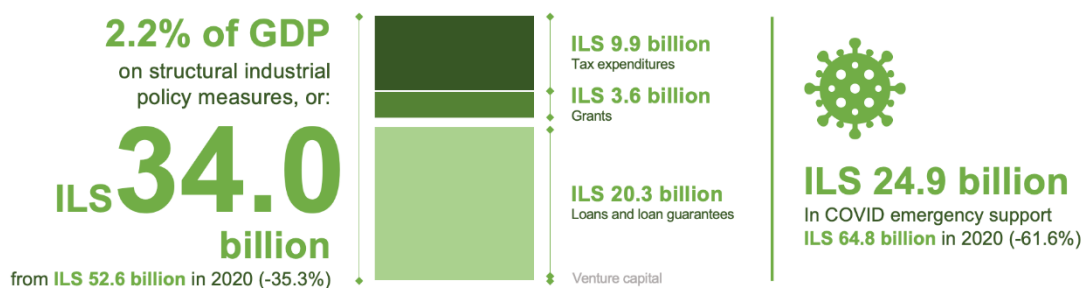


# Israel: Quantifying Industrial Strategy

## 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 policy 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.
- Green support is lower than the benchmark, and largely focused on the energy sector.

## ISRAELI INDUSTRIAL STRATEGY EXPENDITURES - 2021 NUMBERS



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## The QuIS project



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 against each other in terms of industrial policy expenditures, policy priorities, policy instruments and recipients.

The data gathered for each country were sent to the member states for additional checks and validation, also with questions regarding the detail of certain instruments as well as gaps in the available data. After countries' validation, the final cross-country data were compiled in a common database. Another relevant delivery of the QuIS project is the report 'Quantifying industrial strategies across nine OECD countries' published as an OECD Science, Technology and Industry Policy Paper, which consists in a cross-country analysis of the industrial strategies of the first nine countries participating in the project. Both the database and the report will be downloadable from <https://www.oecd.org/industry/industrial-policy-and-strategies/>.

## General picture

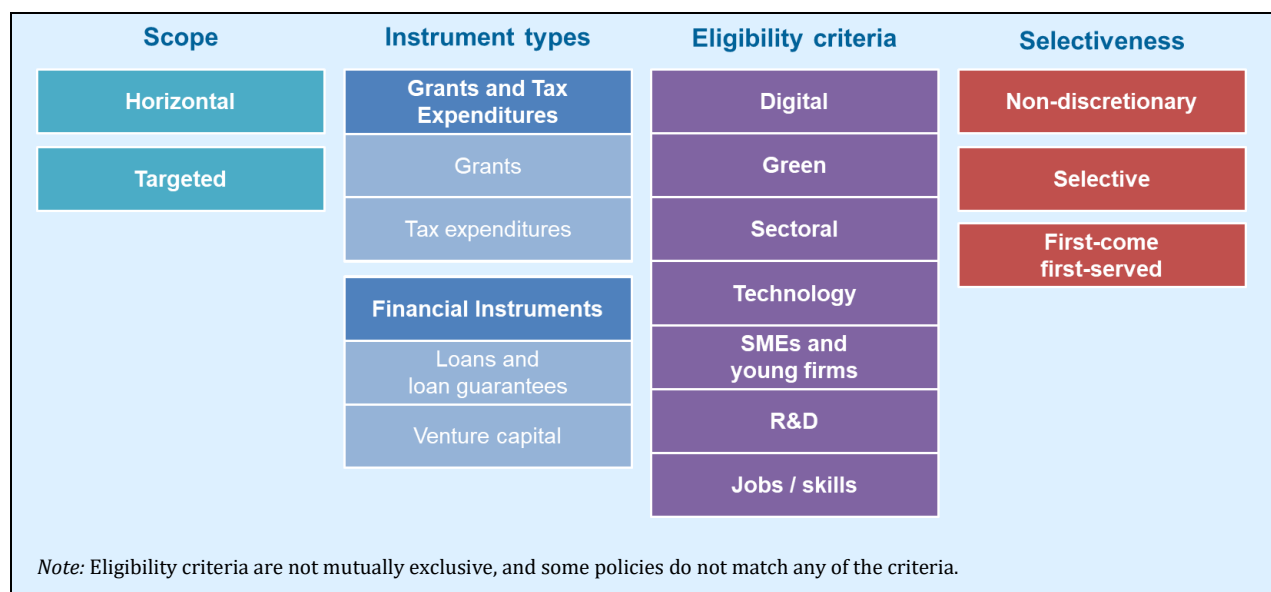
Industrial policy support as a percentage of GDP is lower in Israel compared to other participating countries, for financial instruments (1.30% vs 1.82%), and for grants and tax expenditures (0.86% vs 1.50%). The Israeli industrial strategy is characterised by its significant support to R&D, 0.23% of 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 (0.02% and 0.01% of GDP vs 0.21% and 0.26% for the benchmark).

### Box 1. QuIS methodology

QuIS gathers publicly available data from many different and decentralised sources on industrial policy expenditures. For the case of Israel, the project focuses on annual industrial policy expenditures higher than ILS 25 million (0.002% of GDP in 2017). The period covered is 2019-2021 and the data track both structural policies and COVID-19 emergency support measures. Instruments targeting agricultural firms are excluded from the database and the analysis. Policy instruments are classified along four dimensions: scope, instrument type, eligibility criteria and selectiveness. The QuIS methodological paper outlines the scope and the definitions in more detail and can be found here: [oe.cd/il/QuIS](https://www.oecd.org/industry/industrial-policy-and-strategies/). Importantly, financial instruments, defined as the provision of loans, loan guarantees or equity investments, are measured through the so-called notional amounts method, which measures expenditures as the amount of financing (or guarantees) provided by public entities. This measure was chosen as it is the most widely available across countries. However, amounts obtained with this method are not directly comparable with grants and tax expenditures, so the two types of instruments are recorded and analysed separately.

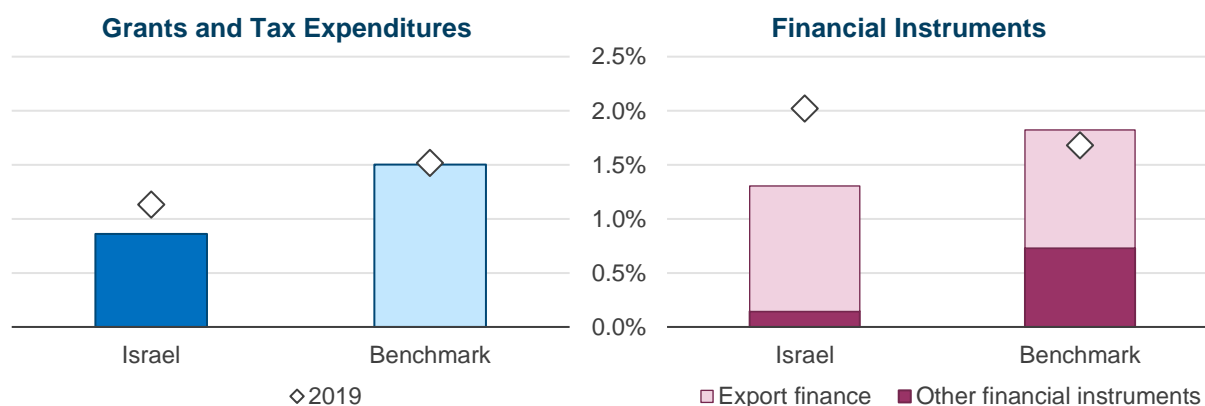
Countries used to define the benchmark are Canada, Denmark, France, Ireland, Italy, the Netherlands, Sweden, and the United Kingdom. Country notes are also available for these countries.

#### Figure 1. QuIS Data Categorisation



#### A. Israel spends less than the benchmark on grants, tax expenditures and financial instruments

**Figure 2. Industrial policy expenditures in 2021, % of GDP (diamonds – in 2019)**



Note: Domestic and structural policies (i.e., excluding Covid support).  
Source: OECD calculations based on the QuIS database.

Compared to the benchmark, in 2021 Israel spends less on industrial policy through grants and tax expenditures (0.86% vs 1.50% of GDP) and through financial instruments (1.30% vs 1.82% of GDP).

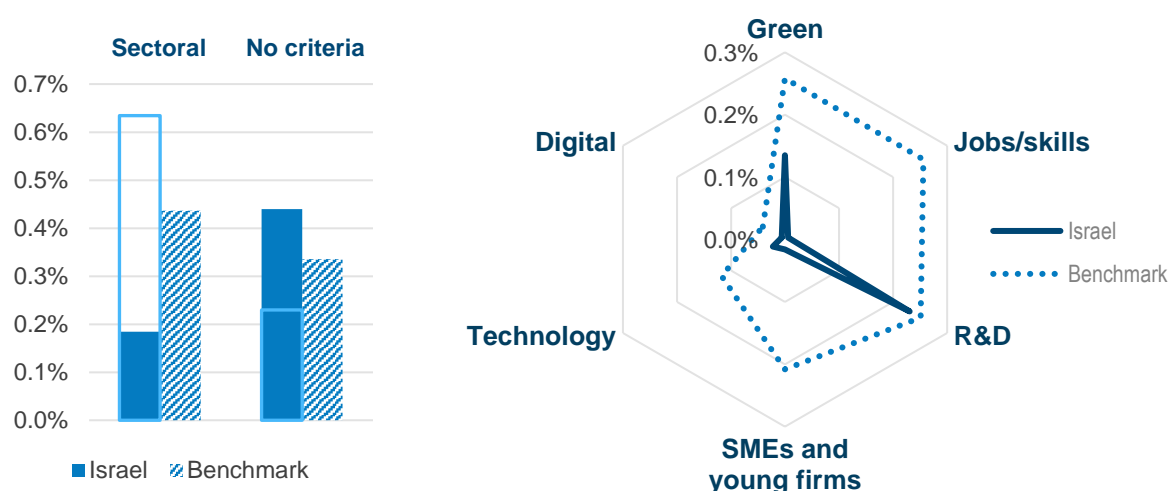
Grants and tax expenditures decreased in Israel between 2019 and 2021 (1.13% in 2019 vs 0.86% of GDP in 2021). This is mainly driven by the "Intel grant", a grant that the government gave to the Intel company to encourage it to open and expand factories to produce chips in Israel (0.28% of GDP in 2019 vs. <0.01% of GDP in 2021).

Regarding financial instruments, export finance is slightly higher in Israel than in the benchmark (1.16% vs 1.09% of GDP in 2021). This might be partly driven by the fact that 6 out of 8 comparison countries are European Union member states, significantly reducing their export costs and risks, and making export finance less necessary.

Other financial instruments are significantly lower in Israel compared to the benchmark (0.14% vs 0.73% of GDP in 2021 and 0.27% vs 0.76% of GDP in 2019). Most of the gap stems from low Israeli financial support to SMEs and young firms (see section below) – **Figure 9**.

Financial instruments significantly decreased in Israel between 2019 and 2021 (2.02% in 2019 vs 1.30% of GDP in 2021). In 2019, financial instruments represented a higher share of GDP in Israel than in the benchmark (2.02% vs 1.68%). This is mainly driven by a notable reduction in the volume of export finance, with a drop in the “Credit insurance on export transactions” (1.68% of GDP in 2019 vs 1.10% of GDP in 2021). According to Ashra (The Israel Foreign Trade Risks Insurance Corporation), this stems from a lower demand for support rather than from policy changes. In addition, some other structural programmes were reduced, notably the “Fund for small and medium-sized businesses with a state guarantee” (0.15% of GDP in 2019 vs 0.03% of GDP in 2021), following the effect of Covid on investment and the uptake of emergency programmes.

**Figure 3. Industrial policy through grants and tax expenditures by eligibility criteria in 2021, % of GDP (Left: Sectoral and no criteria; Right: Other criteria; Light blue frame - if ECIL were classified as a sectoral expenditure)**



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 (see left panel).  
Source: OECD calculations based on the QuIS database.

Regarding grants and tax expenditures, 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 0.03% in the benchmark). This focus on R&D support is consistent with Israel large business R&D expenditures (4.14% of GDP in Israel vs 0.75% of GDP in the benchmark in 2019)<sup>1</sup>. 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 through financial instruments is higher than the benchmark (0.10% vs 0.03% of GDP, see below for a detailed analysis).

<sup>1</sup> Data from the OECD Business enterprise R&D database (BERD), values correspond to the last available year, which is 2019 for Israel and most of the countries in the benchmark (The only exception is France, whose last available year is 2017). [Business enterprise R&D expenditure by industry \(oecd.org\)](https://data.oecd.org/business-enterprise-rd-expenditure-by-industry).

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).

Regarding green support, the Israeli expenditure is lower than the benchmark (0.13% vs 0.26% of GDP, 6 % of grants and tax expenditures in Israel vs 9% in the benchmark) - See below for a detailed analysis of Israel's green support.

Regarding SMEs and young firms, Israeli industrial spending is lower than the benchmark, both for grants and tax expenditures and for financial instruments (0.04% vs 0.29% of GDP). Among the 9 countries in QuIS, Israel is the country that spends the least on SMEs and young firms through grants and tax expenditures. Most of the gap stems from high tax expenditures in countries such as the Netherlands (0.49% of GDP) and the United Kingdom (0.40% of GDP), whereas Israel does not have dedicated tax expenditures supporting SMEs and young firms.

In addition, Israel stands out regarding the high share of expenditures that do not fulfil any of the criteria listed in **Figure 1** (0.44% vs 0.34% of GDP for the benchmark). Most of the gap stems from tax expenditures and specifically from two main programmes: “ECIL – Excepting the Preferred technology enterprise regime”<sup>2</sup> (0.22% of GDP), and the “diesel fuel arrangement” (0.21% of GDP). ECIL aims to encourage capital investment and economic entrepreneurship that involve technological innovation, expand manufacturing capacities, improve the competitiveness of the business sector, and create a sustainable infrastructure and new job opportunities. As part of the law, tax reliefs are given to exporting companies, manufacturing companies, and companies located in the periphery (this tax expenditure mostly supports the manufacturing and the information sector). “The diesel fuel arrangement” is a reduction in diesel tax payments given to businesses for which diesel fuel is a central input. Among the beneficiaries of this arrangement are businesses in manufacturing, transport, and construction.

Israel is the country that spends the least on jobs/ skills support through grants and tax expenditures (0.01% vs 0.26% of GDP). Most of the gap between Israel and the benchmark is driven by tax expenditures – See below for a detailed analysis of Israel's industrial support through tax expenditures. Although ECIL is not considered as jobs/skills expenditures since the eligibility conditions often concern the location of the firms rather than the characteristics of employees, the programme targets the peripheral regions, and the importance of supporting employees in these areas is often emphasised.

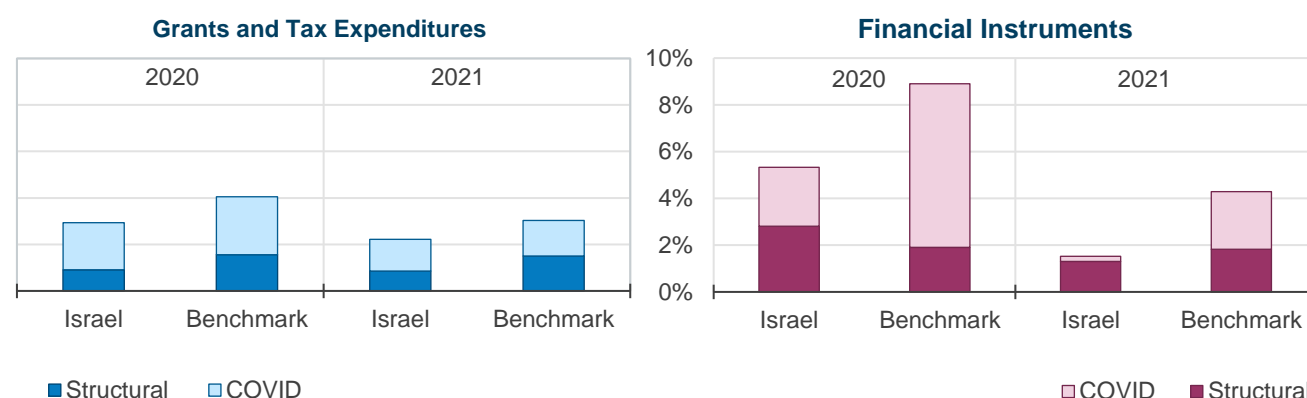
Regarding sectoral support, part of the gap can also be explained by ECIL. If ECIL were classified as sectoral expenditure, the gap between Israel and the benchmark regarding sectoral expenditure would narrow (sectoral expenditure in Israel would increase from 0.18% to 0.63% of GDP – Figure 3). The ECIL 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. See below for a detailed analysis of Israel's sectoral support.

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<sup>2</sup> “The Encouragement of Capital Investments Law” exclude R&D expenditures. R&D expenditures under this law represented in “The Law for the Encouragement of Capital Investments- preferred technology enterprise regime”

## B. COVID emergency support was low compared to the benchmark

**Figure 4. COVID emergency support through grants/tax expenditures (left) and financial instruments (right), % of GDP**



Source: OECD calculations based on the QuIS database.

According to the Bank of Israel report for 2021<sup>3</sup>, the impact of Covid-19 on Israel in 2020 was smaller than in other OECD members in terms of GDP, GDP per capita, and exports, although private consumption fell more than average. In 2021, the Israeli economy rebounded more rapidly than in most developed countries. In addition, Israel was one of the first countries to vaccinate the population against Covid-19. As early as April 2021, the vaccination rate reached 70% of the population over the age of 15, a rate significantly higher than the OECD average<sup>4</sup>, which lowered morbidity and allowed a faster reopening of the Israeli economy.

Consistently with the macroeconomic impact of Covid-19 in Israel, COVID emergency support through grants and tax expenditures was lower than the benchmark (2.0% vs 2.5% of GDP in 2020, and 1.4% vs 1.5% of GDP in 2021 - **Figure 4, left**). The main programme was the "Grants for self-employed", a bi-monthly grant given to businesses that were significantly affected by the COVID crisis (0.86% of GDP in 2020).

Israeli COVID emergency support through financial instruments was also lower than the benchmark (2.5% vs 7.0% of GDP in 2020, and 0.2% vs 2.5% of GDP in 2021). The main programme was the "Corona fund for small and medium businesses", a dedicated fund of state-guaranteed loans to support SMEs that have encountered cash flow difficulties as a result of the Covid crisis (1.36% of GDP in 2020).

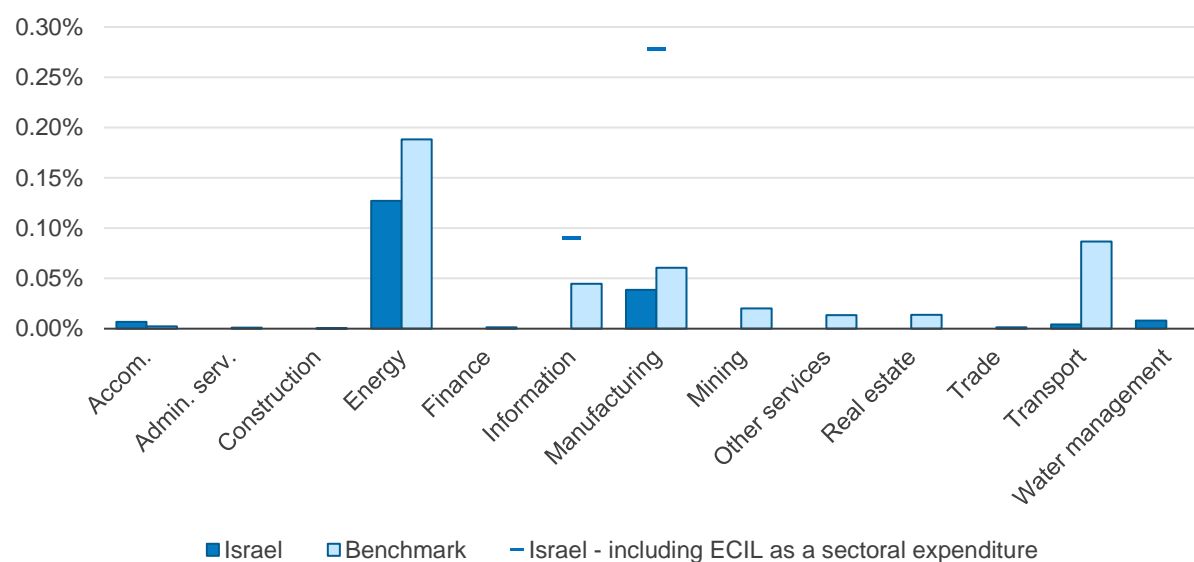
<sup>3</sup> [Link p 52](#)

<sup>4</sup> [Link P 12](#)

## Deep dive into the Israeli industrial strategy

### A. Israel's sectoral policies tend to be targeted at energy and manufacturing

**Figure 5. Sectoral support by sector as a percentage of total GDP - Grants and tax expenditures, 2021**



*Reading example:* In Israel, the amount of support, in the form of grants and tax expenditures, specifically directed to the energy sector represents 0.13% of total GDP, whereas it represents 0.19% in the benchmark.

*Note:* The benchmark includes EU support. The sectoral value added is for 2016, since there is no updated information available on Israel. Instruments targeting agricultural firms are excluded from the QuIS database and analysis

*Source:* OECD calculations based on the QuIS database.

Sectoral industrial policy support in Israel is low compared to the benchmark (0.2% vs 0.4% of GDP). If ECIL were classified as sectoral expenditure, Israel would be spending more than the benchmark in terms of sectoral expenditure as a percentage of GDP (0.6% vs 0.4% of GDP).

As in many other countries, sectoral industrial policy in Israel focuses on two sectors: energy and manufacturing (**Figure 5**). However, **in all of them expenditures remain below the benchmark**, meaning that the comparison with the benchmark is not driven by differences in the sectoral composition of economic activity. The picture does not change when looking at sectoral support as a percentage of sectoral value added.

**Energy** – Although the energy sector is the sector that receives the most support, this remains lower than the benchmark as a share of GDP (0.13% vs 0.19% of GDP). Most of the spending comes from two programmes that give preferential tariffs to green energy producers - the "Obligation to purchase renewable energies" and the "Obligation to purchase cogeneration", respectively 0.11% and 0.01% of GDP. These feed-in tariff programmes are led by the Electricity Authority and were promoted in order encourage the production of renewable energy and cogeneration. All expenditures targeting the energy sector are classified as green.

**Manufacturing** – Israeli expenditure was lower than in the benchmark in 2021 (0.04% vs 0.06% of GDP). The largest support for the manufacturing sector is the "Grants according to the the Encouragement of Capital Investments Law" (0.02% of GDP). This programme is designed to encourage investments and economic initiatives in areas of national priority and provides financial assistance for investments in production equipment, buildings, and fixed assets. In addition, a significant share of the instruments targeting the manufacturing sector is also focused on R&D (33% of the support targeting manufacturing). But, if ECIL were classified as sectoral expenditure, Israeli support to the manufacturing sector would be higher than the

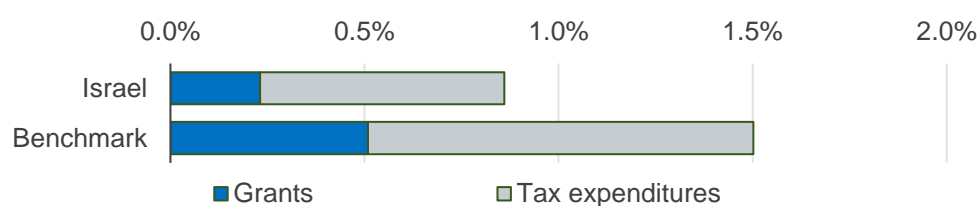
benchmark (0.28% vs 0.06% of GDP – Figure 5). The manufacturing sector largely benefits from the ECIL tax expenditures (including "preferred technology enterprise regime").

In addition, in 2019, the Israeli industrial support to the manufacturing sector was higher than the benchmark (0.33% of GDP in Israel vs 0.04% in the benchmark). The evolution stems from the "Intel grant", a grant that the government gave to the Intel company to encourage it to open and expand factories to produce chips in Israel (0.28% of GDP in 2019).

**Information and communication** – There are no Israeli sectoral expenditures targeting the information sector (vs 0.04% of GDP in the benchmark). But, if ECIL were classified as sectoral expenditure, Israeli expenditure would be higher than the benchmark (0.09% vs 0.04% of GDP – Figure 5). Regarding sectoral financial instruments targeting the information and communication sector, Israeli expenditure is higher than the benchmark (0.05% vs less than 0.01% of GDP in the benchmark). The only instrument in this field is the "Institutional investment programme", which targets the information and communication sector (see below for more information about this programme).

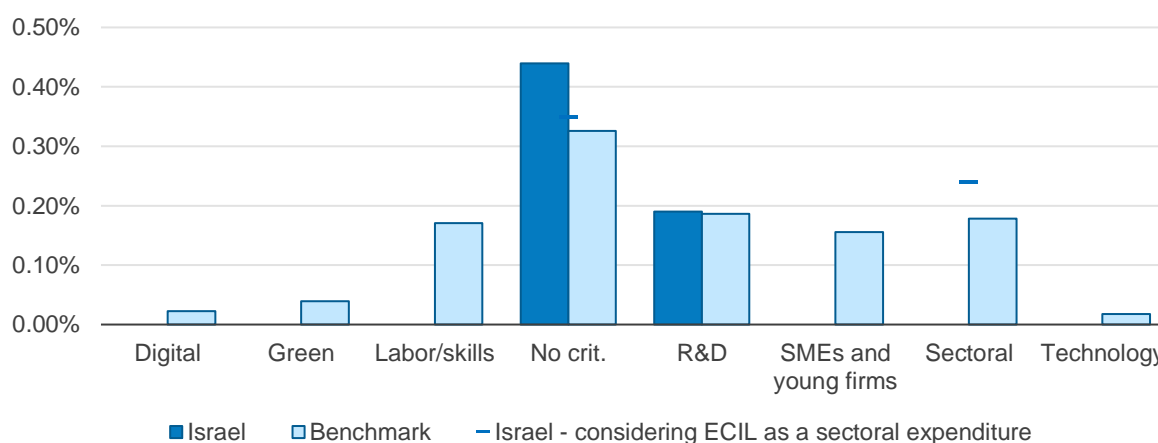
## B. Part of the gap in industrial policy expenditures stems from tax expenditures.

**Figure 6. Industrial support by type as a percentage of total GDP - Grants and tax expenditures, 2021**



Source: OECD calculations based on the QuIS database.

**Figure 7. Industrial support by type as a percentage of total GDP - Tax expenditures, 2021**



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.



Industrial expenditure through tax expenditures is lower in Israel compared to the benchmark (0.63% vs 0.99% of GDP, **Figure 6**). However, compared to the benchmark, Israel's spending on R&D tax expenditures is in line with the benchmark (0.19% of GDP for Israel and the benchmark) and significantly more on tax expenditures that do not meet any of the eligibility criteria defined for this analysis (0.44% vs. 0.33% of GDP for the benchmark). Most of the tax expenditures, such as the ECIL (excluding the "preferred technology enterprise regime") and the "Diesel Fuel Tax Arrangement", do not fulfil any of the criteria listed in **Figure 7** (see above).

The absence of dedicated tax expenditures largely contributes to the fact that Israel is the country that spends the least on SMEs and young firms and jobs or skills through grants and tax expenditures (respectively, 0.02% and 0.01%, vs 0.21% and 0.26 % of GDP for the benchmark).

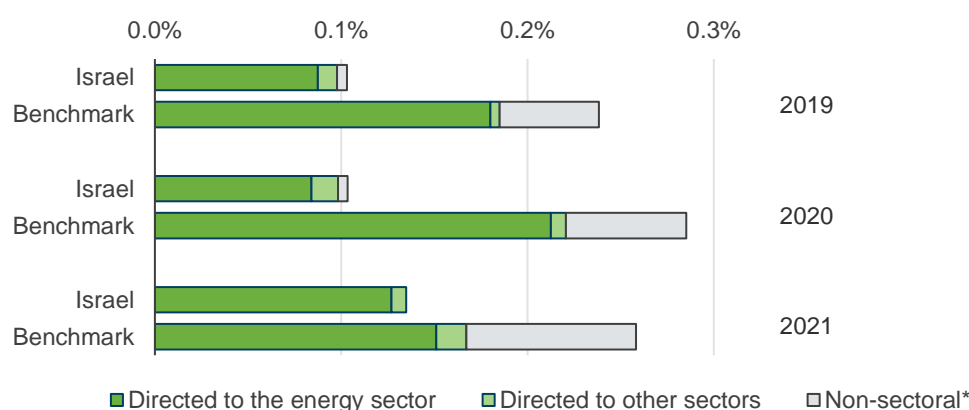
There are no tax expenditures in Israel which support jobs/skills and SMEs and young firms, while the tax expenditures in the benchmark are respectively 0.16% and 0.17% of GDP.

Regarding SMEs and young firms, expenditures in the benchmark are driven by the Netherlands and the United Kingdom. There are eight tax expenditures in the Netherlands targeting SMEs and young firms (0.49% of GDP), the largest one being the "Self-employment tax deduction" ("Zelfstandigenaftrek"), which represents 0.19% of GDP. There are five tax expenditures in the United Kingdom targeting SMEs and young firms (0.40% of GDP), the largest one being the "Research and development tax relief: small and medium companies scheme", which represents 0.22% of GDP.

Regarding jobs/skills, most of the gap is led by France and the United Kingdom. There are 11 tax expenditures in France targeting jobs/skills (0.78% of GDP), the largest one being the "Tax credit for competitiveness and employment" ("Crédit d'impôt en faveur de la compétitivité et de l'emploi - CICE"), which represents 0.28% of GDP in 2021 and is being phased out. There are six tax expenditures in the United Kingdom targeting jobs/skills (0.44% of GDP), the largest one being the "Reduced contributions for self-employed not attributable to reduced pensions eligibility" (0.20% of GDP).

### C. Green support is concentrated in the energy sector

**Figure 8. The sectoral composition of green support in Israel, % of GDP, grants and tax expenditures**



\*"Non-sectoral" refers to policies that are not targeted to a specific sector. Nevertheless, some beneficiaries of these policies may belong to the energy sector.

Note: Includes EU support for the benchmark.

Source: OECD calculations based on the QuIS database.

Israeli green industrial policy expenditures through grants and tax expenditures are lower than the benchmark in 2021 (0.13% vs 0.26% of GDP - **Figure 2**).

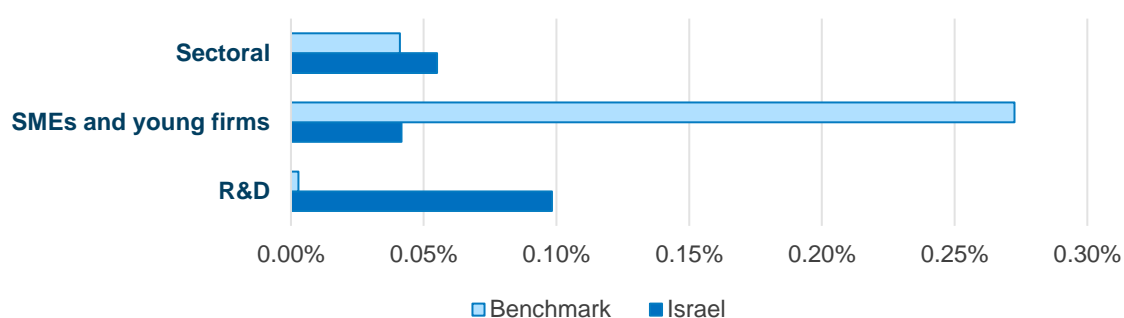
Focusing on the structure of the Israeli green industrial expenditure (**Figure 8**), most of the expenditures are directed to the energy sector, like in the benchmark. In Israel, this is due to two programmes that give preferential tariffs to green energy producers, the “Obligation to purchase renewable energies” and the “Obligation to purchase cogeneration”, respectively 0.07% and 0.01% of GDP.

There are similar programmes in France and Italy. In France, the “Support for electric renewable energies in mainland France - Purchase contracts” (*Soutien aux énergies renouvelables électriques en métropole continentale - Contrats d'achat*) programme represents 0.23% of GDP and in Italy, the “Grants for renewable energy - comprehensive tariff and network” (*Impianti FER qualificati IAFR – TO & RD*) programme represents 0.16% of GDP.

#### D. A large share of non-export financial instruments targets R&D

Israel’s industrial policy through non-export financial instruments is focused on R&D (**Figure 9**.)

**Figure 9. Industrial policy expenditures by eligibility criteria in 2021**  
**Non-export financial instruments - % of GDP**



Note: 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.

Industrial policy expenditures as a percentage of GDP for non-export financial instruments are significantly lower in Israel compared to other participating countries (0.14% vs 0.73% of GDP - **Figure 2**). A large share of Israeli financial instruments targets R&D, SMEs, and specific sectors - **Figure 9**.

Regarding R&D, 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), which aims to encourage investments by institutional investors in the high-tech industry. Under this programme, the Israel Innovation Authority provides a guarantee to private Israeli institutional investors who invest in R&D-intensive high-tech companies.

Regarding SMEs and young firms, Israel spends 0.04% of GDP through non-export financial instruments on SMEs (vs 0.27% of GDP in the benchmark). Most of the gap between Israel and the benchmark is driven by Italy (1.1% of GDP), where the largest programme is the “SMEs Guarantee Fund” (“Fondo di Garanzia per le PMI (FGPMI)”), which represents 0.75% of GDP.

Regarding sectoral financial instruments, Israel spends 0.06% (vs 0.04% of GDP in the benchmark). The largest instrument in this field is again the "Institutional investment programme" (0.05% of GDP), which targets the Information and communication sector.