FINANCIAL SUPPORT FOR NEW BUSINESSES IN ISRAEL

By Alan S. Gutterman[1]

A group of Israeli experts ranked the area of financial support in Israel for new businesses higher than all of the other countries included in the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) in 2007.[2] Specific findings included confirmation that Israel had enough available equity funding for new businesses, credit financing for setting up new and growing businesses, available financing from private individuals (other than the founders) and venture capitalists who provide financial support to new and growing businesses and available financing by means of initial public offerings on the stock exchange for new and growing businesses. There were, however, concerns was with respect to the availability of governmental subsidies for the advancement of new businesses and this issue seems to be more problematic for conventional businesses since high-tech businesses appear to be well supported by governmental programs.[3] The experts also noted that many new businesses with no ongoing, recognized track records often had difficulties in obtaining quality services from Israeli banks and it was recommended that the government consider implementing loan guarantee programs for new businesses that might increase the credit that such businesses receive from private lenders. [4] A similar concern has been raised about the dearth of financial resources to support pre-seed funding in areas of keen interest such as biotechnology and medicine and commentators have recommended that the government provide funding currently unavailable from venture capitalists and other sources for proof of the industrial and commercial feasibility of projects, an activity that generally requires about $1 - $1.5 million in funding before a more elaborate business model can be launched.[5]

PwC Israel promulgated an extensive report on the recent development of the Israeli venture capital community.[6] The report noted that Israeli companies raised about $11.1

---

[1] The material in this report will appear in *Organizational Management and Administration: A Guide for Managers and Professionals* by Dr. Alan S. Gutterman and is presented with permission of Thomson Reuters/West. Copyright 2011 Thomson Reuters/West. For more information or to order call 1-800-762-5272. Dr. Gutterman is the Director of the Center for Management of Emerging Companies [www.managingemergingcompanies.org].

[2] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009).

[3] Id. at 54-55.

[4] Id. at 65 and 80.

[5] Id. at 82.

[6] PwC Israel, The PwC Israel MoneyTree Report: Venture Capital in the First Decade of the Third Millennium (PwC Israel, 2011). For further discussion of the development and evolution of the Israeli venture capital sector, see G. Avnimelech and M. Teubal, "Venture Capital Policy in Israel: A Comparative Analysis and Lessons for Other

billion from 2001-2010 and that venture capital investment per capita in Israel was the highest in the world throughout that entire period[7]; however, the report also highlighted a number of challenges that confront the continuing impact of venture capital on the growth of the technology sector in Israel in the future, including the following[8]:

- The relative labor and cost advantages that Israel may have enjoyed over other destinations for technology investment, notably China and India, is deteriorating—the report noted that the cost of Israeli engineers is two to three times the cost of similar skilled workers in China and India.
- The small size of the Israeli domestic market is putting it at a disadvantage in relation to much larger countries such as China and India when competing for foreign direct investment capital.
- During the period running from 2001-2010 the level of venture capital investments in Israel was declining and there was also a significant decrease in the number of active venture capitalists—the report noted that while 44 venture capitalists made 90% of the investments at the beginning of the decade by the end of the decade 20 venture capitalists combined for 90% of the activity at that time. The future looks even more challenging as Israeli institutional investors appear to prefer Eastern European real estate investments as opposed to domestic technology companies.
- The activity and presence of "Angel investors" in Israel lags behind the US although there are some proposed changes in the law to provide tax incentives for early stage investments in start-up companies and encourage institutional investors to support research and development companies.

The report noted that it can be expected that Israeli venture capital funds will soon be looking to raise additional capital since many of them have relatively mature portfolios of current investments that will need to be liquidated in the next two to three years as required under the terms of agreements with investors that provided the capital to the funds in the first place. The ability of those funds to attract new capital will depend on how the issues noted above play out as well as other factors such as the success of governmental and university efforts to build an Israeli presence in key technology areas such as "green tech" and biotechnology. The Israeli venture capital community also shares the concerns of others described in this chapter regarding neglect of education and training in science, engineering and entrepreneurship in Israel and the impact this might have on the perceived human capital advantage that Israel has enjoyed for so long.

Countries", http://economics.huji.ac.il/facultye/teubal/VC%20Policy%20-%20Sunil%20Book.pdf [accessed June 5, 2011].

[7] By way of comparison, US high technology companies supported by venture capitalists raised about $247 billion from 2001 through 2010. Id. at 4.

[8] Id. at 2-3.