THE ISRAELI GOVERNMENT SHOULD DO MORE TO SUPPORT PRODUCTIVITY GROWTH
IN EXISTING SMALL BUSINESSES

Key messages

- Israel is one of the most successful high-technology economies in the world, with excellent conditions for technology-based entrepreneurship. Israel has the highest share of early stage venture capital funding in GDP of OECD countries, a very high rate of adult participation in tertiary education by OECD standards, (49%, 16 percentage points above the OECD average), and the second largest rate of R&D expenditure in the OECD (3.9% of GDP).

- However, high technology sectors account for only 10% of Israeli business sector employment. Small businesses as a whole account for 69% of business sector employment. Their productivity and innovation performance is weak compared with small businesses in other OECD countries. Improving the performance of traditional small businesses would contribute to improving growth and social cohesion in Israel.

- Only 15% of Israeli small and medium-sized enterprises (SMEs) are involved in direct exports. Less than half of Israeli SMEs are engaged in innovation, significantly below the OECD average. The gap between the productivity levels of small firms and large firms in manufacturing is greater in Israel than many other OECD countries.

- There is a particular need to reduce the gap in the productivity performance of medium-sized firms (20-99 employees) in manufacturing compared with large firms.

- To strengthen productivity, a range of improvements are required in existing Israeli SMEs that call for greater policy attention, including better access to long-term investment finance, increased in-company workforce training, better SME management skills and support for SME innovation and market expansion. A special stream of consultancy and innovation support should be introduced for traditional medium-sized firms in manufacturing.

- There are also gaps in entrepreneurship rates in some important parts of the Israeli population, which hold back social cohesion and economic growth. Israeli women are half as likely as Israeli men to set up or run a new business. Although the share of Israeli Arabs involved in business creation is above the Israeli average, less than 23% of Arab-owned businesses employ more than 5 people, compared with 88% of Jewish owned businesses.

- More support is required for social groups being left behind in entrepreneurship (women, Arab Israelis, young people), including more entrepreneurship training and mentoring and better access to finance and premises.

- All of these points have been highlighted in the new Organisation for Economic Co-operation and Development (OECD) publication *SME and Entrepreneurship Policy in Israel 2016*.
SME and Entrepreneurship Policy in Israel 2016

This report presents the OECD’s review of SME and entrepreneurship policy in Israel. It forms part of the programme of work of the OECD’s Working Party on SMEs and Entrepreneurship. It is part of a series of country reviews of SME and entrepreneurship policies undertaken by the OECD in countries that express an interest in co-operating on an external assessment of their policy challenges. Other countries reviewed in the series include Canada, Italy, Mexico, Poland, the Russian Federation and Thailand. This report was requested by the Israeli Small and Medium Business Authority on behalf of the Israeli government.

This report contains:

1. An overview Assessment and Recommendations chapter (chapter 1), setting out all the key findings, messages and recommendations for government, and a shorter executive summary (pages 13-15).
2. Chapters on SME and entrepreneurship performance in Israel and the degree to which the business environment is supportive (chapters 2 and 3);
3. An assessment of the overall strategic framework for SME and entrepreneurship policy (chapter 4), an assessment of all the main national programmes for SME and entrepreneurship support (chapter 5), and an assessment of the role of local government authorities in SME and entrepreneurship development (chapter 6).
4. An assessment of key issues and policies affecting entrepreneurship and SME development in the Arab Israeli population and medium-sized enterprises.

Further information


Further information can be obtained from the OECD by contacting Dr. Jonathan Potter at the OECD Centre for Entrepreneurship, SMEs and Entrepreneurship: email jonathan.potter@oecd.org; telephone +33 1 4524 8977