



# Innovation Policies for Inclusiveness – Policy Cases

## Large Companies' R&D Centres in Israel's Periphery

### Country: Israel

#### 1. Short Description

The *Large Companies' R&D Centres in Israel's Periphery* programme encourages large companies to establish R&D centres in areas with lesser economic growth, in order to narrow the gap between the “periphery” and the “centre” of Israel. The programme provides companies with a three-year grant covering up to 75% of the cost of the R&D centre. To be eligible, the project should be highly innovative and the company must commit to hiring a substantial number of employees living in the periphery. The R&D centres are expected to foster the formation of an independent economic activity and the creation of higher quality employment opportunities locally.

*This policy profile is part of a [policy toolkit on innovation policies for inclusiveness](#). It is relevant for territorial inclusiveness.*

#### 2. Policy Characteristics

Basic Information	
<b>Country and implementing institution(s):</b>	<b>Timeline:</b>
<b>Israel</b> Israel Innovation Authority (formerly known as the Office of the Chief Scientist)	2010 to present (as of December 2016)
<b>Target group</b>	<b>Size and budget:</b>
<b>Peripheral regions</b> The programme targets large Israeli companies (with an annual turnover over USD 100 million generated from business activities in Israel) and incentivises them to establish R&D centres in lagging regions.	Three firms with 35 projects received NIS 460 million (approx. USD 114 million) in R&D grants over this period.  The measure forms part of the Tmura R&D Fund framework. The maximum sum that can be spent on this measure was fixed at <b>EUR 20 million</b> per year by the Knesset Finance Committee
<b>Type of policy instrument(s)</b>	<b>Inclusiveness focus</b>
<b>Direct financial support:</b> grant	<b>Territorial inclusiveness</b>



## Policy objectives

The programme aims to encourage large companies to establish R&D centres in lagging regions, in order to narrow the gap with the geographical centre of Israel.

## Rationale

A socio-economic gap exists between central Israel, with its higher income and abundance of technology-based industries, and peripheral areas, which usually depend far more on traditional industries with lower pay scales and lower levels of innovation.

## Policy target recipient and selection mechanism

The programme targets large technology-based companies that conduct R&D activities. In order to be eligible, companies must comply with the following criteria:

- The company must have an annual turnover of over USD 100 million generated from business activities in Israel.
- The company must have a high level of innovation according to the R&D Fund criteria.
- The project must run for three years or longer.
- The **R&D centre must be located in the periphery**. Over 50% of production resulting from the R&D project must be realised in Israel and the project must **employ its workforce in the periphery** (amounting to over 40% of the development centre's employees by the end of the first year of the project, 50% at the end of the second year and 60% at the end of the third year). No more than 40% of the budget should be spent on subcontractors in central Israel.
- The minimum request from the company is NIS 10 million (USD 2.5 million) for each of the three years. The minimum cost for the entire project is NIS 60 million (EUR 14.8 million).

## Policy instrument(s)

**Direct financial support (grant):** The maximum sum to be spent on this measure was fixed at EUR 20 million per year. Recipient companies are entitled to a grant covering 65-75% of the R&D expenses of the centre for a period of 24-36 months. The funding model offers participation in the risks involved in the development and establishment of the R&D centre. Larger companies should repay the grants at a rate of 3% of the grant value per year on successful projects and smaller firms at a rate of 1.5% a year. Eligible costs covered by the grant are equipment, external expertise (consultants, studies, etc.) and labour costs (including overheads).

## Policy challenges

- Relocation of businesses is a long process, and takes more than one year.
- The pool of talented workers in Israel's periphery is small.



- Labour costs in Israel's periphery should be competitive with those of the global economy.

### Actions undertaken to address challenges

- Grants are provided for a period of three years (instead of one year, as is the case for most other programmes).
- Joint incentives have been launched between companies and local universities to increase the pool of talented students.
- The grant amount has increased to cover up to 65-75% of the R&D expenses of the centre, so as to ensure that labour costs are competitive.

### Evaluation and outcomes of the scheme

No information available

### Sources

EC/OECD (2014), *International Science, Technology and Innovation Policy (STIP) Survey and Database*, edition 2014, [www.innovationpolicyplatform.org/sti-policy-database](http://www.innovationpolicyplatform.org/sti-policy-database).

Erawatch, "Encouraging large firms to set up development centres in peripheral areas",

Office of the Chief Scientist (ND), R&D Incentive Programmes, Ministry of Industry, Trade and Labour, Jerusalem, [www.moital.gov.il/NR/rdonlyres/5E7A4322-4D0F-4320-953C-83F94024E7AA/0/RDspreads.pdf](http://www.moital.gov.il/NR/rdonlyres/5E7A4322-4D0F-4320-953C-83F94024E7AA/0/RDspreads.pdf).

Information provided to the OECD by the Permanent Delegation of Israel to the OECD (July 2015 and February 2016).

### Background

This document is part of a repository of examples of **innovation policies that have for explicit aim to contribute to territorial, industrial and social inclusiveness**. The repository is part of an innovation policy toolkit developed for the **Innovation for Inclusive Growth** project and gathers national innovation policy programmes that:

- Explicitly target lagging and less innovative regions** (outside of regions that are highly innovative) or by design are more likely to support these lagging / less innovative regions.
- Explicitly aim to include in innovation activities individuals and groups that are not usually participating** in those activities and in support of broadening the group of innovators.
- Explicitly aim to foster innovation activities in non-innovative firms**, in particular by targeting **non-innovative sectors and non-innovative Small and Medium-sized Enterprises (SMEs)**.

Policies are searchable by inclusiveness type, objective and implementation challenge on: <https://innovationpolicyplatform.org/inclusivetoolkit>