

# SHINE



AN INTRODUCTION TO ENLIGHTENED  
DIRECT FOREIGN INVESTMENT IN ISRAEL

Presented by The Foreign Investments and Industrial Cooperation Authority



# COME SHINE WITH US

*Invest In Israel* is a foreign direct investment initiative of the Israeli Ministry of Economy and Industry. The enlightened spirit of our enterprise is dedicated to connecting investors to opportunity, innovators to facilitators, turning opportunity into action and prospect to profit. All the while bringing groundbreaking discoveries, goods and services to people around the world. In short, we exist to help you shine.

# VIBRANT ECONOMY

Israel's economy is one of the strongest in the world, boasting positive and steady growth for over a decade.

Israel's diverse open market economy has a proven record of resilience and sustained competitiveness in the face of global economic crisis.

Israel's anchored banking system, elastic labor market and seasoned policy makers are well positioned to protect investor's interests throughout turbulent global market conditions.

FITCH

RATING

**A+**

OUTLOOK

**STABLE**

MOODY'S

RATING

**A1**

OUTLOOK

**STABLE**

S & P

RATING

**A+**

OUTLOOK

**POSITIVE**

"IF PEOPLE WANT TO SEE THE FUTURE OF THE WORLD  
ECONOMY THEY SHOULD LOOK AT TEL AVIV, HOME TO HUNDREDS  
OF STARTUPS AND RESEARCH CENTERS."

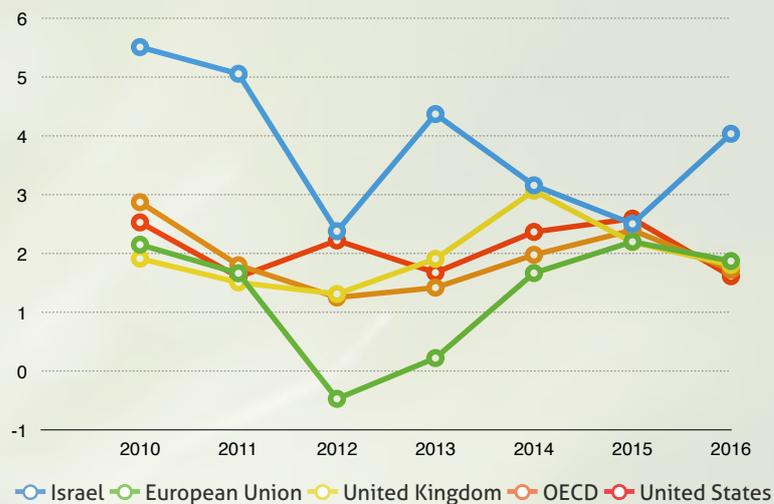
— Barack Obama"

## SECURE IN ISRAEL

Positive Growth Rate  
— Resilience to  
External Shocks

SOURCE: The World Bank

## GDP GROWTH RATE (%)



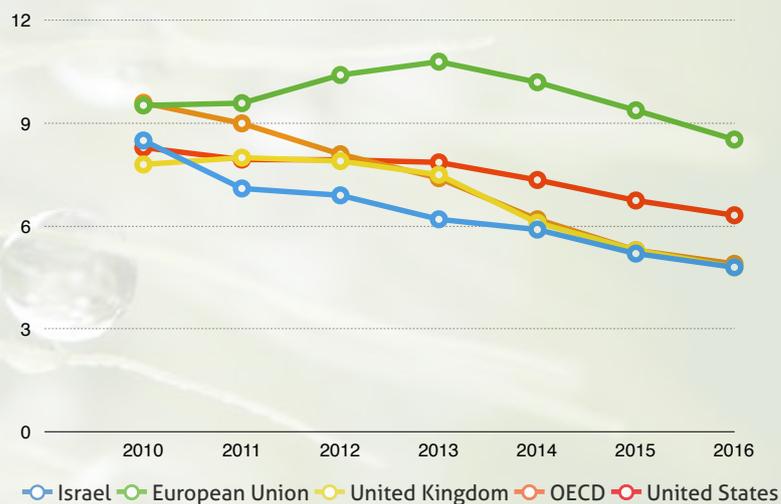
Newly discovered natural resources  
will boost the Israeli economy for  
decades to come.

## STRONG IN ISRAEL

Low and Declining  
Unemployment Rate

SOURCE: The World Bank

## UNEMPLOYMENT RATE (%)



# ENLIGHTENED ACADEMICS

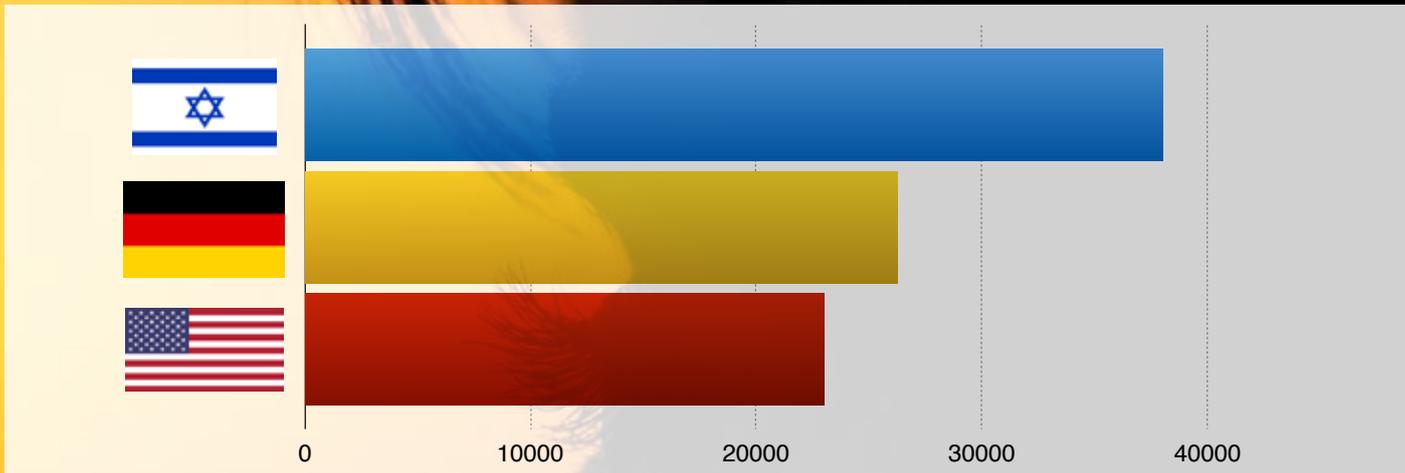
The Israeli educational system is built upon a tradition of distinguished achievement and a culture of excellence.

From regional primary schools to multidisciplinary research institutions, Israel values and promotes the ingenuity and creativity of its students and scholars.

Recognized around the world for their leadership in science and technology, Israeli universities offer a broad spectrum of academic programs and degrees to advance a talented workforce.

"ISRAEL IS A WELLSPRING OF KNOWLEDGE AND SKILL  
AS WELL AS A FASCINATING PLACE OFFERING  
UNLIMITED OPPORTUNITY."

— LI Ka-shing"



SOURCE: Roland Berger, 2016

Number of Scientific And Technical Journal Articles (per PPP USD m GDP), 2015

No.3  
In The World –  
Quality of Scientific  
Research Institutions

SOURCE: GTCI 2017-2018

No.3  
In The World –  
Scientific Infrastructure

SOURCE: IMD 2016

No.3  
In The World –  
University/Industry  
Research Collaboration

SOURCE: The Global Innovation Index 2017

No.3  
In The World –  
High Level Skills

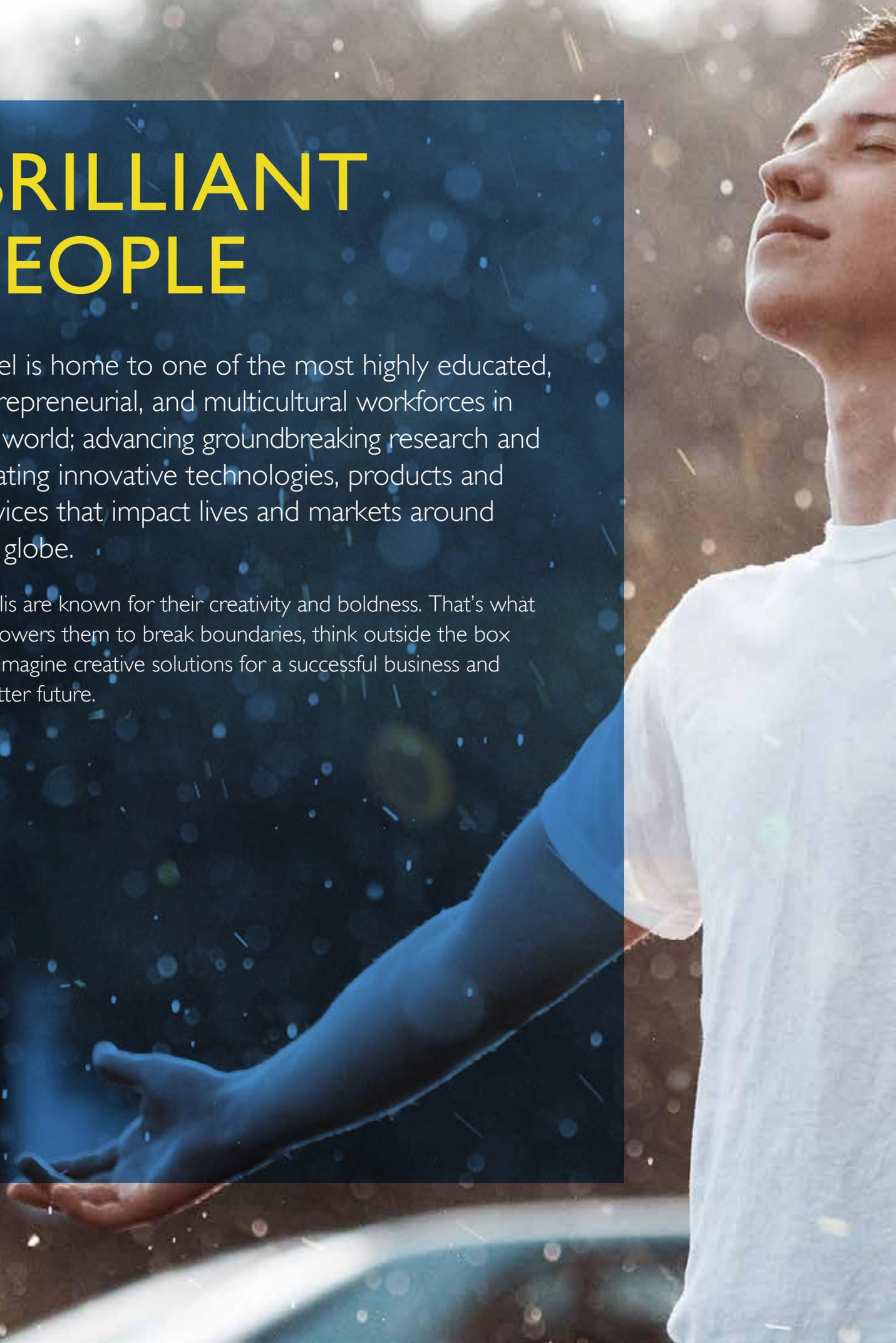
SOURCE: GTCI 2017-2018

Noted in Israel  
**12**  
Nobel Prize Winners

# BRILLIANT PEOPLE

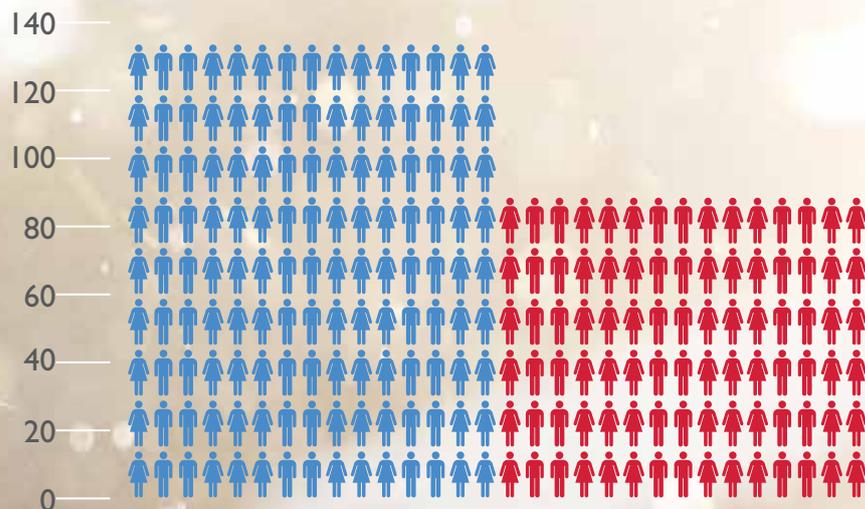
Israel is home to one of the most highly educated, entrepreneurial, and multicultural workforces in the world; advancing groundbreaking research and creating innovative technologies, products and services that impact lives and markets around the globe.

Israelis are known for their creativity and boldness. That's what empowers them to break boundaries, think outside the box and imagine creative solutions for a successful business and a better future.



# ENGINEERS PER 10,000 PEOPLE

Only in Israel  
**HIGHEST**  
 Concentration of  
 Engineers in the World



SOURCE: the Global Innovation Index 2017

ISRAEL

UNITED STATES

Achieved In Israel  
**No.1**  
 In Research Personnel

SOURCE: The Global Talent Competitiveness Index, 2017

Achieved in Israel  
**No.1**  
 In Digital/  
 Technological Skills

SOURCE: Imd World Digital Competitiveness Ranking 2017

Achieved In Israel  
**No.2**  
 In Innovation

SOURCE: Global competitiveness report, 2016

Achieved In Israel  
**No.3**  
 In Tertiary -  
 Educated Population

SOURCE: OECD

“WHEN YOU GO TO THE MIDDLE EAST LOOKING FOR OIL,  
 YOU DON'T NEED TO STOP IN ISRAEL. BUT IF YOU GO  
 LOOKING FOR BRAINS, FOR ENERGY, FOR INTEGRITY,  
 IT'S THE ONLY STOP YOU NEED TO MAKE.”  
 — Warren Buffett

# BLAZING RESEARCH & DEVELOPMENT

Israel is the Second in the world for investment in R&D as a percentage of GDP. A unique combination of strong academic research, comprehensive governmental support, and a strong defense industry has led Israel to worldwide R&D dominance.

"ISRAEL IS THRIVING IN TERMS OF INNOVATION BECAUSE YOU HAVE A CULTURE THAT MAKES IT POSSIBLE TO QUESTION AUTHORITY AND TO CHALLENGE EVERYTHING - YOU DON'T FOLLOW THE RULES."

— Eric Schmidt

### R&D INVESTMENT AS % OF GDP

Invest in Israel  
**No.1**  
 In the World –  
 R&D Investment  
 as % of GDP



SOURCE: OECD

# ORIGIN IN ISRAEL

- 50%**  
Of Global Low-Pressure Irrigation Systems
- MILLIONS**  
Of Cardiovascular Stents
- 1000+**  
Innovative Startups Per Year
- MOBILEYE**  
Accident Prevention System
- DISK ON KEY**  
Mobile Storage
- THE BEST**  
The World's Top Digital 3D Print Technology
- KINECT**  
Gesture Recognition System
- REWALK**  
an Exoskeleton That Enables Paraplegics to Walk Again
- PILL CAM**  
First Ingestible Endoscopy Camera
- WAZE**  
Navigation System
- BILLIONS**  
Of Intel Computer Processors
- FIREWALL**  
Protecting Millions of Users all Over the World

# RADIANT INVESTMENT

Israel's thriving start-up industry is complemented by domestic venture capital funds, raising more than \$1 billion annually.

Israel was ranked 2nd by The Global Competitiveness Report 2017 for venture capital availability.

Israel has far outperformed any other country in VC volume per capita according to Deloitte, 2017.

Israel's venture capital availability and highly efficient financial sector give its innovative industries the right environment in which to flourish.

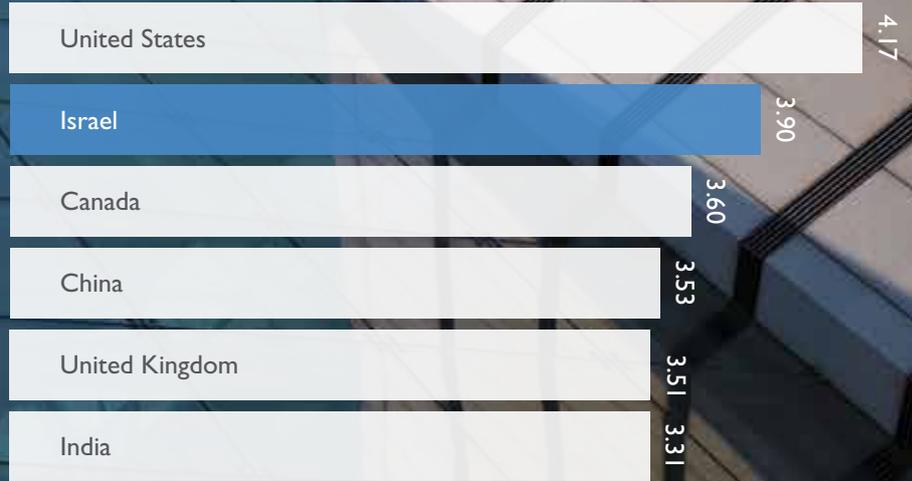
"THE INNOVATION GOING ON IN ISRAEL IS CRITICAL TO THE FUTURE OF THE TECHNOLOGY BUSINESS."

— Bill Gates

# No.1

In Venture Capital Investments as a Ratio of GDP

SOURCE: OECD



Belief in Israel  
**No.2**  
Venture Capital  
Confidence

SOURCE: Deloitte

Investors were asked to rate their confidence level in each country. Confidence levels were measured on a scale of 1 to 5, with 5 representing the most confidence.  
Deloitte US/ 2015 VC Survey

Israeli High-Tech Capital  
Raising Hits a Record  
High in 2016

**\$4.8b\***

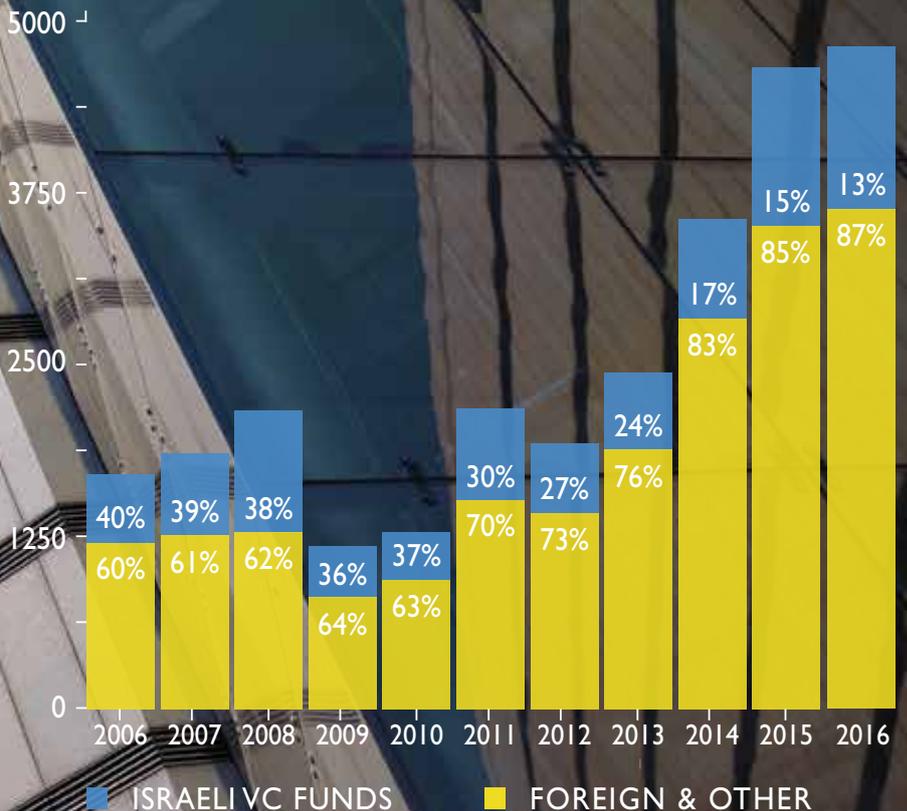
SOURCE: IVC-ZAG

Financed in Israel

**\$20.8b\***

Capital Raised By Israeli  
Hi-Tech Companies  
2006 - 2016

USD millions



■ ISRAELI VC FUNDS

■ FOREIGN & OTHER

# BLOOMING INNOVATION

With more than 1,000 new startups per year, thousands of entrepreneurs and a comprehensive business ecosystem, Israel has truly earned the title of “Startup Nation”.

Over 300 multinational companies such as Microsoft, Motorola, Google, Apple, Facebook, Berkshire Hathaway, Intel, HP, Siemens, GE, IBM, Toshiba and Cisco see Israel as an international hub for innovation and operations.

Israeli innovators and inventors are leading the future of business within: New Media & Internet, Cyber Security, Water Technology, AgriTech, Health & Life Sciences, Financial Technology and the Automotive Industry among many others.

“ISRAEL IS A DYNAMIC AND IMPORTANT PART OF THE FUTURE OF THE INTERNET, AND OF COURSE EBAY. WE ARE LOOKING TO INCREASE OUR PRESENCE IN ISRAEL AND WE WILL CONTINUE TO SEEK GOOD TECHNOLOGIES AND TALENTS IN ISRAEL, IN ORDER TO BRING INNOVATION INTO THE COMPANY.”

— John Donahoe, Former eBay CEO

Sector Highlights

800+

Innovative  
Companies

## SECTOR BRIEF

NEW MEDIA  
& INTERNET

- ✓ No. 1 in ICT services exports, % total trade.
- ✓ Israel is considered one of the world's most innovative digital environments, launching more than 250 companies each year.
- ✓ Israeli companies operate R&D facilities for top multinational new media companies, such as Google, Facebook, eBay, Booking.com and Amazon, to name but a few.
- ✓ Israeli New Media and Internet companies export advanced services worth several billion USD annually.

Media, Publishing,  
Content & GamingBroadcast Delivery  
& ServicesBig Data &  
AnalyticsOnline Advertising  
& CommerceTools, Apps &  
User Platforms

Sector Highlights

430+

Innovative  
Companies

Firewall

Information  
Security,  
Protection &  
Threat Monitoring

Fraud Detection,  
Prevention &  
Security  
Management

Corporate End  
Point Security

Intrusion &  
Detection  
Prevention  
Systems

## SECTOR BRIEF

# CYBER SECURITY

- ✓ Israel was ranked 1st for Cyber Security (IMD 2013) with annual exports of more than US \$3 billion.
- ✓ Israel's Cyber Security industry is estimated to represent 10% of global sales and 20% of global investments.
- ✓ Israel hosts R&D centers for 40 MNCs, such as IBM, Cisco, and GE.
- ✓ Israeli anti-virus software protects 1 in 6 computers worldwide.
- ✓ 65 Israeli cybersecurity companies raised a total of \$581 million in 2016, about 15 percent of all capital raised by the industry globally.
- ✓ Israel cybersecurity exports account for 5-10% of the global cybersecurity market.

## SECTOR BRIEF

# WATER TECHNOLOGY

Sector Highlights

250+

Innovative  
Companies

Water  
Management  
& Urban  
Solutions

Water  
Desalination

Irrigation

- ✓ Israeli systems account for 50% of the world's low-pressure irrigation systems, reducing agricultural water consumption by one-third.
- ✓ Israeli companies have installed more than 350 desalination plants in nearly 40 countries.
- ✓ Among the world's lowest-cost producers of desalinated water: \$0.55 / m<sup>3</sup> vs \$1.00 / m<sup>3</sup> world average.
- ✓ 85% of Israel's wastewater is reclaimed for agriculture – the highest percentage in the world.
- ✓ Israel exports \$2.2 billion annually in water-related technology. This amount is predicted to reach \$10 billion in a few years.

## SECTOR BRIEF

# HEALTH & LIFE SCIENCES TECHNOLOGY

- ✓ Israel is ranked 1st for Medical Device patents and 2nd for Medical Device solutions (per capita).
- ✓ Israel exports groundbreaking Life Science products and services worth billions of USD annually.
- ✓ Israel has been the source of breakthrough treatments and blockbuster drugs, such as *Copaxone* and *Rebif*.
- ✓ About 1,350 life science companies are active in Israel 384 companies in the Israeli Digital Health sector.
- ✓ There are a number of world-renowned research facilities in Israel, led by the Weizmann Institute, rated sixth in the world in life sciences research by the prestigious Nature magazine.
- ✓ Although Israel's population is only 0.1% of the world's population, Israeli scientist are responsible for 0.5-0.8% of publication worldwide.

Sector Highlights

250+

Innovative  
Companies

Digital Imaging

Medical &  
Surgical  
Equipment

Pharma &  
Drug Delivery

Medical Laser  
Technology

Bio-Informatics

Sector Highlights

280+

Innovative  
Companies

Fertilizer &  
Pesticides

Seeds & Seedling  
Production

Poultry &  
Dairy Farming  
Technologies

Specialized  
Agricultural  
Production  
Equipment

Veterinary  
Products &  
Food Suppliers

## SECTOR BRIEF

# AGRICULTURAL TECHNOLOGY

- ✓ Israel has reached record highs in productivity per unit for dairy cattle, cotton, olives, and other products.
- ✓ Israel's vegetable seeds industry is considered "best in its class" and is at the forefront of the global effort to increase crop yield.
- ✓ Israeli companies hold 30% of the global market.
- ✓ More than 80% of Israel's irrigation products are exported.
- ✓ Israeli AgroTech and irrigation companies export more than US \$4 billion annually.
- ✓ 40% of European tomato greenhouses use seeds of a long shelf-life hybrid that was developed in Israel.

Sector Highlights

480+

Innovative  
Companies

Payment  
Technologies

Lending  
Platforms

Personal  
Finance  
Management

Fraud Detection,  
Prevention &  
Security  
Management

Big Data  
& Analytics

## SECTOR BRIEF

# FINANCIAL TECHNOLOGY

- ✓ In this growing arena of Financial Tech, Israel has introduced a large number of expanding companies and startups to the global market.
- ✓ In 2016, 53 fintech companies garnered a record of \$699 million, almost 15 percent of the total capital raised in this period.
- ✓ KPMG placed 6 Israeli companies in the top 100 most innovative Fintech companies of 2016.
- ✓ Israeli startups are easing payment processes, reducing fraud, saving users money, promoting financial planning, and ultimately moving this giant industry forward.
- ✓ Israel also hosts Citibank Strategic Innovation Lab, the JP Morgan R&D center and the Barclays R&D center to develop advanced financial technology product and support global operations.

Sector Highlights

250+

Innovative  
Companies

Smart  
Mobility

Electric  
Mobility

Alternative  
Fuels

Automated  
Car

## SECTOR BRIEF

# AUTOMOTIVE INDUSTRY

- ✓ Israel excels in the automobile technology with over 150 research groups and over 2,000 entrepreneurs.
- ✓ With such talent resources, General Motor's Advanced Technical Center established their world-class R&D organization in Israel.
- ✓ What's more, other leading automotive brands like BMW, Mercedes, and Toyota are turning to Israel to develop cutting-edge auto parts and progressive design technologies to equip their latest models.
- ✓ In 2017 Intel has acquired the Israeli company Mobileye, leader in the autonomous driving sector, for \$15.3 billion, and set its global automotive headquarters in Israel.
- ✓ The Israeli automotive and smart industry is home to more than 500 companies.

# SHINING A LIGHT ON INSPIRED GOVERNMENT INCENTIVES

THE GOVERNMENT OF ISRAEL OFFERS AN ASSORTED RANGE OF INCENTIVES IN TWO MAIN CATEGORIES: TAX BENEFITS AND GRANTS.

Israel seeks to offer maximally supportive conditions for companies and investors seeking to invest in Israel.

As part of the extensive range of incentives and benefits, the State of Israel encourages international and local investment by offering grants, reduced tax rates, tax exemptions and other benefits.

Israel's Ministry of Economy and Industry offers a wide range of specifically designed incentives in order to keep prosperity and growth in the country.



# ENLIGHTENED TAX BENEFITS

The average Israeli corporate tax rate is 23%. Competitive industrial enterprises that are listed in Israel are entitled to preferred corporate tax rates, as follows: Companies located in Development area A could be entitled to a 7.5% reduced corporate tax rate. Companies located in other areas can enjoy a 16% corporate tax. In both areas, additional dividend tax reductions might also apply.

In addition Intellectual property (IP) based companies, in particular, technology companies are entitled to reduced corporate tax. Companies with consolidated revenues of over 10b NIS (app. 2.5b\$): 6%, other companies: 12% (7.5% if the company is established in a national priority area). Companies can enjoy Dividend tax rate on eligible income of 4%.

Companies defined as special preferred industrial enterprises<sup>1</sup>, are entitled to a further reduction: a 5% tax rate in Development Area A and 8% in the rest of the country.

<sup>1</sup> Depending on the investment characteristics (scope, no. of employees etc.)

# SHINING A LIGHT ON GRANTS

## SUPPORT GRANTS FOR INTERNATIONALLY COMPETITIVE INDUSTRIAL COMPANIES

Industrial companies located in Development Area A can receive grants of 20% of the approved investment<sup>2</sup>, covering investments in fixed assets (equipment, buildings, furniture, etc.) over a period of 5 years. The company must be internationally competitive and registered as an Israeli entity.

The company can receive an additional grant of up to 10% if it is located in southern and northern regions.<sup>3</sup>

## SUPPORT GRANTS PROMOTING R&D

### SELECTED R&D INCENTIVES

The Israeli government recognizes the impact of R&D centers on its economy and offers a spectrum of incentives through the Israel Innovation Authority in the Ministry of Economy and Industry (which oversees all government supported R&D in the Israeli industry) for the establishment of new R&D centers.

The Israel Innovation Authority manages the grant programs as part of the tax benefit approval for eligible companies.

### R&D GRANTS

#### o The grant approval process

The various aid programs are approved by a special committee. The committee reviews the applications thoroughly and rates them according to several criteria including the average salary the employer will pay, the enterprise's location and the duration of the establishment period. For each program, the criteria may differ in accordance with the program characteristics. For a requested program, the applications with the highest rating will be granted the assistance.

### INDUSTRIAL R&D:

#### a. The R&D Fund

The R&D Fund is the main instrument of the R&D Law. The fund provides financial grants of 20%-50% of approved R&D programs. In geographical areas designated as National Priority Areas (NPAs) the benefit can reach 60%. A research committee headed by the Chief Scientist is tasked with awarding the funds according to a predetermined set of terms and conditions. Israeli companies from all industry sectors, wishing to develop or upgrade products or manufacturing processes, may apply. A company supported by this program is obligated to pay royalties when a government assisted R&D project results in a commercially successful product.

<sup>2</sup> Subject to the Investment Center's approval

<sup>3</sup> Subject to the Investment Center's approval

### b. Large Companies' R&D Centers in Israel's Periphery

The target companies are Israeli companies that wish to set up an R&D center in Israel's periphery, and have annual sales of more than \$100 million in Israel. Qualified companies will receive multi-annual (24-36 months) support of 65%-75% for their R&D centers' approved expenses. If the project is profitable, royalty payments must be paid.

### c. Generic R&D Program (Long Term R&D Support)

The target companies are Israeli companies with annual sales of more than \$100 million and with R&D budget in Israel that exceeds \$20 million or alternatively more than 200 R&D employees in Israel. Qualified companies will receive financial support of up to 50% of their approved R&D expenses. No royalty payments are mandated.

## 2. INTERNATIONAL COOPERATION IN R&D

### a. Global Enterprise R&D Collaboration Framework

Within this framework, The Israel Innovation Authority will support the Israeli startup company with a conditional grant ranging between 20%-50% of the approved development budget. The MNC will assist and support the Israeli company in the form of consulting, services and resources (i.e. technological guidance, loan of equipment, use of laboratories, discounted software licenses, regulatory advice, etc.), instead of or in addition to cash funding. The MNC receives services such as scouting for possible partners and IP rights in the new projects (as per the rules of the program). In addition, the MNC is informed of the due diligence results of the Israeli partner companies. Eligible MNCs must have annual revenues exceeding \$2 billion, significant investment in R&D, and worldwide presence. To date, over 40 corporations have joined the program. The participating MNC is not required to pay royalties.

### b. Multinational Corporations' Project Centers in Traditional Industry

The target companies are Israeli companies and MNCs which collaborate on an R&D project. The MNC must have annual sales of more than \$2.5 billion and must be from the low or medium technology sector. The Israeli partner must be an Israeli company or academic institution unaffiliated with the MNC. The financial support for qualified companies will differ between projects. No royalty payments are mandated for the MNC.

### c. Cooperation with Countries and Regions

Israel has an extensive R&D cooperation network with different countries and regions.

#### **Binational Funds -**

Israel has 4 binational funds, with the US, Canada, South Korea and Singapore. In this framework, two nations contribute a predetermined sum to a binational foundation intended to support cooperative projects.

Incentive Program for the Encouragement of the Establishment of Project Centers

#### **of Multinational Companies in Israel -**

Israel has entered more than 40 bilateral industrial R&D support programs all over the world. The programs encourage cooperation between Israeli and foreign companies by helping to find a suitable partner and through financial support of up to 50% of the approved project budget.

#### **European Union R&D Programs –**

The Framework Programs for Research and Innovation of the European Union are the world's largest platform for international R&D cooperation between entities from the realms of commerce, industry, academic research and public entities. These programs are renewed every few years. The current program "Horizon 2020" began in 2014 and will end in 2020. The programs are managed by ISERD (The Israeli R&D Directorate for the European Research Area (ERA), which is responsible for the integration of Israel in the ERA and in other European Organizations.

### 3. MAGNET (INDUSTRY ACADEMIA R&D COOPERATION)

A group of programs intended for industrial companies cooperating with academic institutions in long-term R&D processes. Qualifiers can apply for grants covering up to 66% of the R&D project budget in an industrial company and up to 80% of the R&D budget in a research institution. A MAGNET project is usually approved for a 3-year period with extensions of 1 to 3 years possible. Main MAGNET programs include:

#### a. MAGNET Consortia

The program supports the formation of consortia made up of industrial companies and academic institutions in order to jointly develop generic, precompetitive technologies. Industrial companies are granted up to 66% of their approved budget and academic institutions are granted up to 80%. The duration of a MAGNET consortium is three to five years. No royalty payments are mandated for this program.

#### b. MAGNETON

The program promotes technology transfer from academia to industry. The program is intended for Israeli industrial companies wishing to receive new technologies from academia and for approved academic research groups wishing to conduct new applied research in cooperation with a relevant company. Qualified participants will receive a grant of up to 66% of the approved budget. No royalty payments are mandated.

### 4. TECHNOLOGICAL INCUBATORS

The primary goal of this program is to transform innovative technological ideas in their early, high-risk stages into viable startup companies capable of raising money and operating on their own. For a period of 2 to 3 years, the program provides approved companies with full financial support (approx. \$500,000 – \$750,000) to be repaid to the government only upon generation of sales. The incubator is operated by a licensee who is selected and approved by the relevant Israel Innovation Authority committee. The licensee invests only 15% of the project budget (the state invests the remainder).

### 5. SECTORIAL PROGRAMS

The Israel Innovation Authority operates additional support programs in several high-potential sectors: Cyber, Renewable Energy, Life Sciences, Alternative Fuels, Space Technologies, Dual Use (Military and Commercial) Technologies and AgriTech. These programs offer support for companies and investors operating in these fields.

## TAX BENEFITS

### I. R&D EXPENSES DEDUCTION

Clause 20A of the Israeli Income Tax Ordinance enables companies to deduct their R&D expenses from their current income in the year they were paid. The deduction is contingent on the Israel Innovation Authority confirmation that the expenses are indeed research and development expenses.

## EMPLOYMENT GRANTS

In order to complement the tax benefits and the investment and R&D grants, the government has established additional programs to increase employment in the outlying areas of Israel, in specific centers with high unemployment and to promote special populations. The following are examples of the tracks offered:

### HIGH INCOME TRACK

Grants are between 10% - 35% of the wage costs for a 48-month period, with a maximum monthly salary of US \$7,500. Eligible employers must recruit at least 15 new full-time employees.

### TRACK FOR POPULATIONS WITH LOW EMPLOYMENT RATES

Fixed participation as a percentage of employee wages (10% - 37.5%), by a particular group, for up to a wage of approximately US \$6,000. The participation depends on the social identity of employees (e.g. Ultra Orthodox, ethnic minorities, individuals with disabilities, single parents) and geographic location, with preference to a combination of both.

"WE CANNOT SOLVE OUR PROBLEMS WITH THE SAME THINKING  
WE USED WHEN WE CREATED THEM."

— Albert Einstein

# ILLUMINATING OPPORTUNITY

- ✓ Invest in Israel to embrace a culture of curiosity and creativity.
- ✓ Connect to our people's natural entrepreneurial spirit.
- ✓ Feel secure in our stable economy.
- ✓ Further the innovative technologies that touch lives around the world.
- ✓ Advance groundbreaking manufacturing to build a sustainable future.
- ✓ Find a new home for your business to shine.

The Foreign Investments  
And Industrial  
Cooperation Authority



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