

# Innovation Policies for Inclusiveness – Policy Cases

## Encouraging R&D in traditional industries

Country: **Israel**

### 1. Short Description

The programme for *Encouraging R&D in Traditional Industries* fosters innovation in industries that typically are low-tech and do not engage in innovative activities. The programme incentivises firms in those industries to invest in research and development (R&D) through **grants** covering 50% of projects expenses (including the development of new models, the acquisition of intellectual property (IP), training and marketing). **Professional counselling** is also provided.

*This policy profile is part of a [policy toolkit on innovation policies for inclusiveness](#). It is relevant for industrial 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)	2005 to present (as of December 2016)
<b>Target group</b>	<b>Size and budget:</b>
<b>Firms (traditional industries)</b> Traditional industries are identified as a low-innovation sector. They include: mining, non-metal minerals, rubber and plastic, basic metal and metal products, food, beverages and tobacco, textiles, garment, leather products, paper, print and wood products.	The total budget spent since 2005 amounts to <b>NIS 1.0 billion (USD 247 million), granted to 580 firms with 1 400 projects</b> (a firm may submit several projects over the period). The programme has no dedicated budget: the funds are drawn from the general <b>R&amp;D Fund</b> which has supported innovation in Israeli firms through grants since the 1980s. The fund has an approximate yearly budget of NIS 1.5 billion (USD 370 million). Royalty payments from successful projects make up a significant part of this budget.
Type of policy instrument(s)	Inclusiveness focus
<b>Direct financial support:</b> grant <b>Non-financial support:</b> counselling, outreach	<b>Industrial inclusiveness</b>



## Policy objectives

The programme aims to encourage investment in R&D among traditional industries that typically do not engage in innovation activities. The programme supports process innovations and innovations for the local market rather than high-tech innovation. The objective is to reach 80% of the labour productivity of traditional industries in the United States over 20 years.

## Rationale

Traditional industries account for a significant share of total GDP and employment in Israel. However, they suffer from low productivity per employee. In general, these industries are low-tech and do not engage in innovation activities. Firms in traditional industries in Europe and the United States spend, respectively, twice and three times as much on R&D as Israeli ones (see the “Report of the Committee to Examine Means to Strengthen Peripheral Areas and Traditional Industries (Makov Report)”).

In addition, Israel faces problems associated with its dual economy. It has a relatively small, yet highly innovative high-tech sector (accounting for around 10% of the labour force), which serves as a key engine of economic growth, that co-exists with a much larger but less efficient traditional industry and services sector. This has led to rising inequalities, as the gap between the well-paid labour force living at the centre of the country (in the Tel Aviv metropolitan area) and the poorly paid labour force living mainly at the periphery has widened. This has increased social unrest.

## Policy target recipient and selection mechanism

Firms in “traditional industries”, as defined by the Israel Central Bureau of Statistics, are eligible for grants. These industries include: mining, non-metal minerals, rubber and plastic, basic metal and metal products, food, beverages and tobacco, textiles, garment, leather products, paper, print and wood products. Firms working in these industries are characterised by low R&D activity, high volume of manufacture workers and low wages. Only single organisations may apply for grants.

The R&D committee makes decisions on grant applications based on different criteria from the main R&D Fund scheme, so that non-cutting edge innovation can be funded. The main requirement is the economic viability of the innovation project.

## Policy instrument(s)

**Direct financial support (grant)** covers: labour costs, equipment, external expertise and technology purchases. Recipients are entitled to a grant of **50% from the approved budget for the R&D project**, which is not confined to a specific amount. Approved recipients benefit from a grant of up to NIS 500 000 (USD 123 450) to develop new production line models, a grant of up to NIS 250 000 (USD 61 700) to develop new technology or intellectual property, a grant of up to NIS 25 000 (EUR 6 200) for training and a grant of up to 10% of the project cost for marketing abroad.



These are the maximum grants allowable under the Tmura R&D Fund Framework, of which this programme forms a part. The Tmura R&D Fund provides grants in support of private sector R&D investments repayable in the forms of royalties.

**Non-financial support:** includes outreach programmes promoting innovation in traditional industries, professional counselling and consulting services.

### Policy challenges

- Lack of previous contact between the government and the targeted firms led to a certain amount of resistance to programme implementation.
- The targeted firms demonstrated a high aversion to long bureaucratic procedures.
- There were low levels of awareness among the targeted firms regarding the potential benefits of investing in R&D activities.

### Actions undertaken to address challenges

- The provision of grants replaced loans, with no need for royalty payments from successful projects. This measure increased the willingness of firms to participate in the programme.
- Close collaboration with the Manufacturers Association of Israel (MAI), the representative body of all industrial sectors, helped to reach out to targeted firms and increase their engagement in the programme.
- Information sessions about the programme, focusing on its conditions and potential benefits, were held in the individual factories without any cost or obligation for the firms.
- The maximum amount of time authorities have to provide an official response to programme applications was shortened from 4.5 months (the length for other regular processes) to 10 weeks (upon submission of the request).
- A training course on the relevance and characteristics of R&D processes was provided (consisting of 200 hours of instruction by a technical advisor, 75% of which was funded by the government).

### 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).

Office of the Chief Scientist (n.d.), "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).



Ministry of Industry, Trade and Employment (2007), Report of the Committee to Examine Means to Strengthen The Periphery and Traditional Industries (Makov Report) (Hebrew), October 2007

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

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## Background

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*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:*

- A.** 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.*
- B.** 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.*
- C.** 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>