Executive Summary

**Increasing Israeli activity in the field of International development includes a wide variety of economic and diplomatic advantages and realizes Israel’s moral obligation, as a developed country, to take part in global development efforts.**

**A central method of accelerating sustainable economic growth is the increase of Israeli exports.** In recent years, the Israeli economy has grown at a rate higher than the OECD average, and the rate of Israeli exports has grown in parallel. However, the global and local economic crises created by the Coronavirus pandemic and the subsequent drop in demand and global trade are expected to lead to a significant slow-down in growth, and even a decline in the growth of Israeli exports in the near future. This negative trend adds to the existing complexity characteristic of Israeli exports, which are defined by significant concentration of exports to developed countries, as well as significant concentration in the number of exporters and exported products. This high rate of concentration results in a high level of exposure to various risks for the Israeli market, which could develop in local and global arenas.

**As a result, developing countries are a significant opportunity for the Israeli economy and for Israeli exports.** It is expected that 70% of global growth will come from developing countries by 2030.[[1]](#footnote-1) This growth is expected to be based on an unprecedented increase in individual and public consumption in developing countries, as a result of increasing demand for services, infrastructure, and improvements in quality of life. Moreover, the concentration of global efforts and investments around Sustainable Development Goals (SDGs) further increases opportunities for the Israeli economy. The UN estimates that demand for to achieve these development goals will reach approximately $3.3-4.6 trillion per year, by 2030. These trends demonstrate that there is an economic potential of tens of billions of dollars for Israeli exports to developing countries.

**Most countries in the world are considered to be developing. Therefore, activity in the field of international development is an opportunity to strengthen Israel’s diplomatic status.** As the economies of developing countries continue to strengthen, their diplomatic power and importance grow stronger as well. Activity in the international development field is an opportunity to strengthen Israel’s bilateral and multilateral diplomatic relations, by strengthening Israel’s relations with each developing country, and at the same time, upgrading Israel’s status in international fora.

Israel is a leading example of a country that transitioned quickly and with extraordinary success, from the status of a developing country, which received aid from other countries, to a developed country. Israel is located at the global forefront in a variety of indices, such as GDP per capita, HDI, technological leadership, and more. **As a result, Israel has a moral obligation to play a key role in global efforts for sustainable development, and to assist developing countries in improving their residents’ quality of life, in a variety of aspects.** This moral obligation is aligned with the Jewish principle of “Tikkun Olam,” repairing the world, and serves as an opportunity to create a new basis for strengthening relations and partnerships with Diaspora Jewish communities.

**In Government Decision 4021 dated July 23, 2018, the Israeli Government created an inter-ministerial committee to promote and coordinate Israeli activity in the field of international development.** In its vision statement, the committee determined that, “Israel will be a significant player in the international development field, while maximizing the economic and diplomatic potential present in developing countries.” The committee also outlined the following goals for the government in the international development field:

1. Doubling Israeli exports to developing countries by the year 2030, to $50 billion.
2. Improving Israel’s diplomatic status in developing countries, and in international organizations.
3. Taking part in the global effort to achieve the UN’s development goals, while emphasizing areas where Israel holds comparative advantages.

In order to make government activity more efficient and focused, the committee discussed governmental priorities in the field of international development and chose the following sectors:

* Sustainability and preparation for climate change (water, agriculture, cleantech)
* Technological and digital development (cyber, ICT, fintech)
* Health (digital healthcare, biotech)
* Emergency and disaster management

**The committee performed the most comprehensive governmental analysis of the subject in recent decades.** The committee issued recommendations relating to the following subjects: integration of the Israeli private sector in international development and assistance in receiving funding for this activity, encouraging Israeli innovation to meet the challenges of the developing world, increasing Israeli foreign aid, and establishing mechanisms for measurement, evaluation, and increasing coordination between various players operating in the field of international development. The committee’s recommendations serve as a strategy for the field of international development. The implementation of this strategy will require a separate budgetary inquiry, which was not done within the framework of the committee.

[Image]



Source: Ministry of Foreign Affairs

**Box 1:**

The relationship between economic cooperation, international development, and foreign aid

**International development is the global involvement in partnerships with developing countries, in order to allow the sustainable growth of their potential.**

In September 2015, the UN General Assembly adopted the SDGs, which serve as an agenda for the year 2030, on the subject of sustainable growth. The SDGs define 17 goals and 169 measurable targets, which are the focus of global activity in the fields of policy, work plans, measurement, funding, and the like. The agenda expresses the global consensus regarding the global future that the nations of the world hope to reach by the year 2030 in the fields of economics, environment, society, and government. Reaching these targets means reaching the required threshold for strengthening global stability. Each country aspires to meet these targets. However, for developing countries, the distance to the target is larger than it is for developed countries.

**Economic and diplomatic activity with developing countries, both by the government and by the private sector, can be divided into three layers, each layer including the other** (see Figure 1):

1. **Foreign Aid** – public resources that a developed country donates to promote goals in the field of international development.
2. **International Development** – integration of public resources, private resources, and philanthropy, invested in activities to promote both the goals of international development and profit maximization. International development includes the layer of Foreign Aid.
3. **Economic and diplomatic ties with developing countries** – public or private resources invested in international development goals, in addition to resources invested in order to achieve economic or diplomatic gains, not necessarily with the objective of promoting the goals of international development. This layer includes the layers of International Development and Foreign Aid.

**Figure 1:**

Layers of activity in developing countries

[Image]

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**Economic and diplomatic ties**

**with developing countries**

**International Development**

**Foreign Aid**

Main Recommendations

1. Recommendations to integrate the Israeli private sector in international development

The significant business potential in developing markets and international recognition of the private sector’s important role in international development situate this field as a significant opportunity for the Israeli private sector. However, markets in developing countries are not sufficiently advanced, and are characterized by many market failures and obstacles. This reality creates difficulties for business activity in developing countries, deters companies from operating in these countries, and frequently makes business activity not feasible. As a result, other developed countries, those that directly compete with Israel, assist their private sectors in overcoming these obstacles and market failures, and thus increase the feasibility of business activity in developing countries. In Israel, the governmental response to the obstacles and market failures in developing countries is not complete. As a result, Israeli companies are deterred from operating in developing countries, and are in weaker positions than competing companies from other developed countries.

The committee recommends, inter alia, providing the following responses to the central gaps that were identified:

* Providing a range of information regarding business opportunities in the field of international development and in developing countries, by creating infrastructure for collecting and distributing information.
* Adapting and expanding assistance programs by the Ministry of Economy and Infrastructure and the Ministry of Foreign Affairs to include business activity in the field of international development and in developing countries, including assistance in the field of tenders of international development institutions.
* Expanding Israeli participation in international financial institutions for development, through the creation of Israeli funds in these institutions. This effort is intended to, inter alia, create business opportunities and a market for the Israeli private sector.
* Creating a dedicated team that will immediately examine the characteristics and feasibility of creating a government corporation that will allow for cooperation between the Israeli government and the Israeli private sector in business activity in developing countries.
1. Recommendations to encourage Israeli innovation to meet the challenges of the developing world

Israel has a comparative technological advantage in central SDG fields, such as sustainability, preparation for climate change, digitization, health, cyber, and emergency and disaster management. These advantages create significant business opportunities for Israeli entrepreneurs and for the Israeli innovation economy to meet the challenges of the developing world. Today, this opportunity has not yet been realized, due to a number of reasons. These include: a low level of engagement in initiatives that focus on the needs of the developing world by entities that support innovation, a lack of cooperation with international entities that promote opportunities for partnerships in the initial stages of the value chain in developing technological solutions, few opportunities for professional support (governmental and private) for entrepreneurs interested in operating in developing countries, and funding challenges throughout the whole value chain of the project.

The committee recommends, inter alia, providing the following responses to the central gaps that were identified:

* Creating a Developing Markets Desk at the Innovation Authority.
* Expanding and improving the Innovation Authority’s programs that provide professional guidance and funding for start-ups approaching developing markets and leveraging Israeli representatives in those countries for this purpose.
* Advancing partnerships with international development institutions, in order to encourage innovation for the developing world.
* Attracting and encouraging investment from Israeli and international entities in Israeli technologies designed for developing markets.
1. Recommendations to fund international development activities

Businesses interested in operating in developing countries find many obstacles in raising funding from capital markets for this activity. There are significant financial and other risks for funders, and they often refrain from investing, or demand high returns, accordingly. As a result, private capital does not flow to developing countries in amounts that developed countries would like, to achieve the development of developing countries and the realization of their economic potential. In order to allow businesses to operate in developing countries, and to contribute to their development, the majority of developed countries have created mechanisms, financial instruments, and dedicated tools to fund the field of international development.

In contrast, Israel offers a relatively limited range of financial instruments for funding businesses interested in operating in developing countries. As a result, Israeli businesses seeking to operate in developing countries are often required to seek alternative foreign sources of funding. However, they are in an inferior position relative to non-Israeli companies that compete with them to receive funding for activity in the field of international development. This inferior position is the result of, inter alia, a lack of information, experience, contacts, and the accessibility required to raise capital to operate in developing countries and achieve financial closure, difficulty in raising primary capital (equity), and the lack of an active funding entity that assists Israeli companies in raising funds from additional sources and achieving financial closure.

The committee recommends providing a response to the information and experience gaps by making expertise in raising funding for international development accessible and increasing the exposure of foreign financial entities in the field to Israeli companies.

Regarding the financial obstacles that were identified, and the lack of an active funding entity, the committee discussed three options:

1. A response to the information and experience gaps as detailed above.
2. The creation of an Israeli fund for international development with joint funding from private and government sources and private management, which will provide small amounts of funding to Israeli companies, with an emphasis on capital. As a result, this will provide them with “signal,” which will assist them in receiving foreign funding and achieving financial closure.
3. The creation of an Israeli financial institution for development (DFI).

The committee agreed that it is still too early to advance Option C – the creation of an Israeli financial institution for development. An Israeli DFI is an advanced response to the challenge of funding international development, which requires significant inputs. Therefore, the possibility of creating an Israeli DFI should be re-examined in several years, as Israeli activity in the field of international development grows, with an emphasis on the activity of Israeli companies in developing countries. Regarding a response in the near-medium term – the committee agreed that a response in the framework of Option A should be provided. The committee has yet to reach a determination regarding Option B.

1. Recommendations to strengthen Israeli foreign aid

Official Development Assistance (ODA) is the official OECD measurement for examining the scope of public money that countries contribute towards the development of developing countries. Since it joined the OECD in 2010, Israel is consistently ranked at the bottom of the list of OECD member countries, regarding contributions to ODA as a percentage of Gross National Income. Additionally, Israel’s report of ODA is deficient, both in terms of internal governmental reporting and in public reporting. As a result, this reporting does not provide the required full picture for improving and guiding Israeli activity in the field.

Alongside government and private sector activity in the field of international development, civil society plays a key role in providing services, initiating activity, leveraging philanthropy, evaluation, and more. In practice, civil society activity in the field of international development is its own market. In Israel there are only tens of civil society organizations in the field of international development and they cooperate with the government in a limited scope and manner. As a result, Israel is not leveraging the potential or advantages of the integration of civil society in the field of international development.

The committee recommends, inter alia, providing the following responses to the central gaps that were identified:

* Continuing to improve and expand the new mechanism for reporting ODA, alongside the creation of a mechanism for reporting the flow of private capital and philanthropy. This can be done in the framework of a complementary measurement known as Total Official Support for Sustainable Development (TOSSD).
* Increasing the procurement of services in the field of international development from civil society on the basis of an appropriate mechanism.
* Creating a regulatory framework for cooperation based on civil society and academic initiatives.

Additionally, the committee believes that expanding international development activity, as is proposed in this report, will consequently lead to the expansion of Israel’s ODA, in accordance with conventional budgeting principles in Israel. Accordingly, the committee recommends that a discussion and decision on expanding Israel’s ODA be held by elected officials in the framework of a discussion on general governmental priorities.

1. Recommendations relating to measurement and evaluation

Israeli activity in the field of development has grown gradually in scope and complexity. Until now, this growth was not accompanied by an examination of this activity’s effectiveness, specifically on the level of strategy. Gaps in measurement and evaluation of Israel’s international development activity, on a ministry level and government-wide level, make it difficult to audit and improve specific activities, compare programs, and to optimize government expenditures in the field. These gaps also create difficulties in leveraging existing activity to improve Israel’s diplomatic status on bilateral and multilateral fronts.

As a result, the committee recommends establishing a mechanism for measurement and evaluation that will examine, according to international standards, each international development activity that the Government of Israel is involved in, on a ministerial level and on a government-wide level. It will do so while touching on the impact of Israeli activity on the promotion of the UN’s development goals in developing countries, and its impact on achieving diplomatic and economic benefits for Israel.

1. Recommendations to improve inter-ministerial coordination

Israeli activity in the field of international development encompasses a large number and variety of government ministries, including both economic and diplomatic elements. The effectiveness of government activity is influenced greatly by coordination between various government bodies, the use of the unique expertise and point of view gained by each government body engaging in the field, and the leveraging of the activity of each governmental body to benefit the work of other ministries engaging in the field.

Today, coordination between government ministries operating in the field of international development, in developing countries, and in international financial institutions, is often sub-optimal. This is the result of, inter alia, deficiencies in sharing information and knowledge, which is frequently done in a disorganized manner, alongside an absence of mechanisms for coordination. While the creation of an inter-ministerial committee is a significant step for promoting government coordination in the field, the committee does not serve as a platform for coordination and collaborative work on a daily basis.

As a result, the committee recommends increasing coordination between the government ministries that are members of the committee, through the following activities:

* Integrating the targets and priorities that determined by the committee into ministry work plans.
* Sharing work plans in the planning stage with the other relevant ministries.
* Creating shared work plans relating to the sectors that government activity in the field of development will focus on.
* Creating a uniform mechanism for measurement and evaluation as described above.
* Periodic updates from ministries about their activity to the other governmental bodies operating in the field, alongside ad-hoc updates on shared topics.
* Sharing and providing access to the unique tools that each ministry uses for activity in the field of development.
* Creating work mechanisms shared by Israeli representatives operating in developing countries on behalf of various ministries and ministry staff in Israel
* Pooling resources and sharing elements of existing professional training in the field for employees
1. Recommendation to create an Israeli community in the field of international development

The majority of entities involved in the field of international development from various sectors deal with the obstacles that are characteristic of the field, discussed in this report, such as, information gaps, high transaction costs, and a need for integration. A deep examination of these obstacles has shown that a significant portion share the same cause – most entities operate in isolation from other Israeli actors in the field. This leads to an under-utilization of advantages of scale, such as decreasing costs, increasing expertise, identifying opportunities, and encouraging innovation, that are created among entities that have relations of competition and collaboration.

As a result, the committee recommends promoting material relations between entities engaging in international development from various sectors (public, private, and philanthropic) by creating a professional community that will gather them into a critical mass. The community will seek to achieve advantages of scale by promoting the quick transfer of knowledge, information, and opportunities between members, and networking various stakeholders. It is also proposed that the creation of this community and its activity be performed on the basis of methodology that has been developed on the topic and has been successfully implemented in the Ministry of Economy and Industry, in partnership with the relevant ministries that are members of this inter-ministerial committee.

1. Summary of Recommendations

|  | **Area of Gaps** | **Main Proposed Solution** |
| --- | --- | --- |
| **Private Sector** | Difficulty in creating a government framework for promoting business in the field | A dedicated team to examine the creation/expansion of a government corporation, which will allow cooperation between government and private sector in business activity in developing countries  |
| Information gaps regarding the market | Adaptation of assistance tools of the Foreign Trade Administration to the characteristics and needs of activity in the developing world.  |
| Difficulty in business development (including aspects of integration) |
| Difficulty in applying for government tenders  |
| Difficulty in creating a market and critical mass of transactions | 1. Ongoing activity of the Ministry of the Economy and the Ministry of Foreign Affairs
2. Expansion of involvement of international philanthropic foundations
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| **Innovation** | Need for professional guidance, exposure to international development challenges, and support for entrepreneurs | 1. Creation of a Developing Markets Desk at the Innovation Authority
2. Creation of partnerships with international bodies
3. Upgrade and expansion of Innovation Authority programs for developing markets (“Challenge,” “Bridge to Innovation,” and adaptation of products)
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| Lack of funding for start-ups in the field of international development | Encouraging investment from international financial institutions and venture capital funds in Israeli start-ups operating in the field of development  |
| **Funding** | Gaps in information, knowledge, and experience | Providing access to assistance, guidance, and training relating to funding possibilities around the world, and the best manner for requesting funding |
| Local financial instruments do not provide a sufficient solution | 1. A solution for gaps in information, knowledge, and experience
2. There has yet to be a determination relating to the creation of a dedicated fund for joint private-government funding in Israel
3. Creation of an Israeli institution for international development funding (DFI) – there is consensus that this solution is too advanced for the current stage
 |
| Difficulty in accessing international funding  |
| **Foreign Aid** | Insufficient reporting of OECD measurements | Continuation of the work of the Israeli Central Bureau of Statistics and the inter-ministerial committee to improve ODA reporting Sand creating a mechanism to report TOSSD |
| Not meeting international targets for ODA | Holding a discussion relating to the increase of ODA by elected officials as part of a discussion on government priorities |
| Low level of integration of civil society in foreign aid activity | Increasing the procurement of services in the aid field based on an appropriate mechanism |
| Creation of a regulatory framework for inter-sector cooperation  |
| **Measurement and Evaluation** | Need for measuring impact | Creation of a mechanism of measurement and evaluation to examine international development activity that the Government of Israel is involved in, from the level of single activities to a general overview of activity |
| Need for measuring economic and diplomatic benefits |
| **Inter-ministerial Coordination** | Low level of information and knowledge sharing  | Uniform mechanism for measurement and evaluation as described above |
| Sharing and providing access to unique tools that are used by each ministry |
| Sharing some elements of professional training in the field that exist for employees |
| Improvement of ongoing inter-ministerial work | Integration of targets and priorities into ministerial work plans, sharing in their planning stages, and creating shared work plans for focus areas |
| Periodic and ad-hoc updates between government ministries |
| Creation of shared work mechanisms for Israeli representatives in government ministries and in representations in developing countries |
| **Professional Community** | Strengthening sharing of information, knowledge, and skills | Creation of an Israeli professional community in the field of international development  |

1. Countries with Gross National Income per capita below $12,376 – the World Bank’s definition for the year 2020. [↑](#footnote-ref-1)