

### The fact sheet in a nutshell:

✓ *Israel scores at or above the EU average in Entrepreneurship and Internationalisation and trails behind the average in Second chance, think small first and Responsive administration*

✓ *In 2010/2011, Israel has addressed six of ten SBA areas by means of targeted policy measures, focusing in particular on facilitating access to finance and responsive administration*

### About the SBA Fact Sheets<sup>1</sup>:

The Small Business Act (SBA) is the EU's flagship policy initiative in support of Small and Medium-sized Businesses.

The annually updated fact sheets contribute to a better understanding of recent trends in the SME environment and policy on a national level.

## 1. SMEs in Israel – basic figures

	Number of Enterprises			Employment			Value added		
	Israel	EU27		Israel	EU27		Israel	EU27	
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	186.381	91,5%	92,1%	n/a	n/a	29,8%	n/a	n/a	21,9%
Small	14.333	7,0%	6,7%	n/a	n/a	20,4%	n/a	n/a	19,0%
Medium-sized	1.739	0,9%	1,1%	n/a	n/a	16,8%	n/a	n/a	17,7%
<b>SMEs</b>	<b>202.453</b>	<b>99,4%</b>	<b>99,8%</b>	<b>n/a</b>	<b>n/a</b>	<b>67,0%</b>	<b>n/a</b>	<b>n/a</b>	<b>58,7%</b>
Large	1.274	0,6%	0,2%	n/a	n/a	33,0%	n/a	n/a	41,3%
Total	<b>203.727</b>	<b>100,0%</b>	<b>100,0%</b>	<b>n/a</b>	<b>n/a</b>	<b>100,0%</b>	<b>n/a</b>	<b>n/a</b>	<b>100,0%</b>

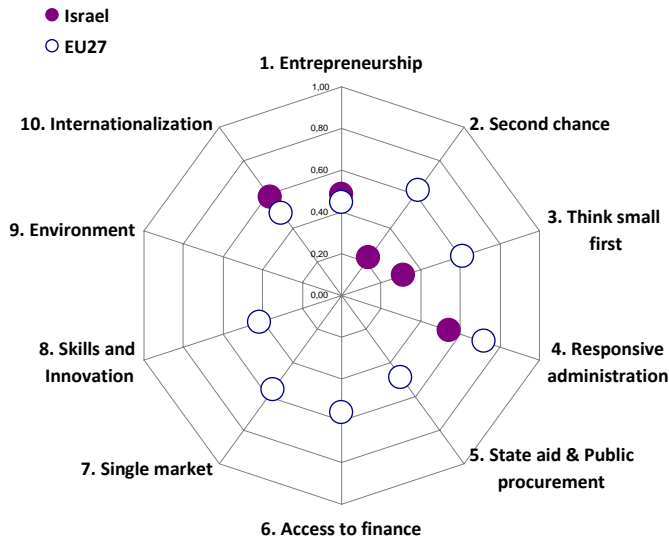
*The source of the figures for Israel, for year 2009, is the Israeli National Statistical Office. The data for EU 27 are based of 2008 figures from the Structural Business Statistics database (Eurostat). The data cover the 'business economy' which includes industry, constructions, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health.*

Israel's economy is relying heavily on its SME sector to provide growth and jobs, just like those of the EU countries. In terms of the size-class breakdown, the Israeli SME sector largely reflects that of the EU average, with micro and small enterprises accounting for more than nine out of every ten enterprises.

Unfortunately, SME related statistics for Israel which are comparable to the EU data are scarce, so there is no data as regards their contribution to employment or gross value added. Similarly, it is not possible to assess how the Israeli SME sector has been affected by the economic and financial crisis.

## 2. The SBA profile of Israel

Israel's performance against the EU average by SBA area<sup>2</sup>



Overall, the available SME-relevant statistics show an SBA profile for Israel which leaves room for improvement.

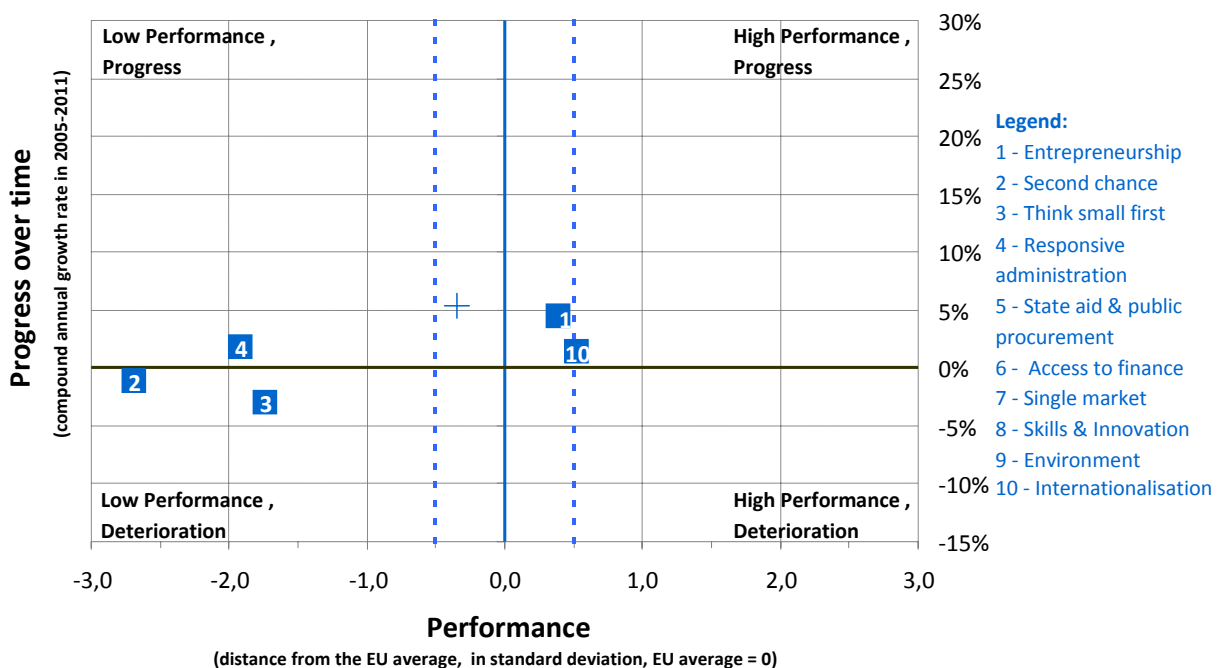
The country performs better than the EU-average in Internationalisation, on a par in Entrepreneurship, and falls behind the average in the other areas where scores are available, namely 'Second chance', 'Think Small First', and 'Responsive administration'.

This picture is complemented by a policy record showing that the Government has addressed six of the ten principles of the Small Business Act by means of targeted policy measures.

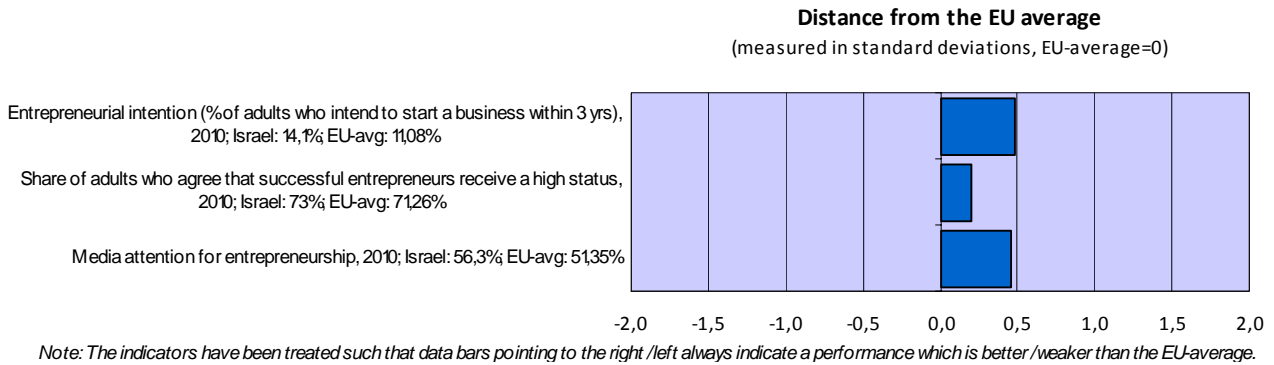
Over time, i.e. in the period 2005-2011, Israel's performance in most areas has been quite stagnant or even deteriorating vis-à-vis the EU Member States.

It is notable that the areas where Israel has a good score as compared to the EU are the ones who also improved the most, while the opposite is valid for the areas where Israel falls significantly behind the average, with the notable exception of 'Responsive administration'.

### Israel's SBA performance: Status quo and development over time, 2005-2011<sup>3</sup>



## I. Entrepreneurship



On balance, Israel performs on par with the EU average in entrepreneurship.

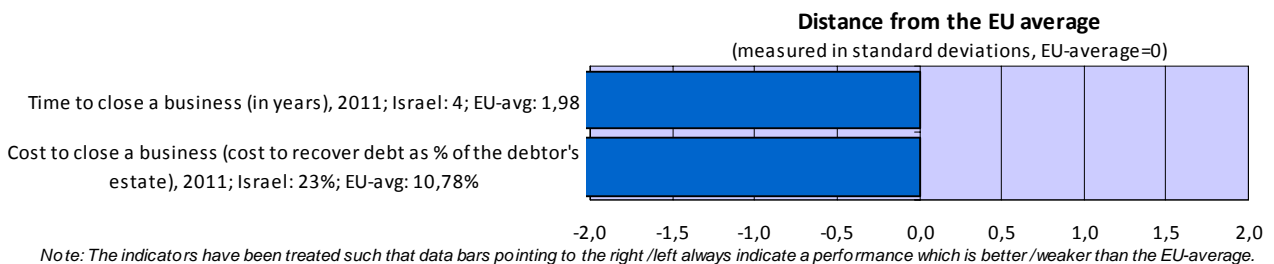
The society's view on entrepreneurs, as measured by the degree of media attention it received and the social status the entrepreneurs receive, is slightly more positive in Israel than in the EU on average. Similarly, the future entrepreneurial intentions of the Israeli population are also slightly above par.

Looking across at **recent policy developments** in the field, a few initiatives are worth noting. In early 2010, and as part of the approved budget for the year, a support

measure for encouraging entrepreneurship of Arab women was established by the agency for Small Businesses (hereafter: the Agency). The sector of Arab women was recognized by the government as a sector with great potential for increasing the economy productivity and measures are taken to include Arab women in the economy.

In the second half of 2010, the Agency advanced an initiative called "Small Business - Great Pride" to encourage the formation of SMEs. This was done by promoting a TV programme on the issue on national TV.

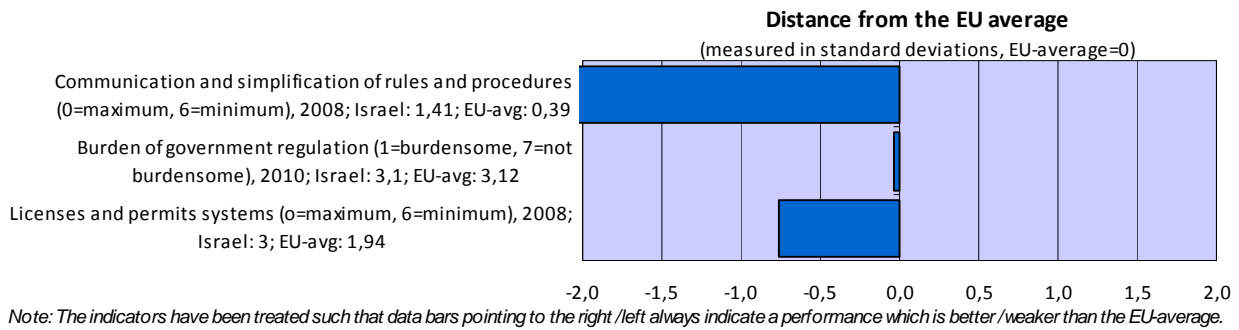
## II. Second chance



The indicators measuring 'second chance' reveal a very unfavourable picture for the entrepreneurs facing bankruptcy. Thus, time and cost required to complete the legal procedures for winding up a business are twice as long as respectively high as in the European Union.

**On the policy front**, no significant measures were reported in this area in 2010 and the first trimester of 2011.

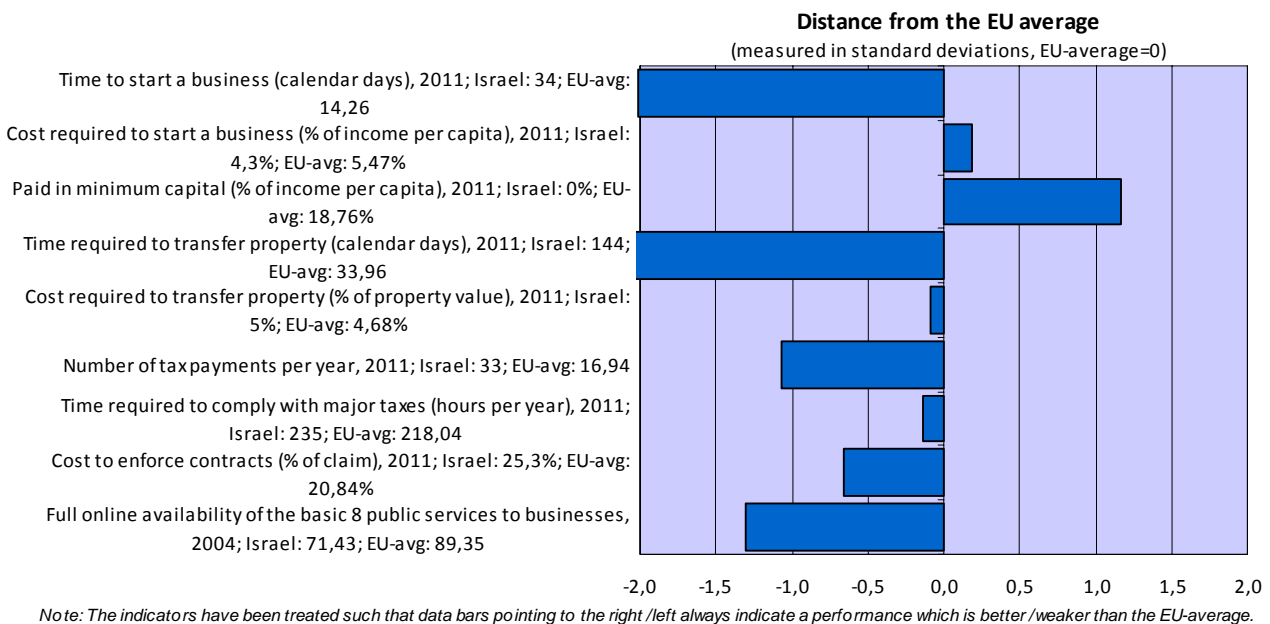
### III. Think Small First



The situation on the 'think small first' front is also rather negative. The indicator on 'Communication and simplification of rules and procedures' reflects the efforts to reduce and simplify the administrative burden of interacting with the Government. Calculated on the basis of the country's self-reported answers from 2008, it returns a below-average result. The same applies for 'Licences and permits systems'. However, the entrepreneurs' perception is that Israeli businesses are just as burdened as in the EU when having to comply with government regulations.

**On the policy side**, in 2010 and continuing into 2011, the Agency promoted cooperation between government ministries involved in the promotion and protection of SMEs. In 2010, the activities were mainly focussed on establishing a network between the ministries and coordinating support from different ministries and governmental agencies. In 2011, the intention of the Agency is to increase the cooperation in the fields of legislation policy making and enforcement, and to develop further incentives for permanent cooperation.

### IV. Responsive Administration



Although Israel has been slowly catching up, it nevertheless lags significantly behind the European average as regards responsive administration.

The indicators measuring start-up conditions show diverging trends. While the cost and paid in minimum capital required to open a company are lower than in the EU on average, the duration is much longer, at 34 days as compared to 14.

Of all the other indicators measuring progress in this area, those important for day-to-day business operations also show a need for improvement: the number and duration of tax payments in Israel reveal a heavier and less efficient tax administration system. Similarly, the efficiency of the judicial systems in solving contractual disputes – as measured by the cost to enforce contracts - falls behind the EU average.

Finally, improvements are required also in what concerns the online availability of the basic public services to businesses which also falls behind the European average.

## V. State aid and Public procurement

There are no indicators available for Israel hence it is not possible to draw any conclusions about the country's performance.

## VI. Access to finance

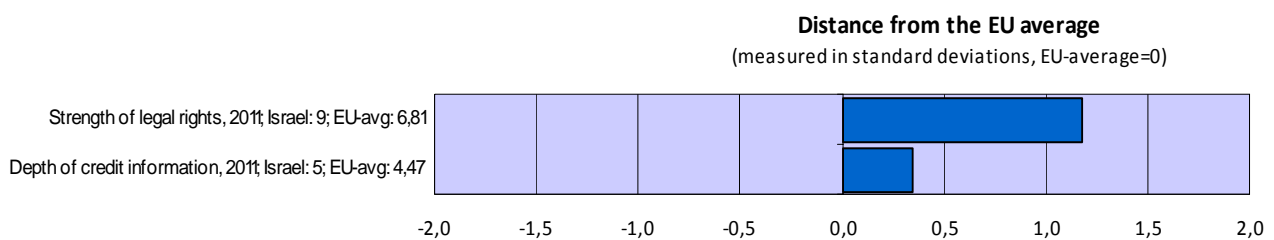
There are only two indicators available for Israel in this area, none of which actually measures access to finance and private capital for SMEs. It is therefore not possible to draw any general conclusions on this basis.

Nevertheless, it seems that the creditors in Israel enjoy a higher degree of protection through collateral and bankruptcy laws than in the EU on average, which should generally facilitate lending. At the same time, the indicator measuring the reliability and coverage of public and private credit bureaus which is an important element of a stable financial market scores also slightly above the EU average.

In 2010, the Agency took steps to reduce the administrative burdens for SMEs when applying for support given by the Ministry for Industry, Trade and Labour. The purpose of the measure is to encourage more SMEs to approach the Ministry. It is anticipated that by the increased usage of the support more SMEs will be able to survive.

The Agency also acted to improve its position as representing SMEs in the governmental arena. The measures taken under: "Strengthening the Agency for SMEs as Representing SMEs in Government" will continue in 2011 to include activities such as position papers submitted to government ministries, preparing an SME Strategic Plan, issuing calls and funding research in support of SME development and more. The intended impact is to have the Agency recognized by all as the representative of SMEs in government.

**On the policy front**, no significant measures were reported in 2010 or in the first quarter of 2011.



*Note: The indicators have been treated such that data bars pointing to the right /left always indicate a performance which is better /weaker than the EU-average.*

When **looking across at policy**, there is evidence of comprehensive and seemingly successful efforts to improve access to credit.

In 2010, the Agency formulated a plan to assist Bedouin citizens financially to get into business and set up SMEs. The funding scheme called "Support Fund for Bedouins" will be implemented in 2011 and 2012 based on the government budget approved for that period. The expected impact of this plan is to allow Bedouin citizens to get financial support for setting up SMEs, by allowing them to be employed close to home and to help the economic development of the periphery regions of Israel.

In 2010, Israel suffered a major natural catastrophe when the Carmel mountain range burned for a week. Many SMEs in tourism and other sectors are located in the burnt region or making a living out of the environment suffered. In order to rebuild the region, the government implemented the temporary Carmel Assistance Programme through the Agency. The financial data was not available as to how much funding was allocated to this programme.

In 2010, as part of the organization of the Agency, a fund was set up to guarantee loans to SMEs from commercial banks. The expected impact of the fund is to reduce the

cost of loans to SMEs by minimising the risks for the commercial banks, and to reduce the bureaucracy by supplying the guarantee.

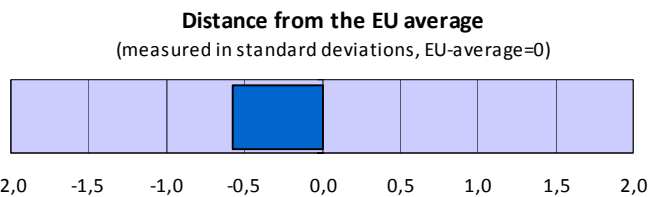
In 2010, the Agency formed the concept for a "Fund for Factories in Financial Trouble". In 2011, the Agency seeks to be approved as the manager of that fund and as its operator. This step came as a result from the world crisis since 2008 and the increasing competition from abroad. It is hoped that the fund will help factories in danger of closing to get the support needed until they can be independent again and to retain the employment rate and keep the GDP up.

## VII. Single market

This area is not applicable for Israel.

## VIII. Skills and innovation

SMEs participating in EU funded research (number per 100.000 SMEs), 2010; Israel: 11,63; EU-avg: 20,95



*Note: The indicators have been treated such that data bars pointing to the right /left always indicate a performance which is better /weaker than the EU-average.*

There is only one indicator available for Israel in this area, which indicates that its SMEs are less likely than the European ones to take part in EU-funded research, but no general conclusion can be drawn as regards Israel's overall performance in Skills and innovation.

**On the policy side**, in 2010, towards the end of the year, the lobby of High-Tech companies managed to get approved and inserted into the budget law, a support measure which got a popular name "The Angels Law".

Under this law, an investment in a High-Tech SME by angels is considered as a loss (over three years). This allows the Angels to get their investment back via tax returns in three years, and any profit from it will be taxed in the future if it matures into it. The expected impact from this measure is to increase the rate on high-tech angels compared to other sectors, and to attract investors to make angel investments in high-Tech SMEs. The law is implemented via the income tax authority.

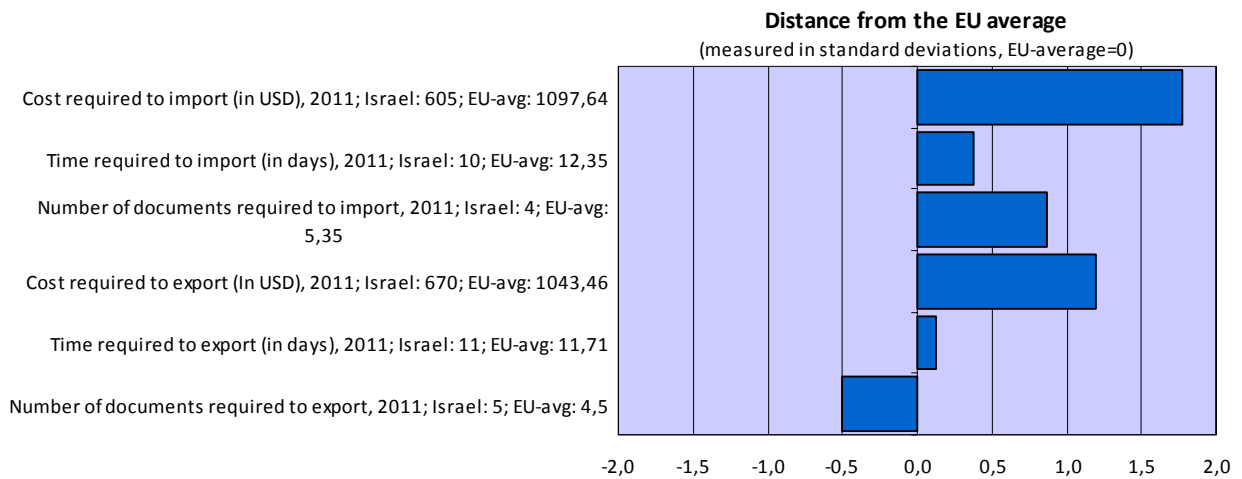
## IX. Environment

There are no indicators available to demonstrate Israel's performance in the area of environment.

Nevertheless, Israel has undertaken some **policy efforts** to create a sound basis for future green growth. Thus, in 2010, a new activity was developed in the Mentoring program operated by the Agency, more specifically the

"Mentoring and Consulting program", which is expected to be piloted and then initiated in 2011. This activity intends to consult firms regarding energy efficiency. Its expected outcome is to make the SMEs more "Green" and to reduce their energy costs, both of which will improve competitiveness.

## X. Internationalisation



*Note: The indicators have been treated such that data bars pointing to the right /left always indicate a performance which is better /weaker than the EU-average.*

Based on the available indicators for measuring internationalisation, Israel is performing above the EU average. This situation is largely determined by the general framework conditions for trading, as there are no performance indicators available to measure the extent to which Spanish SMEs actually engage in exporting or exporting.

When looking at the total number of documents required for /importing, and the cost and duration necessary for trading abroad, Israel appears clearly less bureaucratic than the other EU countries.

**On the policy front**, no significant measures were taken in this area in 2010 or, in the first quarter of 2011.

## Good practice

**To illustrate the efforts of the government to promote SMEs, the statistical and policy information of the fact sheet is enriched by an example of a good practice in SME policy.**

The policy best practice during the specified period relates to the formal reorganization of the support for SMEs from an SME unit in the Ministry of Industry Trade and Labour into the independent "Agency for Small Businesses". This step was more than an administrative step; or rather the impact has been more significant. The agency managed to present itself as the representative of SMEs in government; get cooperation from other ministries (which is more difficult for a ministerial unit), and could focus more freely on a wide range of support measures as mentioned above (forming a lobby for SMEs in government, representing SME interests in legislation and more). The Agency is working to further increase the support and lobby and intends to bring some of the measures into a comprehensive support program that will not require SMEs to apply separately for different measures but apply for support that will include all the available measures. The success of this "best practice" cannot yet be assessed.

## About the SBA fact sheets

The Small Business Act (SBA) fact sheets are produced by DG ENTR as part of the SME Performance Review (SPR) which is its main programme for economic analysis of SME issues. The SBA fact sheets combine the latest available statistical and policy information for the 27 EU Member States and another 10 non Member States which also contribute to the EU's [Competitiveness and Innovation Framework Programme](#) (CIP). The fact sheets - produced annually- help to structure the available information so as to facilitate assessments of the SME policy assessments in the framework of the SBA implementation monitoring. The fact sheets refrain from policy evaluations, but are to document the status quo and progress in the different SBA areas. The SBA Fact Sheets are not standalone instruments. They do not constitute a comprehensive assessment of Member States' policies and should be regarded as a supplement to, and not a substitute for, available national publications. A good example for this is the policy information contained in the fact sheets: the fact sheets cite only those policy measures that were deemed by local SME policy experts of being of particular relevance. They do not -and cannot- reflect all measures undertaken by the government in the particular period of time. As a complement to the fact sheets additional policy information can be found on a database also located on the SPR-website. Please refer to the methodological note when reading this SBA Fact Sheet.

## For more information

SME Performance Review:

[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm)

Small Business Act:

[http://ec.europa.eu/enterprise/policies/sme/small-business-act/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm)

The European Small Business Portal:

[http://ec.europa.eu/small-business/index\\_en.htm](http://ec.europa.eu/small-business/index_en.htm)

[Entr-SPR@ec.europa.eu](mailto:Entr-SPR@ec.europa.eu)

Tel: 0032 (0)2 29 92 639

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<sup>1</sup> The SBA fact sheets 2010-2011 benefitted substantially from input by the European Commission's Joint Research Centre (JRC) in Ispra, Italy. Most notably, important improvements in the methodological approach, statistical work on the dataset as well as the visual presentation of the data are owed to the JRC.

<sup>2</sup> The SBA radar chart plots for the different SBA areas the relative position of an individual country vis-à-vis the respective EU-wide area average. The individual values represent averages across all available indicators for this area. The scaling range is from "0" (minimum or "worst in the -EU-27- class") to "1" (maximum or "best in class"). The EU-average is located between those extremes and plotted as a grey band in the chart. The area average for principle 9 ("environment") is missing for all countries due to a lack of data.

<sup>3</sup> The quadrant chart combines two sets of information: firstly it shows on the status quo performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for EU-27. The vertical corridor marked by the dotted lines defines the EU-average. Secondly, it reveals the progress over time, i.e. the average annual growth rates for the period 2005-2011. The growth rates are those of the individual which the different SBA area averages are made up of. Hence, the location of a particular SBA area average in any of the 4 quadrants, provides not only status quo information about where the country is located in this SBA area relative to the rest of the EU at a given point in time, but also to what extent there was an improvement in the period 2005-2011.