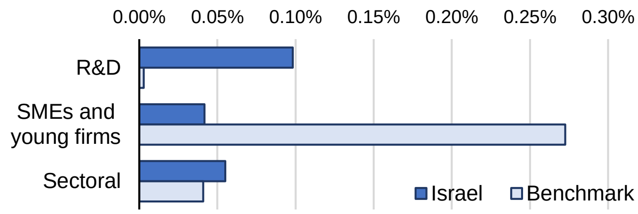
The largest programme is "The Encouragement of Capital Investments Law (ECIL) – Preferred technology enterprise regime" (0.19% of GDP). This programme is part of the ECIL and provides tax benefits for companies with significant R&D expenditures and that export at least 25% of their revenue turnover.

In addition, Israel's R&D industrial policy support through financial instruments is higher than the benchmark (0.10% vs 0.03% of GDP, see below for a detailed analysis).

R&D support through financial instruments

Israel mostly provides non-export financial instruments to support R&D (as opposed to SMEs for the benchmark). Israel spends 0.1% of GDP through non-export financial instruments on R&D (vs less than 0.003% of GDP in the benchmark). The largest programme in this field is the "Institutional investment programme" (0.05% of GDP).

Figure 4. Industrial policy expenditures by eligibility <u>Non-export financial instruments</u> – 2021, % of GDP[2]

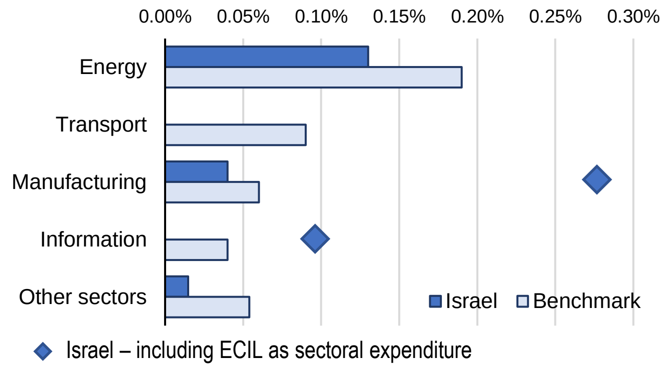


Sectoral support is focused on two sectors

Sectoral industrial policy in Israel focuses on two sectors: energy and manufacturing. However, for both of these sectors spending remains lower than in the benchmark.

The picture changes when accounting for the ECIL (see box below, and diamonds in **Figure 3**)

Figure 3. Sectoral support by sector as a percentage of total GDP - Grants and tax expenditures, 2021[1]



The role of ECIL

Regarding sectoral support, part of the gap can be explained by ECIL. If ECIL were classified as a sectoral expenditure, the gap between Israel and the benchmark regarding sectoral expenditure would narrow (sectoral expenditure in Israel would increase from 0.18% to 0.63% of GDP).

The ECIL is largely focused on the manufacturing (0.24% of GDP in 2020) and information (0.09% of GDP in 2020) sectors. Whereas in the benchmark, these sectors are largely supported by sector-specific instruments, in Israel they benefit from this wider programme.

A sectoral breakdown of ECIL was provided by the Israeli government for QuIS.

1: Reading example: the amount of Israeli grants and tax expenditures support specifically directed to the energy sector represents 0.13% of total GDP, vs 0.19% in the benchmark. Note: Includes EU support. Instruments targeting agricultural firms are excluded from QuIS. Source: OECD calculations based on the QuIS database.
2: Categories are not mutually exclusive, as policies can be tagged in several categories. Additionally, some policies do not fulfil any of these eligibility criteria.