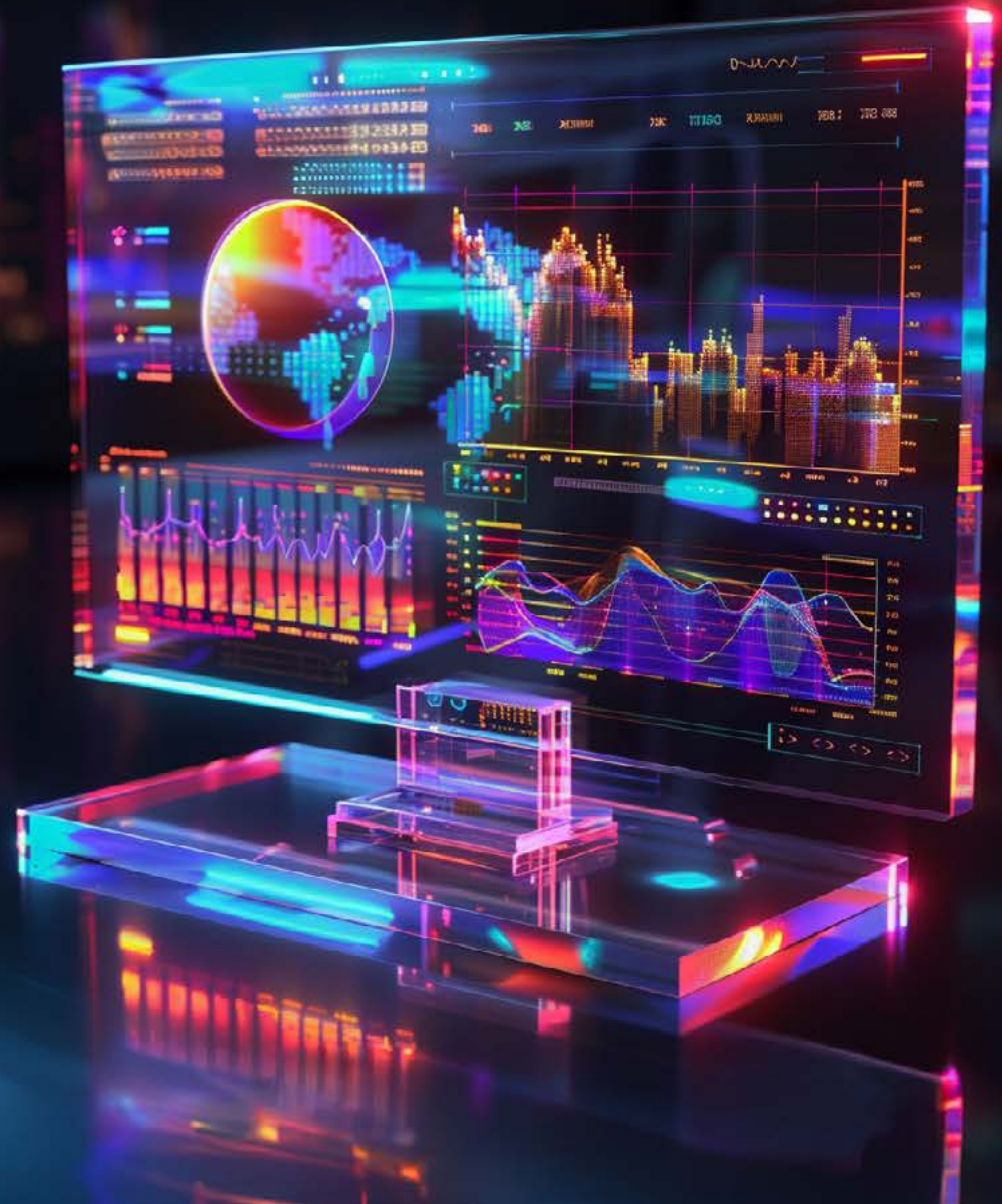




IATI Report: Multinational Companies' Contribution to the Israeli Economy and Society

Q1 2024



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Introduction

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- Prepared at the request of IATI
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Introduction

In recent decades, many multinational companies (MNCs) have chosen to establish operations in Israel, within the framework of strategic acquisitions or setting up centers in Israel. Many companies maintain research and development teams in Israel, while others hold local teams whose function is to create connections in the local market, whether for the purpose of operations and sales to Israeli customers, or for locating strategic opportunities in the technology field.

The presence of MNCs in Israel spans various sectors, ranging from technology, high-tech, and health, to manufacturing and finance, and contributes to the country's status as a dynamic center of innovation and entrepreneurship. Through their research and development efforts, these companies have showcased breakthrough technologies and solutions that not only revolutionized industries but also moved Israel to the forefront of technological innovation on the global stage. Moreover, their investments in infrastructure, human capital, and social responsibility initiatives have had a revolutionary impact on local communities, fostering economic growth and social welfare.

MNCs have a critical role in the Israeli ecosystem, and they are responsible for training the next generation of entrepreneurs in the economy. In fact, MNCs are the best academy for high-tech that can be found in Israel. By collaborating with local startups, academic institutions, and research centers, MNCs have enabled knowledge transfer, skill development, and mentoring opportunities; they have empowered entrepreneurs and advanced entrepreneurial spirit in Israel. MNCs are the most active players in Israel in acquisitions and

investments of technology companies and their presence in Israel assists in driving the local economy and strengthening the stability of the Israeli economy, even in times of crisis.

Research Methodology and Information Sources

Israel Advanced Technology Industries Association (IATI) led this report in collaboration with the Innovation Team at EY and aims to assess the impact of MNCs operating in Israel on the economy and society. The report is based on several primary information sources, including:

- Interviews conducted with senior executives of MNCs operating in Israel
- A survey sent to the CEOs of MNCs in Israel
- A survey sent to human resources managers of MNCs in Israel
- Interviews with EY experts in the fields of tax, technology, and innovation

Information sources and databases, including public reports

The report was written during January-February 2024 and is based on an analysis of the current status, aiming to establish a snapshot and assess the status of MNCs in Israel currently, with an emphasis on the effects of the Swords of Iron War. The report aims to present a balanced picture of the state of the different companies, their contribution to society and the economy, their barriers to further growth in Israel, and recommendations for the future.

The conducted research is qualitative, and as such, it is designed to present general trends based on the information collected from a variety of information sources and dozens of interviewees and

survey respondents. In order to validate the conclusions of the report, extensive quantitative research can be conducted, based on accurate figures rather than estimates, in a way that will allow for a precise economic impact assessment.

The Research Team

EY has a consulting team specializing in innovation strategy and accompanies many MNCs in Israel. We are always happy to hear insights and work with companies operating in the Israeli ecosystem. You are welcome to write to us at yaara.goldwyn@il.ey.com with any question or insight you have about the report and we will be happy to assist you.



Chapter 1 - MNCs in Israel

A multinational corporation (MNC) is a company whose origin and headquarters are outside of Israel, and which has a branch in Israel that engages in research and development activity or in the operation of an innovation center. Companies that only have sales activity in Israel are not included in this definition¹.

Part A - Activities of MNCs in Israel

1.1 Number of MNCs in Israel

Today, between 400 and 500 MNCs operate in Israel. The number varies between different information sources according to the definition. In addition, some companies have multiple legal entities that are separately aggregated for different purposes but are essentially branches of a single company. The main information sources on which we relied in processing the data in this report are the central databases of SNC, IVC, and the Israel Central Bureau of Statistics, as well as EY company data. In each of these sources, MNCs in Israel are defined differently. Since we used multiple sources of information, there may be inconsistency in certain parts along the report. Therefore, we indicated the relevant source of information in the footnotes for each part of the report to facilitate verification of the information.

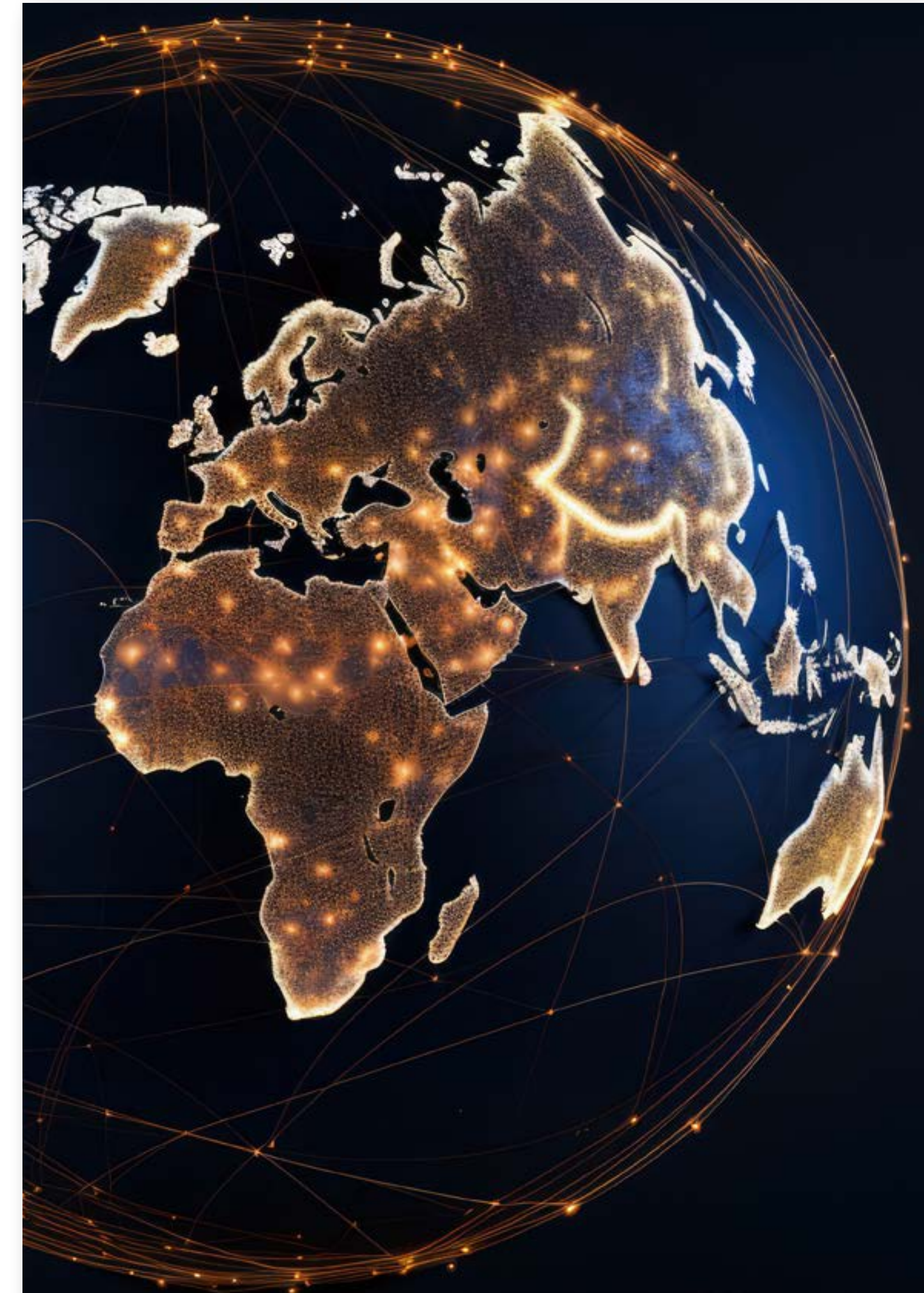
1.2 Number of employees of MNCs in Israel

MNCs operating in Israel employ a significant number of people in various sectors of the economy. With their diverse activities spanning technology, health, manufacturing, finance, and more, these companies

significantly contribute to employment opportunities in the country. The total number of employees at MNCs operating in Israel is about 86,000². This group of companies employs about 18% of the high-tech workers in Israel³. Overall, the employment from MNCs in Israel plays a decisive role in driving economic growth, promoting innovation, and increasing the country's competitiveness in the global market.

1.3 Distribution of MNCs in Israel by number of employees⁴

About 12% of the MNCs operating in Israel employ up to 10 employees. It can be said that the direct impact of these companies on employment in the Israeli economy is not significant (employing hundreds of employees in total). An additional 44% of MNCs operating in Israel employ a relatively small number of each (11 to 50 employees). In fact, companies employing up to 50 people constitute the majority of MNCs in Israel but employ less than 10% of the number of employees that this group of companies does. Businesses that employ 51-100 employees constitute 15% of all MNCs operating in Israel but employ only 7% of all employees employed by MNCs in Israel. So, most of the workforce employed in this group is employed in larger companies - over 100 employees. In fact, as can be seen in chart 1, there is an inverse relationship between the number of companies employing large numbers of employees and the proportion of employees in these companies. According to our analysis, 29% of MNCs in Israel, each employing over 100 employees, actually employ 85% of the human resources employed by MNCs in Israel. 10% of large companies employ over 50% of the employees in this category.



¹StartUp Nation Central | ²IVC | ³Yearly Report - The State of High-Tech 2022, Israel Innovation Authority

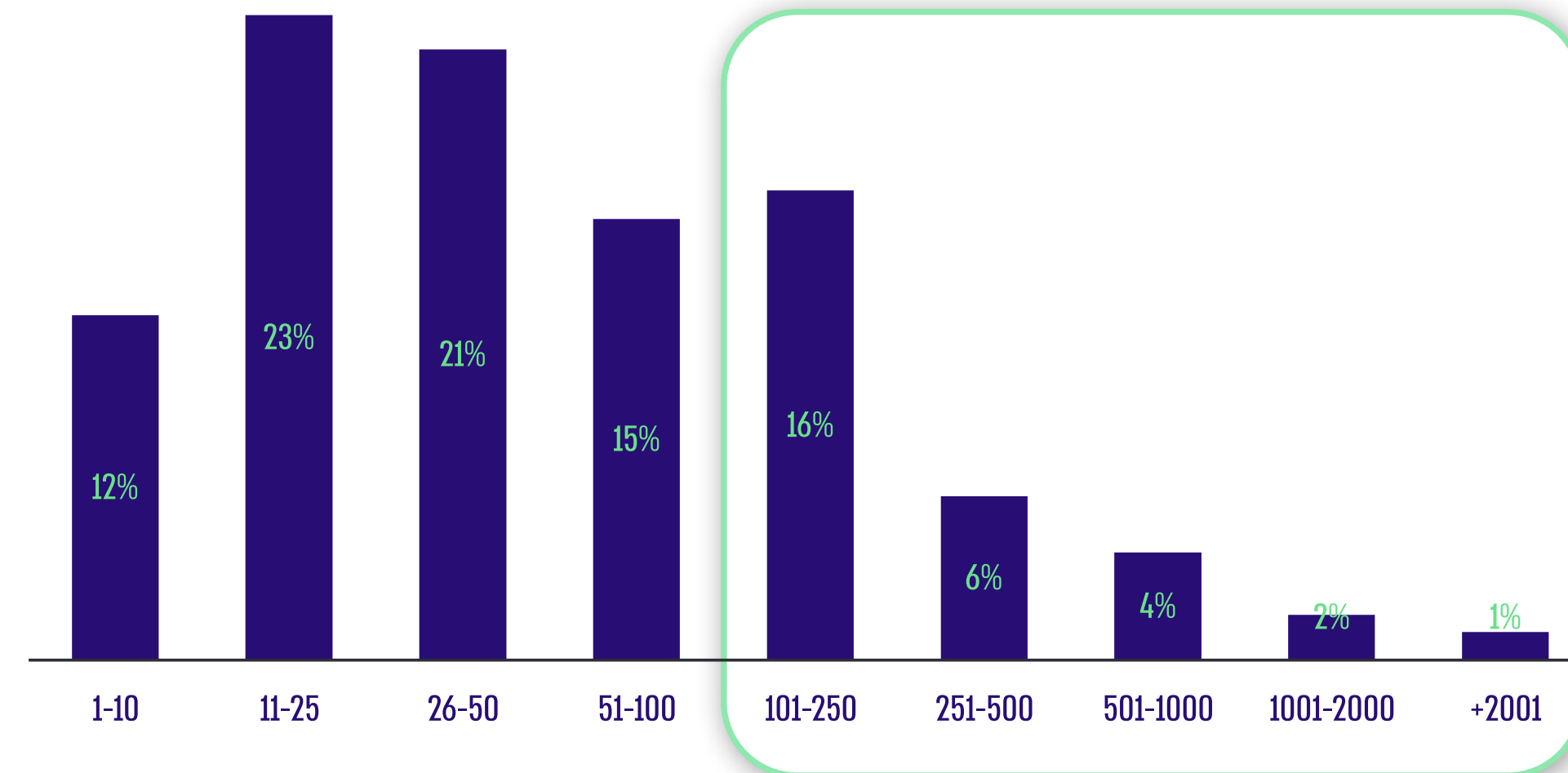
⁴EY analysis and processing of IVC data

Chapter 1 - MNCs in Israel

29% of MNCs in Israel employ about 85% of the workers in this sector in Israel.

In addition, to analyze employment data among MNCs in Israel, we examined a subgroup of the ten MNCs that employ the largest number of employees in Israel. This group alone employs more than 31,000 employees, an amount that constitutes about 37% of the total employees employed by MNCs in Israel.

MNCs by number of employees (% of total number of MNCs)



Number of employees by company size (% of total number of employees)

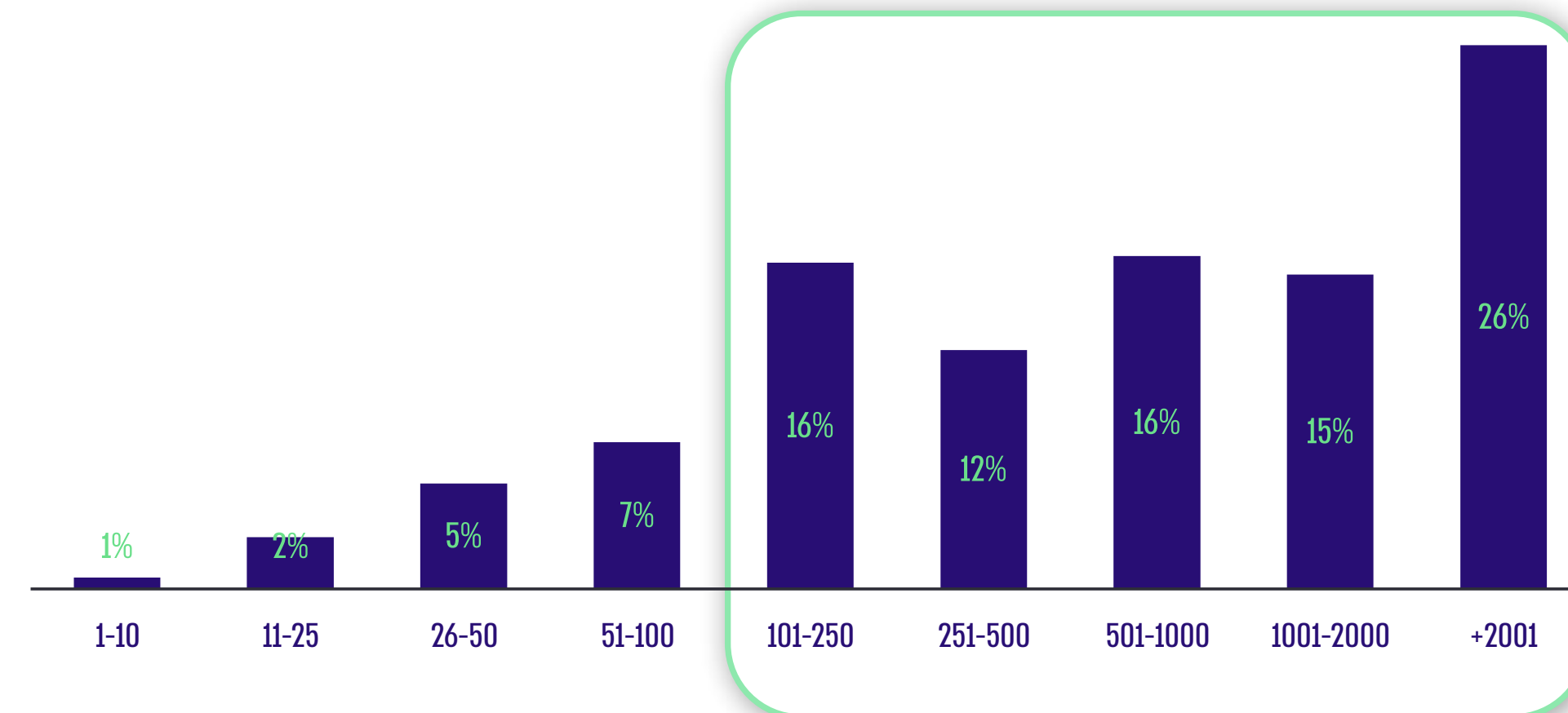


Diagram number 1: Distribution of the number of MNCs in Israel and the number of employees in MNCs in Israel according to the number of employees in the company

1.4 The geographical distribution of MNCs in Israel

MNCs operating in Israel are located in different geographical areas of the country. While many companies are concentrated in major urban centers such as Tel Aviv, Herzliya, Haifa, and Jerusalem, some of them have a significant presence in peripheral areas.

Tel Aviv, the financial and technological center of the "Start-Up Nation", hosts a significant number of MNCs, especially in the IT & Enterprise Software sector.

With that, Tel Aviv is the city with the most MNCs operating in it by a significant margin from the next cities after it (more than 3 times) - Herzliya and Petah Tikvah⁵. There are other prominent cities in terms of the number of MNCs operating in them, such as: Raanana, Ramat Gan, Haifa, Kfar Saba, Netanya, Rosh Haayin, Hod Hasharon, Caesarea, Jerusalem, and Yokneam.

However, when looking at the employment data of the ten MNCs that employ the largest number of employees in Israel, we can see that their geographical spread is wide and varied. Among the ten largest MNCs in Israel, we can see that the largest number of employees are in Haifa. Also, among the ten largest MNCs, a large number of employees are in the northern region: Yokneam, Karmiel, and Migdal HaEmek. On the other hand, there are also significant centers of the ten largest MNCs in Yavne and Kiryat Gat. In the central region, apart from Tel Aviv, there are many people employed in Herzliya, Rehovot, and other surrounding towns⁶.

⁵ EY analysis of IVC data

⁶ Based on EY estimates

⁷ The State of Innovation - Operating model frameworks, findings and Resources for multinationals innovating in Israel, 2019, StartUp Nation Central

When examining the employment areas of employees among the ten MNCs that employ the largest number of employees in Israel, it can be seen that Haifa is at the top of the table, with over 10,000 employees employed by these companies alone.

1.5 Reasons for the presence of companies in Israel

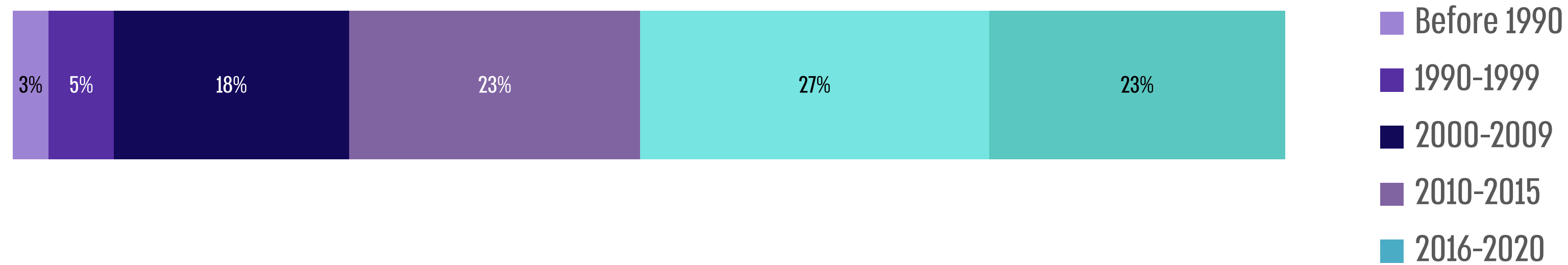
The Israeli ecosystem offers a range of reasons for multinational corporations to come to Israel and establish innovation, research, and development activities. Israel's reputation as a global center for technological innovation, often referred to as the "Start-up Nation", is a key factor attracting companies seeking access to advanced technologies and groundbreaking innovations. The strong ecosystem includes start-ups, research institutions, and

venture capital funds that foster entrepreneurship and allow collaboration among a wide range of players. In addition, Israel's skilled and intelligent workforce, particular in fields like technology, engineering, and biotechnology, provides MNCs with access to leading talents who can drive innovation and technological advancement. Furthermore, Israel's strategic location at the crossroads of Europe, Asia, and Africa offers many corporations a gateway to diverse markets and facilitates international trade and business expansion. Coupled with a supportive regulatory environment, government incentives for innovation, a culture of risk-taking, and entrepreneurship, these factors turn Israel into an attractive destination for multinational corporations looking for growth opportunities and access to advanced technologies. Many of the companies that chose to establish research or innovation activity in Israel did so in order to upgrade their core capabilities through open innovation, in addition to needing to create significant access to special talent and disruptive business models⁷. In industries where the importance of advanced software increases, the attractiveness of the Israeli ecosystem increases, for example in the vehicle industry due to the trend of autonomous vehicles.

Among others, the quality of Israeli venture capital companies, Israeli culture and creative thinking that allows to exploit existing technologies and also promote groundbreaking technologies that disrupt the market, the exceptional openness and accessibility of stakeholders in the Israeli ecosystem, and the local talent pool can be counted.

Chapter 1 – MNCs in Israel

MNCs segmentation by year of initial operation in Israel (% of total number of companies)



MNCs' employees segmentation by MNC year of initial operation in Israel (% of total number of employees)



Diagram number 2: The distribution of the number of MNCs in Israel and the number of employees in MNCs in Israel according to the year in which they started their operations in Israel

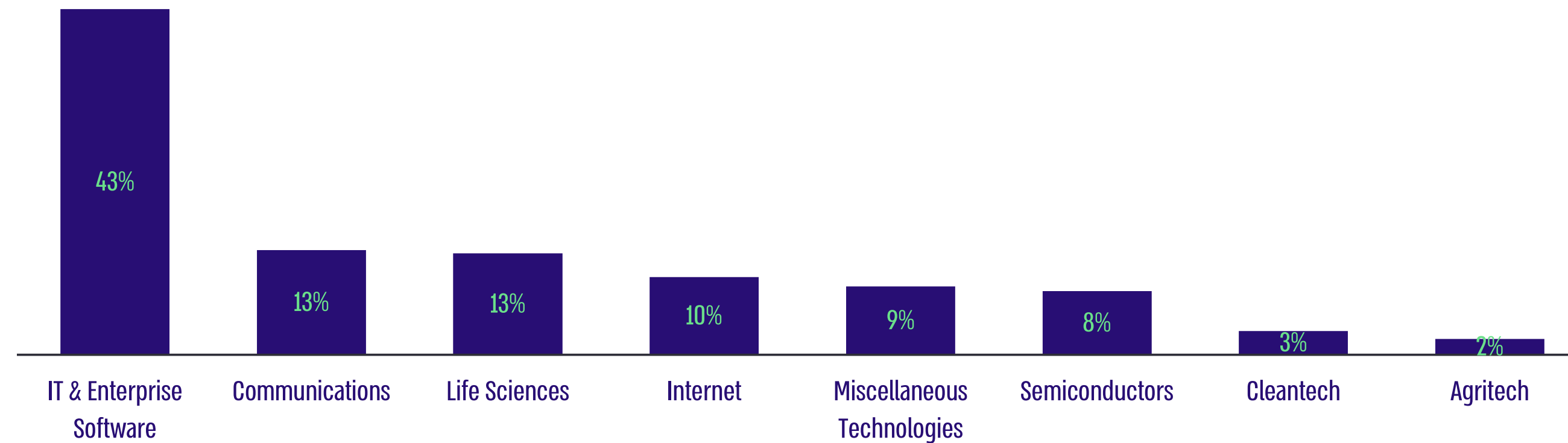
1.6 Duration of activities of multinational corporations in Israel⁸

Multinational corporations operating in Israel primarily began their activities in Israel in recent decades. In fact, more than 90% of the MNCs that operate in Israel began to operate in Israel in the year 2000 or later. The average duration of a multinational company still active in Israel is about 11 years, and the median multinational company has been active in Israel for 8 years in total.

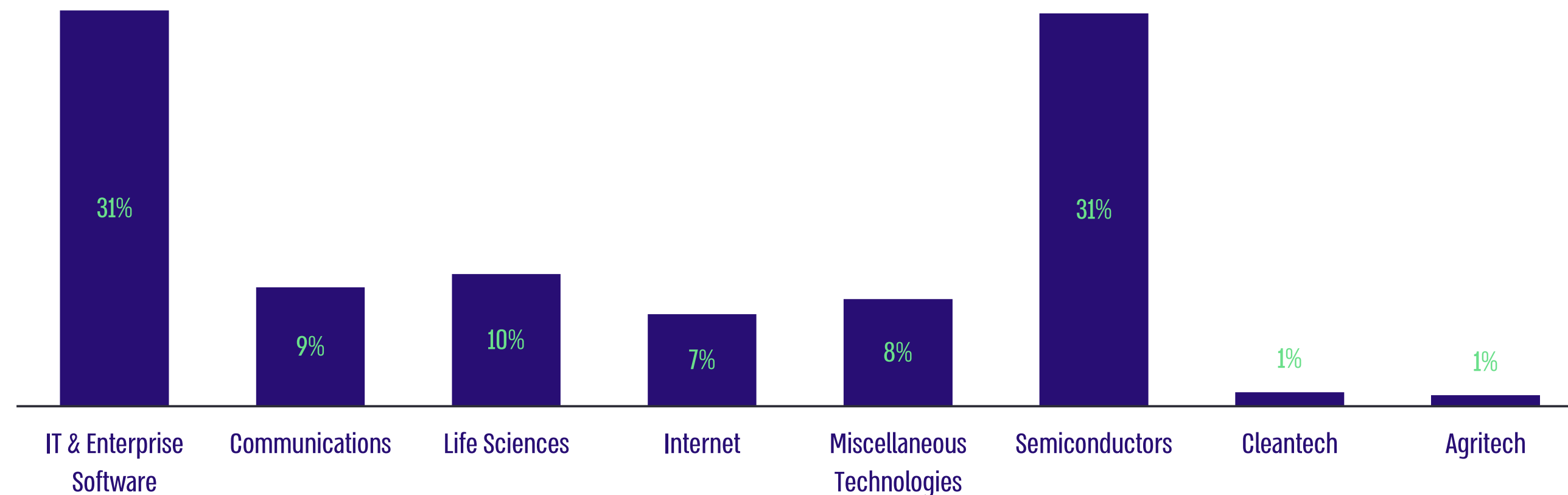
In a deeper analysis of multinational corporations in Israel, two main trends can be observed. The first is that classifying companies according to the length of activity in Israel shows that there is an inverse relationship between the number of companies in each age cluster and the number of employees employed by companies belonging to that group. Thus, the group of companies that were established in Israel before 1990, which constitute only 3% of all MNCs operating in Israel, employ about a quarter of the employees of these companies in Israel. The second trend that is important to pay attention to is the entry of new companies into Israel. It can be seen that 23% of MNCs in the ecosystem first entered the Israeli market in the last three years. This trend indicates the strength of the Israeli ecosystem that continues to attract foreign companies to local activity.

⁸ EY analysis of IVC data

MNCs segmentation by sector (% of total number companies)



MNC employees' segmentation by sector (% of total number of employees)



1.7 Areas of activity of multinational corporations in Israel⁹

When looking at the number of MNCs operating in Israel divided by sectors, it can be seen that 43% of MNCs operating in Israel belong to the IT Technology and Enterprise Software sector. Life Sciences and Communications each constitute 13% of total MNCs. 10% of companies belong to the internet sector and 8% belong to the semiconductor industry.

However, when examining employment data, a complex picture emerges. While only 8% of the companies belong to the Semiconductor sector, this sector is responsible for employing 31% of employees of MNCs in Israel.

Chart number 3: Distribution of the number of multinational companies in Israel and the number of employees in multinational companies in Israel according to activity sector

⁹ EY analysis of IVC data

Chapter 1 - MNCs in Israel



Multinational corporations in the semiconductor sector make up only 8% of all MNCs operating in Israel, but this group is responsible for employing about 37% of the workforce in MNCs in Israel. 5 out of the top 10 largest MNCs in Israel belong to the semiconductor industry.

In a more focused view (sub-sectors), it can be seen that prominent fields of employment among MNCs operating in Israel include Enterprise Software, Security Software, Business Analytics, Industrial Technologies, Medical Equipment and Mobile Applications.

In terms of the types of technologies that localized teams of MNCs operating in Israel specialize in, the following stand out: Artificial Intelligence, Cloud, Machine Learning, Cybersecurity, Internet of Things (IoT), Big Data, DevOps, and Industry 4.0. In technologies for more specific industries, Fintech, Vehicles, and Retail technologies stand out.

Significant sub sectors
(% of total number of companies)

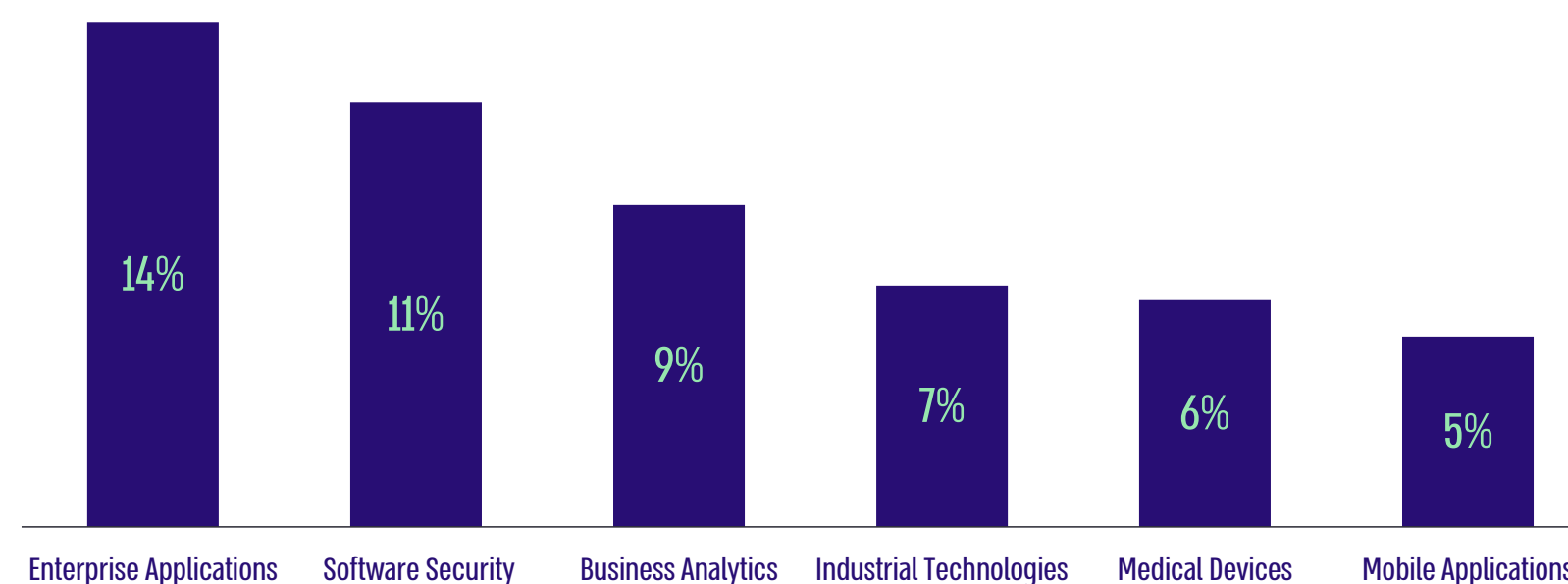


Diagram number 4: Subdivision of prominent areas of activity among the multinational companies operating in Israel (% of the total number of companies operating in Israel)

Significant Subsectors by number of employees
(% of total employees)

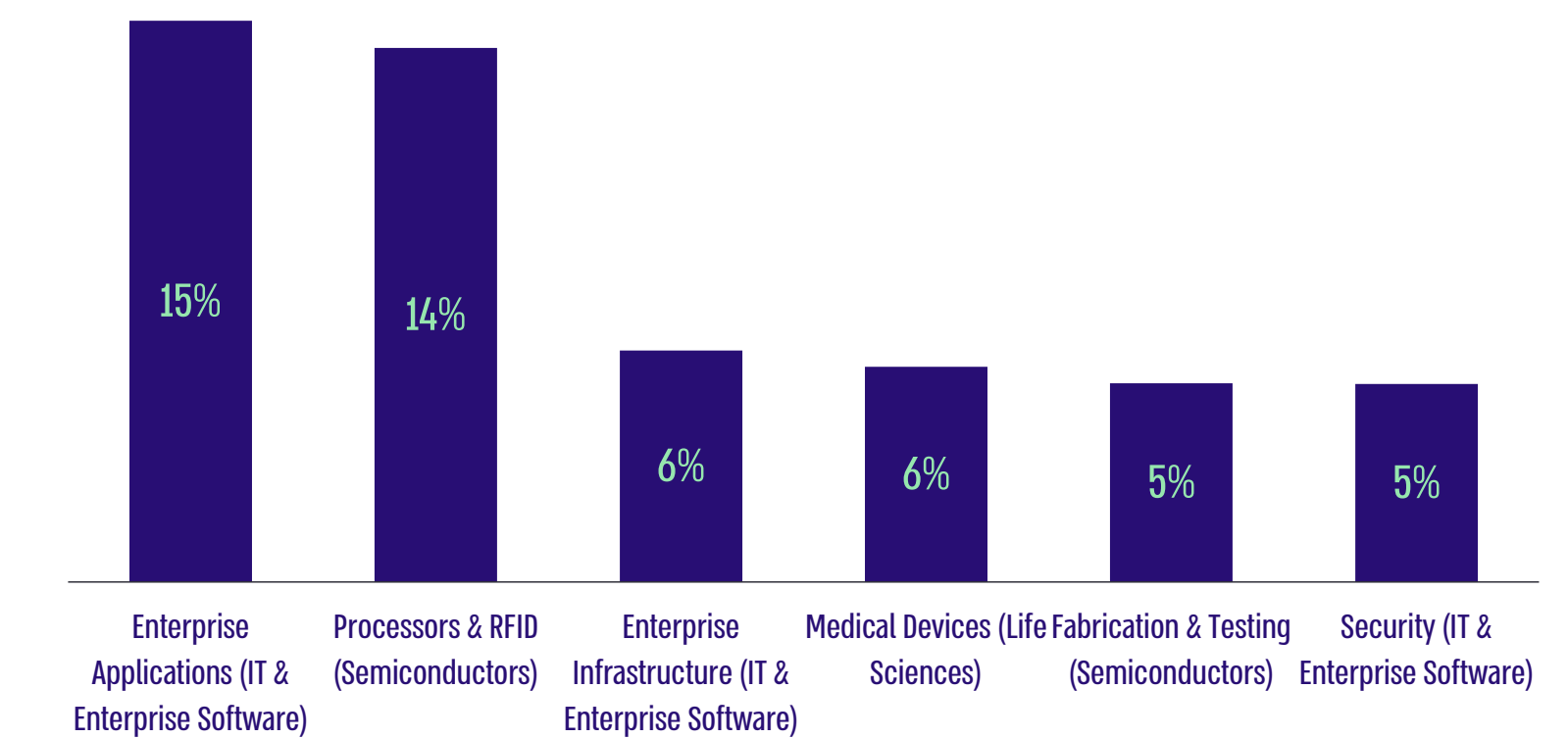


Chart number 5: Prominent sub-segments among MNCs operating in Israel (% of the total number of employees employed by the companies)

1.8 How MNCs operate in Israel

R&D centers versus innovation: MNCs can operate in different ways in Israel. In the past, the preferred and almost exclusive way to operate in Israel was through R&D centers, but over the years another course of action has also started to grow significantly with the establishment of innovation centers in Israel. Thus, the share of activity of these centers, which was negligible until 2012, jumped by 5 times by 2019. However, it should be noted that the direct impact on employment in Israel - the innovation centers employ a small number of employees¹⁰. Also, it's important to note that R&D activity is still of paramount importance, and few MNCs operating in Israel operate only through an innovation center and waive direct R&D activity¹¹. It should be noted that each of these types of activities is done alongside sales activities.

Various innovation tools of multinational corporations in Israel:

The MNCs operating in Israel promote their joint activity with the Israeli ecosystem through a variety of innovation mechanisms that contribute to both the corporations and the ecosystem: acquisitions and investments, innovation labs, incubators, and entrepreneurial accelerators and communities that focus on a specific subject and more (see chart number 12).

Significant Technology Tags (the proportion of companies for which technological tags are relevant out of the total number of companies)

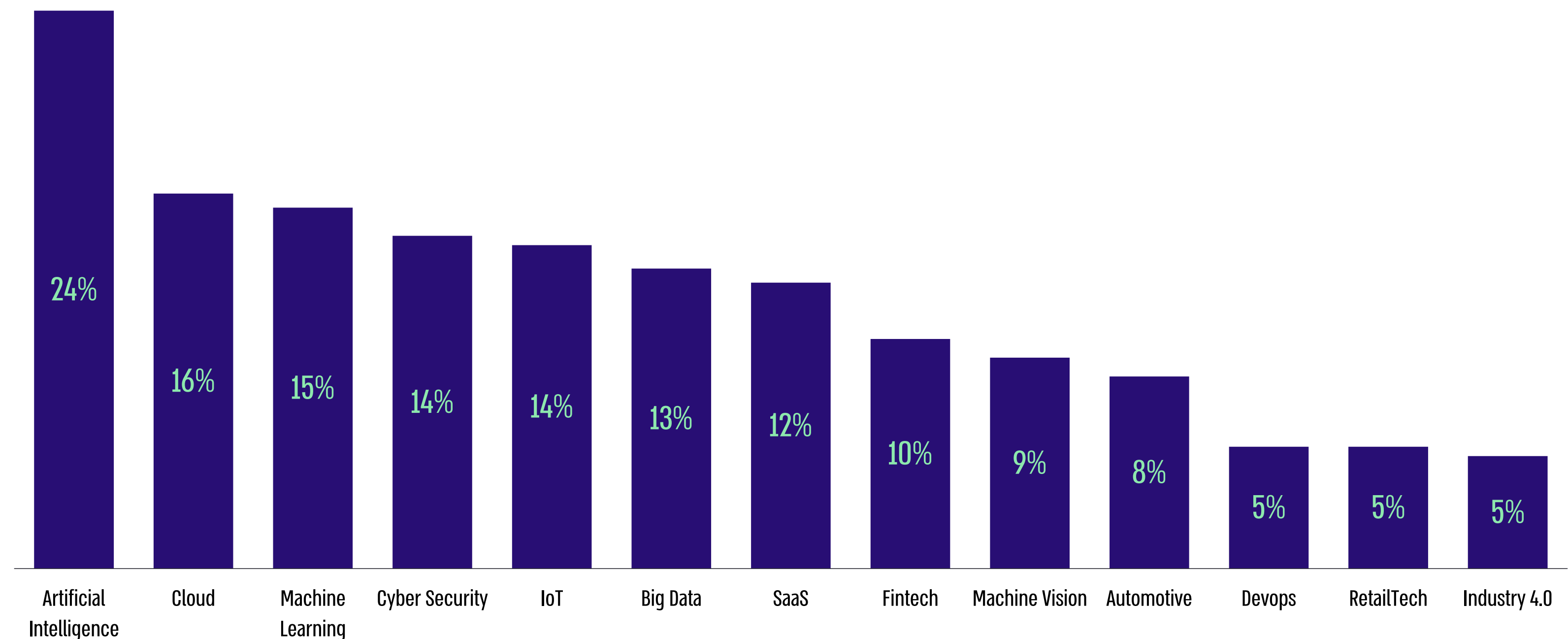


Diagram number 6: Technological labeling of MNCs that operate in Israel (the proportion of companies for which the technological labeling is relevant in relation to the total number of companies)

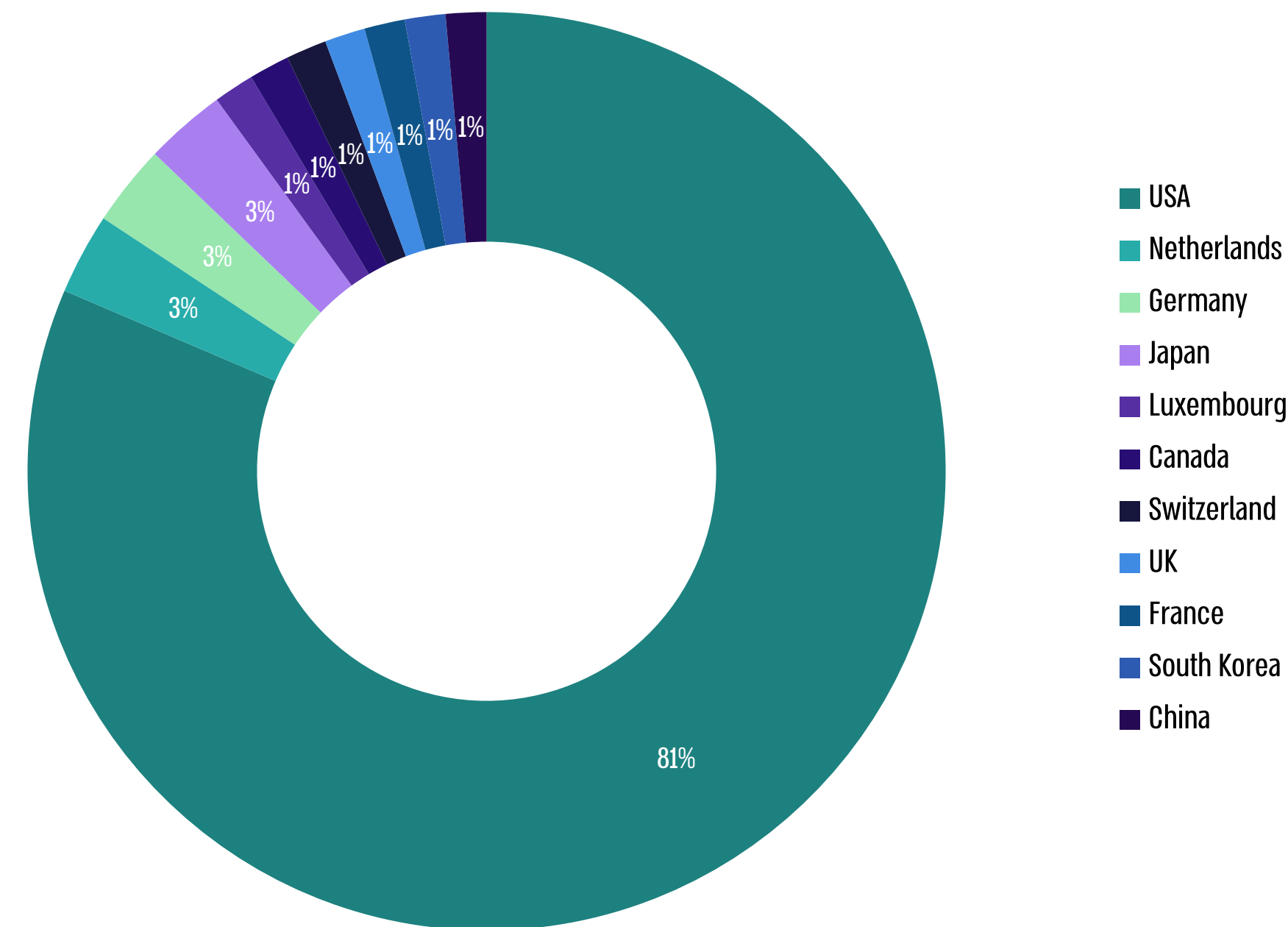
¹⁰ Examination of the activities in Israel of R&D centers and innovation centers of MNCs, The National Economic Council, 2019

¹¹ EY analysis of StartUp Nation Central data

Chapter 1 – MNCs in Israel

1.9 Countries of origin of multinational corporations in Israel¹²

In our study, we examined the countries of origin of MNCs that employ over 250 employees in Israel. As can be seen in chart number 7, 81% of companies operating in Israel are American companies, whose headquarters and global management are seated in the USA.



MNCs by country of origin

- Among MNCs with 250+ employees in Israel, **81% are US companies**
- When examining number of employees, we can see that **90%** are working for US-based MNCs
- 83% of the MNCs are based in North America
11% of the MNCs are based in Europe
6% of the MNCs are based in Asia-Pacific

Diagram number 7: Distribution of the number of MNCs in Israel according to the country where the company's global headquarters is located

81% of MNCs operating in Israel are American companies – the management and headquarters are located in the USA.

¹⁰ Examination of the activities in Israel of R&D centers and innovation centers of MNCs, The National Economic Council, 2019

¹¹ EY analysis of StartUp Nation Central data

¹² EY analysis and processing of IVC data

Chapter 1 - MNCs in Israel

Part B - The impact of changes in Israel on the approach of MNCs

1.10 Trends regarding Israel's status in the eyes of MNCs

Israel is viewed globally as a center of innovation and hi-tech, and according to most of the survey responses, this standing is only getting stronger. Over half of the respondents (53%) believe that Israel's reputation in this regard has improved in recent years. Less than one sixth of the respondents think that the trend has reversed, and that Israel's reputation has been damaged in recent years. Nearly a third of respondents do not see a change in Israel's reputation. Israel's status is also evident in the optimism of MNCs regarding their future in Israel. According to the results of another survey, 67% of MNCs operating in Israel estimate that they will operate in the field of mergers, acquisitions, or partnerships in Israel in the coming year. About 54% of companies expect to increase their presence in Israel and another 33% expect to maintain the scope of their operations in the country¹³.

1.11 The impact of the attempted passes to change the legal system in Israel

The vast majority of survey respondents do not attribute significant influence to the attempted passes to the change the legal system and the struggles created around this issue as regards the approach of global management towards operations in Israel. 13% of respondents mentioned that this caused concern among their employees.

Israel's reputation as a center of innovation and high-tech

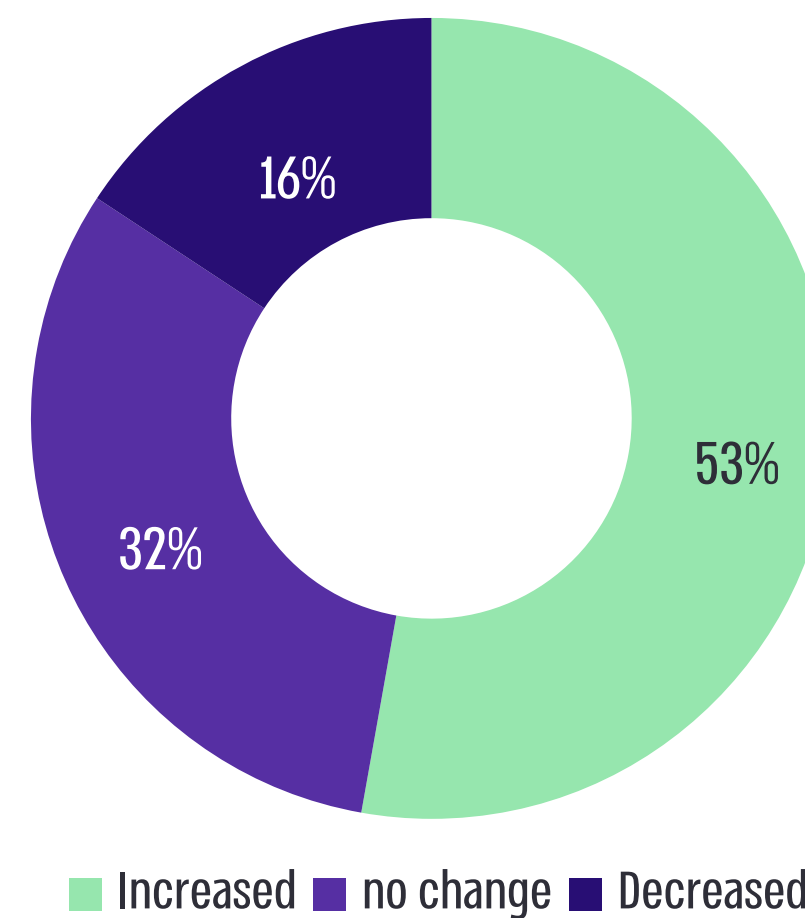


Diagram number 8: Israel's reputation as a center of innovation and high-tech - the trends (% of respondents to the question in the survey)

The impact of the attempt to pass legal changes

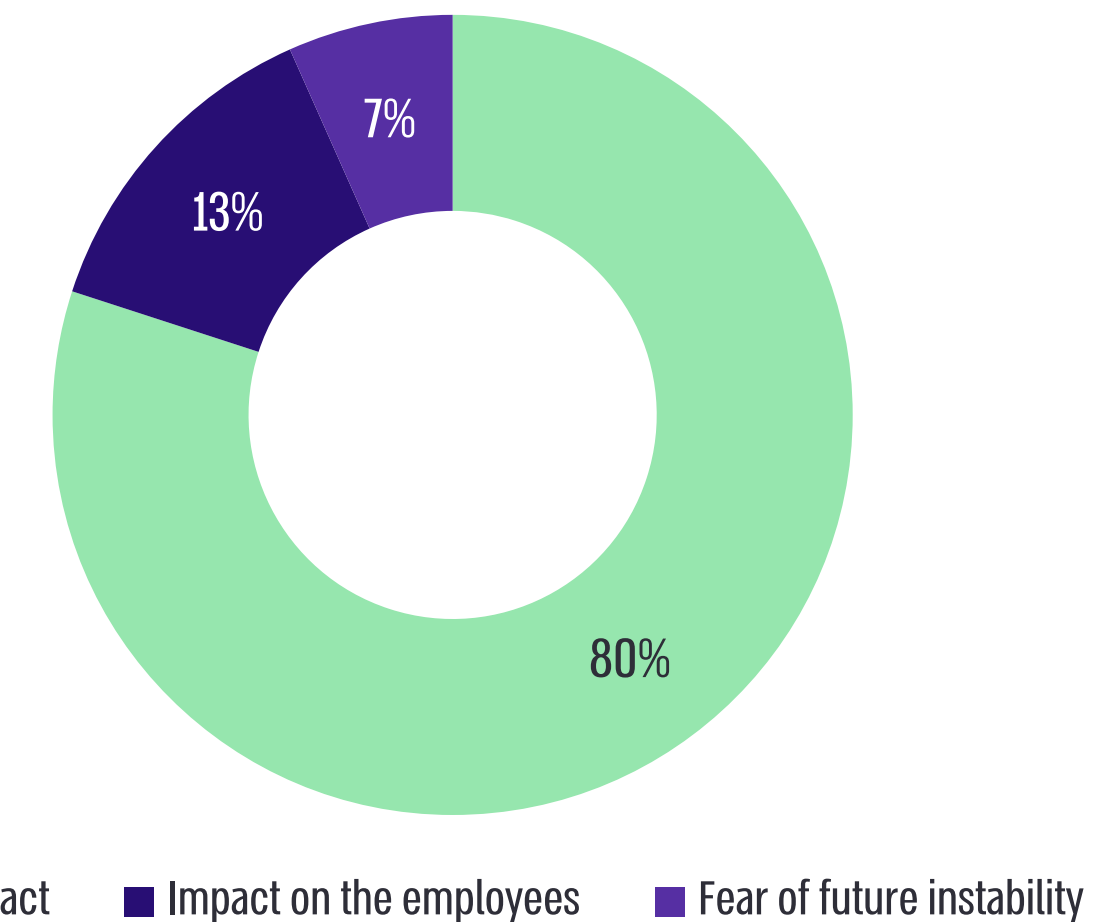


Diagram number 9: The effect of the attempted passes to change the legal system in Israel (% of the respondents to the question in the survey)

¹³ 2023 Annual Report - Israeli Tech Ecosystem, Startup Nation Central, 2024

1.12 The impact of the Swords of Iron War on MNCs in Israel

The murderous attack on Israel as part of the events of October 7th had an impact on decision-makers in Israel and around the world. Most of the companies we interviewed said that business continuity was their main focus in the first weeks of the war. In the first three months, in the majority of the companies we interviewed, about 10-25% of the workforce was on active reserve duty. However, it is noticeable that the remaining workers worked to cover the gaps, and in the vast majority of companies, business continued, and output even went up in many cases, despite the labor shortage.

As part of the survey, CEOs of MNCs were asked about the immediate impact of the war on the company's operations in Israel. About 60% of respondents stated that the war had little or no effect on the corporation's operations in Israel. About 30% reported limited impact, which included the cancellation of trips abroad and delegations planned to visit Israel. About 10% of the responding CEOs stated that the war had a significant impact on their companies. These companies are characterized by manufacturing activity that had been halted in the north or south of the country, or by activity related to supply chains that were damaged or significantly increased as a result of the fighting in Israel.

However, a large number of companies indicated that there is a long-term concern about Israel's damaged reputation if the fighting continues. Also, many of the CEOs are required to have more frequent communication with their headquarters abroad, where they often have to explain the situation in Israel and work to maintain a positive perception of Israel amongst the foreign management.

Swords of Iron war's impact on the MNCs in Israel

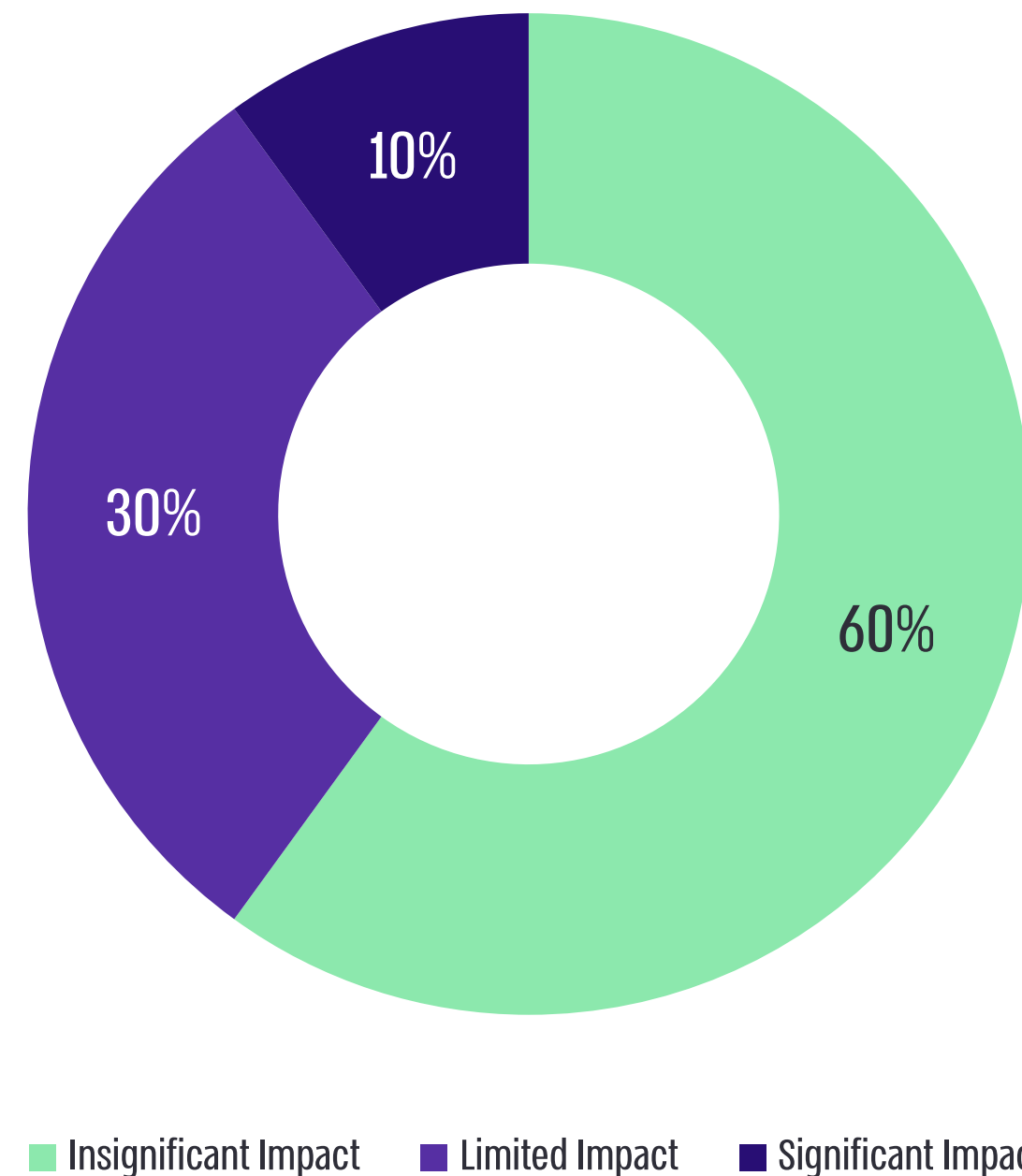


Diagram number 10: Swords of Iron war's impact on the MNCs in Israel (of respondents to the question in the survey %)

60% of the companies responding to the conducted survey indicated that the Swords of Iron War did not have a significant impact on their business activity in Israel.

1.3 The mobilization of MNCs for the Israeli economy during the Swords of Iron War

Several MNCs played a significant part in campaigns for Israel and their local branches during the Swords of Iron War. This mobilization included activities mainly in support of the employees recruited for reserve duty and their families. The companies provided monetary grants, allowed employees to perform reserve duty while fully maintaining their rights and encouraged them to do so. The companies took care of the families of the recruited employees and sent them assistance in a variety of ways. Additionally, most MNCs made significant donations to various social projects throughout Israel, with emphasis on fundraising for the IDF, aiding evacuated families, and rehabilitating affected areas.

Chapter 2 - The direct economic contribution of MNCs to the economy

Part A - Direct employment

2.1 Stable employment, beyond the fluctuations of the Israeli economy

One of the significant direct financial impacts of MNCs on the Israeli economy is the creation of stable employment with high salaries. The Israeli employees of these MNCs constitute a significant component of Israel's high-tech sector and are a stabilizing factor to the employment market in Israel. At a time when the local high-tech market is highly sensitive to fluctuations in global markets, the multinational R&D centers show relative stability at times of crisis, making them important for the economy's ability to consistently develop its human capital.

MNCs operating in Israel often offer competitive compensation packages to attract and retain leading talents, including skilled professionals in fields such as technology, engineering, finance, and research and development. Not only do these high-paying jobs provide individuals with financial stability and career advancement opportunities, but they also contribute to economic growth and prosperity. By providing stable employment with above-average salaries, MNCs play a pivotal role in boosting consumer spending, supporting local businesses, and driving economic development in various sectors of the Israeli economy.

There was evidence of relative stability from MNCs in the second half of 2022 when the rate of MNCs that continued to hire employees as planned was higher in comparison to local companies. The turnover

of R&D employees at MNCs was lower, as a smaller proportion of R&D employees voluntarily left or were fired, and a lower proportion of MNCs adopted a policy of recruiting only entry level employees¹⁴.

MNCs offer stable employment positions with high salaries that are not directly affected by fluctuations in the Israeli economy.

2.2 Employment - Directly employing engineers and R&D personnel on a broad scale

MNCs operating in Israel have a significant direct financial impact on the economy by creating research and development (R&D) positions that require a high level of skill. These positions, mostly at the forefront of technological innovation, offer competitive salaries and benefits, attracting leading talent both from Israel and around the world. The presence of MNCs in Israel has led to the establishment of cutting-edge R&D centers, where professionals work on groundbreaking projects and contribute to the development of innovative technologies across various sectors. These R&D positions not only provide workers with career opportunities but also stimulate economic growth by

nurturing innovation, enhancing productivity, and creating intellectual properties which contribute to the country's competitiveness on the global stage. The centrality of the R&D sector in the activities of MNCs is also reflected in the results of our survey, from which it emerged that on average, among the relevant companies that responded to the survey, about 65% of the employees are R&D workers

2.3 Employment in ancillary roles

In addition to research and development (R&D) roles, MNCs operating in Israel contribute to the economy by creating a variety of job opportunities in various sectors. These roles encompass a wide range of functions, including sales, marketing, finance, human resources, operations, and customer support, among others. There is often criticism of MNCs in Israel that while the advantage of multinational R&D centers is reflected in the high proportion of R&D employees, their existence does not create a meaningful proportion of non-technological jobs. Full-fledged local software companies that aren't R&D centers of foreign companies employ a significantly higher proportion of non-technology employees (higher employment multiplier) compared to multinational development centers. However, it is important to note that most large and established companies that employ a large number of workers in Israel employ workers in many roles beyond just R&D. A considerable number of MNCs operate complete business units in Israel, including marketing and sales systems. In addition, most of the largest companies (50% out of the top ten) operate local production activities in Israel and employ a wide range of employees in a variety of roles, fields of expertise and salary levels, not just R&D employees.

¹⁴ Human Capital in the Israeli high-tech: Current Status 2022-2023, Israel Innovation Authority and StartUp Nation Central.

Chapter 2 – The direct economic contribution of MNCs to the economy

Part B – Taxation

2.4 Income tax on private employees

The taxation on employees for MNCs in Israel operates according to the country's tax laws and regulations. Employees are subject to income tax on their salaries, with rates varying based on their income levels and tax brackets. MNCs operating in Israel are responsible for withholding income tax from their employees' salaries and transferring it on their behalf to the tax authorities. Furthermore, certain tax benefits or incentives may be available to employees, depending on their employment status, their work location, and other factors. Overall, the taxation on employees for MNCs in Israel constitutes a significant aspect of these companies' overall financial impact on the Israeli economy. The salaries of R&D employees in MNCs are higher than their counterparts in Israeli high-tech companies and start-ups¹⁶. Therefore, these employees also pay more tax than their counterparts in similar companies.

2.5 Corporate tax

The corporate tax rate for MNCs operating in Israel ranges between 6% and 23%, depending on their field of activity, geographical location, and location of intellectual property. As many MNCs operate on a 'cost plus' model, these companies start paying corporate tax from the onset of their operations in Israel, unlike local companies which do not pay tax for the starting period when they are not profitable yet. It

should be noted that if a company's IP is in Israel, the tax is calculated based on the actual revenues generated in the country. In absolute terms, it is estimated that the corporate tax of an average multinational company would be lower than that of a local company¹⁷.

2.6 Capital gains tax on acquisitions

One of the most significant aspects of taxation for MNCs operating in Israel is the capital gains tax on the acquisitions they make in the country. Capital gains tax applies to the profits realized from the sale or realization of assets, including investments, by MNCs in Israel. When these companies purchase assets in Israel, such as real estate, securities, or other investments, and then sell them at a profit, they are liable to pay capital gains tax on the realized profits. In addition, MNCs may be eligible for certain exemptions or reduced tax rates on capital gains under specific circumstances, such as investing in suitable industries or projects that promote economic development. Understanding and adhering to the regulations of capital gains tax are crucial for MNCs conducting business and making investments in Israel, as it impacts the overall financial outcomes of their transactions and investments in the country. As a significant percentage of the acquisitions of Israeli technology companies are made by MNCs, the revenue generated from IP exportation and the sale of the company provides Israel with one-time income in terms of capital gains. In large deals, as seen in Israel over the past decade, very significant sums have been paid directly or indirectly by MNCs to the state treasury from capital gains tax.

Most MNCs operating in Israel pay a significant amount of tax to the country in three main areas: employee income tax, corporate tax, and capital gains tax on acquisitions in Israel

¹⁶ Examining the activities of R&D centers and Innovation centers of MNCs in Israel, The National Economic Council 2019.

¹⁷ Examining the activities of R&D centers and Innovation centers of MNCs in Israel, The National Economic Council 2019.

Chapter 2 – The direct economic contribution of MNCs to the economy

Part C – Indirect employment

2.7 Employment of subcontractors

MNCs operating in Israel often employ local subcontractors, leading to indirect employment opportunities for subcontractors across various sectors. These subcontractors provide specialized services, support functions, or manufacturing capabilities for MNCs, contributing to their overall operations and value chains. The relationship between MNCs and subcontractors creates a network of mutual economic dependency, which generates indirect employment opportunities. These roles can encompass manufacturing, logistics, IT services, facility management, and other support roles. The ecosystem of subcontractors not only enhances the operational efficiency of MNCs but also stimulates economic activity by creating employment opportunities for subcontractor employees and supporting local businesses.

In R&D centers in Israel, 5.3% of R&D expenses go towards payments to external parties and subcontractors – with an estimated total of about 1.8 billion NIS per year, of which 84% goes to Israeli entities¹⁸.

2.8 Purchase from local suppliers

MNCs operating in Israel contribute to the local economy through purchases made from local suppliers. These transactions encompass a wide range of goods and services, from raw materials and components to specialized services, creating a symbiotic relationship between MNCs and local businesses. Through local

sourcing, MNCs support the growth and sustainability of Israeli suppliers, fostering economic development and creating jobs. Furthermore, these purchases contribute to the resilience and diversification of the supply chain and reduce dependence on external sources. This synergy between MNCs and local suppliers not only strengthens connections between MNCs and the Israeli economy, but also emphasizes the importance of nurturing robust and mutually beneficial relationships within the business community.

Part D – Diversity and inclusion

2.9 Diversity and Inclusion

Employment of diverse and mixed populations – MNCs in Israel lead the field of workforce diversity by incorporating groups that are underrepresented in the Israeli high-tech industry. In addition, more than half of the 100 largest companies in Israel also operate outside the major cities¹⁹.

In the interviews we conducted, the emphasis that MNCs in Israel place on diverse hiring, of populations found to be underrepresented in the Israeli high-tech industry, was evident. Among others, these MNCs take pride in being the most significant employer of workers from the Arab society in the Israeli high-tech industry, across its various sectors.

The high standard regarding diverse employment, coming from the American or European headquarters of most of these companies, influences Israeli policy and enables shared employment, which creates a deeper familiarity and dialogue between different sectors of the population.

The high standard regarding diverse employment, coming from the headquarters of most of the companies, influences Israeli policy, allows for shared employment, and the integration of populations that are underrepresented in the Israeli high-tech industry.

¹⁸ R&D expenditure in MNCs (including R&D centers) and start-ups, 2021, Central Bureau of Statistics, 2023

¹⁹ Report on the Contribution of the High-Tech Industry to the Israeli Economy and Society, Israel Advanced Technology Industries, IATI.

Chapter 3 - Employee Training in MNCs

Beyond the direct contribution of MNCs to the ecosystem, which primarily involves creating quality jobs, providing stable salaries for employees directly employed by the company and additional ripple effects, and making extensive tax payments to the state of Israel, there are several other aspects in which MNCs contribute to the Israeli ecosystem. In terms of human capital working in MNCs in Israel, these companies play a significant role in training the next generation of professionals in the economy, exposing them to unique equipment and knowledge, and creating an infrastructure for organized labor standards at a high global standard.

3.1 Training large numbers of students and entry level employees

MNCs in Israel employ large numbers of workers, including not just experienced professionals, but also a large number of students and recent graduates who are taking their first steps in the workforce (entry level employees). In the second half of 2022, almost half of MNCs recruited recent graduates for R&D roles²⁰. It should be noted that in local companies the rate of companies recruiting R&D employees was slightly higher during that period (56%), but there was a significant phenomenon of recruiting only juniors during that

period (20% of local companies compared to 3% of MNCs), a fact that may indicate the resource constraints of local companies. This population group has a special significance within the ecosystem as we are talking about educating the future generation of engineers and researchers in Israel. For a recent graduate or a student nearing the end of studies, there is a significant challenge of integrating into the job market in a quality role that can continue to train them and conduct On-the-Job Training (OJT). In a large company, there is an organized recruitment and training system, and new employees who join the company benefit from a structured mentoring and rotation process that allows them to learn the profession, beyond the theoretical basis they received in their degree, via practical training in their profession.

3.2 Incorporation of large corporations' workflow

There is a significant difference in day-to-day professional conduct, in terms of procedures, protocols and decision-making processes, between a small company and a large corporation. Furthermore, in most cases, there is a significant difference between the conduct of an Israeli company and a global company.

Dealing with professionals abroad requires maintaining a certain professional standard, ongoing communication in English, and global workspace protocols. The presence of MNCs in Israel allows exposure to a certain professional work standard, which is rooted among the Israeli employees in these organizations. The high-quality standard required, and the structured protocols enable the establishment of a quality standard that, after a period of work in a multinational company, stays with the employees into their subsequent workplaces.

3.3 Creation of relationships with employees in foreign countries

In addition to the workflows, exposure to multicultural management and work with professionals in various countries worldwide creates significant dialogue, exposure, and familiarity between the two sides. The substantial relationships formed through the workplace between Israeli employees and their colleagues worldwide generate openness to inclusive and diverse, multicultural management. Additionally, personal connections serve as a support in complex periods for clarifying Israeli messages worldwide and generating national affection.

As part of the interviews we conducted with managers of MNCs in Israel, they shared that this aspect had a very significant impact with the outbreak of the Iron Dome War (Operation Guardian of the Walls), and that the discourse in the company's internal channels was very receptive and respectful. Extreme opinions were immediately addressed, and it was very important for the companies to maintain a pleasant and neutral work environment.

MNCs operating in Israel recruit and train thousands of entry level employees each year.

²⁰ Human Capital in the Israeli High-Tech: Current Status 2022-2023, The Innovation Authority and StartUp Nation Central.

Chapter 3 – Employee Training in MNCs

3.4 Opening a path for Israeli talents to key global positions in organizations

One of the processes that has become apparent in recent years is that Israelis in key positions are assuming significant roles in MNCs, beyond local operations in Israel. Many of the local division managers we interviewed for the study also hold a significant senior role at the global level of the organization. Without the operation of MNCs in Israel, these professionals would have difficulty reaching similar positions in global companies. Occasionally, Israelis break through the ceiling of local activity and take on key roles abroad, in the global company. A good example of this can be seen at Apple, where an Israeli engineer currently serves in a senior role as CEO of a large and significant business unit. Another example can be seen at Texas Instruments, where the global corporation's CEO began his career in the company's Israeli R&D unit and climbed up the organizational ladder to the top of the global management.

3.5 Exposure to advanced technologies and cutting-edge research

One of the significant advantages of working in MNCs is the ability to gain exposure to advanced research and innovative technologies to which the general public does not necessarily have access. Often, MNCs are trailblazers in their field of expertise. These companies identify prominent trends and movements in their field and develop disruptive technologies that will redefine the sector in the future. Engineers who learn to work with advanced technologies at their onset acquire unique expertise that enables them to transition to a variety of roles in the market as unique subject matter experts. The leadership of these engineers within the ecosystem allows in these cases the spread of unique and advanced knowledge in Israel.

3.6 Access to equipment and a technological environment not found in small Israeli companies

Many MNCs in Israel provide their employees access to very expensive and unique laboratories and equipment, which are not necessarily available in other places in the ecosystem. MNCs that operate in Israel often provide significant resources for their research teams, allowing them to upgrade their professional capabilities and develop expertise in advanced content areas.

We saw prominent examples of this in the interviews we conducted, especially among companies that deal with hardware-based fields, not just software. Among others, semiconductor companies that require access to clean rooms and high-level laboratories, automotive industry companies that need research laboratories that have unique vehicles and equipment, or medical equipment companies that hold unique equipment.



Chapter 3 – Employee Training in MNCs



Employees of MNCs are exposed to technologies at the forefront of research and have access to advanced equipment that is not available in Israel.

3.7 Understanding customer needs and deep connection with global customers

Thanks to working in MNCs, Israeli professionals gain access to significant markets abroad. As part of working with end customers, whether corporations or individuals, local teams develop a deep understanding of customers in various target markets. Thanks to this significant exposure, significant capabilities in marketing and sales are developed in the local ecosystem. Those professionals trained by MNCs continue in their careers and spread skills, knowledge, and ability among local teams. In addition, understanding the needs of various markets allows entrepreneurs who start their journey in MNCs to build a more accurate product development strategy for the target audience.

Chapter 4 - The indirect contribution of MNCs to the ecosystem

Beyond the value, MNCs create for their employees, the presence of these companies in the ecosystem significantly benefits other players in the ecosystem. Thanks to the existence of these companies in Israel, the volume of foreign investment in Israel is increasing, foreign companies conduct active scouting of technologies in Israel, and local startups gain global exposure. Moreover, many successful entrepreneurs in Israel initially worked in the Israeli branch of a multinational company, where they received their first significant professional training and the tools needed for a deep understanding of their field of expertise. Additionally, many MNCs operating in Israel have extensive educational and social activities, enabling technological education for various populations at an early stage.

4.1 Acquisition of Israeli companies

A majority of acquisitions of Israeli tech companies are carried out by multinational corporations. Beyond the economic value of each acquisition (which was elaborated on in Chapter 2), the acquisition of an Israeli company by a multinational also has a wide-ranging impact on the ecosystem. The presence of MNCs in Israel allows organizations direct access to young Israeli start-ups and facilitates the acquisition process. For a large global corporation, it is very complex to decide to acquire a small company in Israel. Cultural differences, physical distance, significant time differences, and the difficulty in managing a small local team remotely are a significant barrier to the acquisition of a start-up at an early stage. However,

The presence of MNCs in Israel allows them to better execute mergers and acquisitions of Israeli start-ups. This consideration will be an advantage in preferring to acquire or invest in an Israeli company over a foreign company with similar technology.

once a multinational corporation has an existing local presence, the acquisition decision-making process and the execution of the acquisition itself become much simpler. The presence of the local branch allows for an orderly merger process, the creation of a unified procedural standard, and the management of operations in a clear and orderly manner, which would not be possible without local presence. When the global company is already in Israel, it has executives, a structured administrative system, and the ability to absorb a small local team easily and homogeneously. The presence of multinationals in the ecosystem increases the potential for significant acquisitions in Israel.

As part of the research, we analyzed the data of acquisition deals that were conducted in Israel in the year 2023. As can be seen in Chart 11, 28% of acquisitions of technology companies in Israel in 2023 were executed by multinational corporations that were already operating in Israel before.

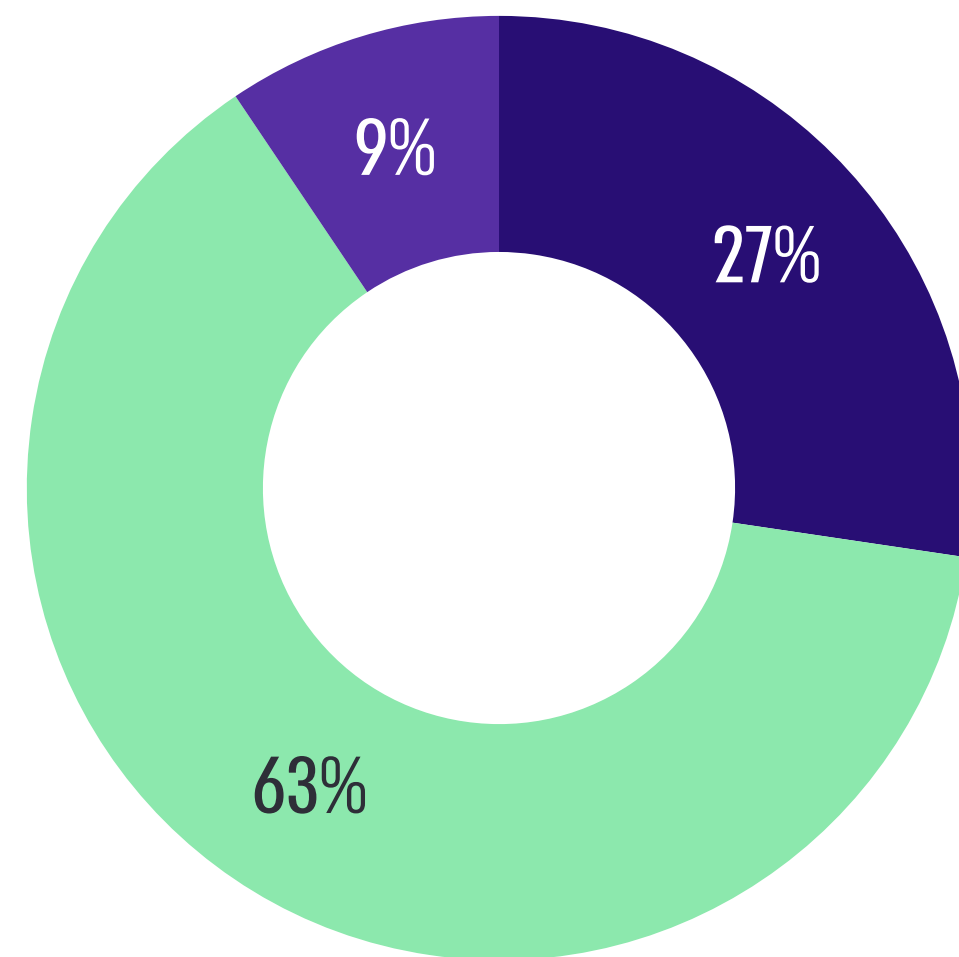
The known value of deals carried out by these entities constituted 63% of the total known value of acquisitions conducted that year in Israel. The cumulative worth that these 63% constitute is about 6.6 billion dollars, 90% of which is based on deals in the software security sector.

21% of the acquisitions were executed by MNCs that did not yet have a presence in Israel prior to the transaction. The known value of these deals constitutes 9% of the total known value of acquisitions.

Chapter 4 - The indirect contribution of MNCs to the ecosystem

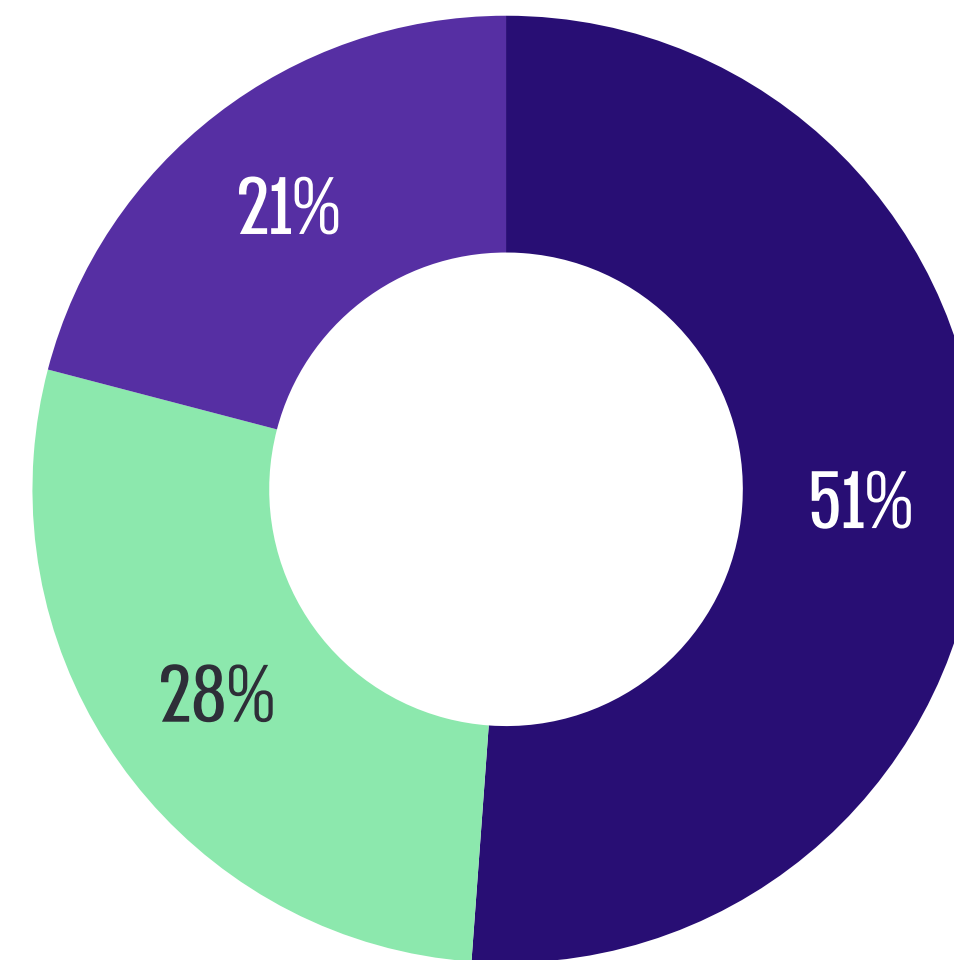
As part of the research conducted by EY, 47% of the companies responding to the survey stated that they are carrying out merger or acquisition activities with Israeli companies. According to a SNC report, 22% of the MNCs in Israel anticipate carrying out acquisition activities in the following year, and another 11% anticipate carrying out merger activities in Israel in the following year ²¹.

**2023 acquisitions value by entity
(% of total value of acquisitions)***



- Acquisitions by other entities
- Acquisitions by MNCs that were already in the Israeli Ecosystem
- Acquisitions by 2023 Entrants

**2023 acquisitions number by entity
(% of total number of acquisitions)**



2023 Acquisitions

- When examining the available data regarding the **value of acquisitions** made in Israel during 2023, **63%** of the acquisitions' value sources were MNCs that were already established in Israel
- The value of the 63% is worth **~\$6.6B**. Most of the value (90%) comes from deals in software security
- **9%** of the 2023 acquisitions' value was made by MNCs entering Israel for the first time

*The value is based only on transactions for which there was information about their value

Diagram number 11: Distribution of the number and value of acquisition transactions carried out in Israel in 2023 according to the entity being acquisitions (the information on the value of the transactions is partial and based on transactions where the value of the transaction is known only)

²¹ Human Capital in the Israeli High-Tech: Current Status 2022-2023, The Innovation Authority and StartUp Nation Central

Chapter 4 - The indirect contribution of MNCs to the ecosystem

4.2 Investment in Israeli startups

Most MNCs in Israel have a local arm whose role is to identify new technologies and startups with complementary or relevant technological capabilities for the company's field of operation. The local activity of MNCs in Israel nurtures the ecosystem and turns Israel into an attraction for many corporate venture capital (CVC) funds, both for companies that have a local R&D center or business unit, and for additional companies that don't have an existing center in Israel. These funds make significant investments, in substantial volumes, in local startups, and these investments change the face of the local ecosystem and open up opportunities for Israeli companies. These investments span various sectors, emphasizing areas where Israel has significant leadership: cybersecurity, artificial intelligence, biotechnology, and clean energy. These financial commitments not only provide crucial capital for startups to expand their operations but also lead to strategic partnerships, industry expertise, and access to the global market.

As part of the research conducted by EY, 41% of the responding companies stated that they carry out investment activities in companies in Israel.

4.3 Incubation, acceleration, and open innovation programs

The involvement of MNCs in Israel goes beyond financial considerations and specific investments or acquisitions. Many companies promote incubation, acceleration, and partnerships with start-ups in various aspects. Incubation and acceleration programs operated by MNCs in Israel play a pivotal role in fostering innovation,

supporting start-ups, and contributing to the overall vitality of the country's entrepreneurial ecosystem.

In recent years, MNCs have recognized the immense potential in Israel's dynamic startup landscape, leading to the establishment of various incubation and acceleration programs. These initiatives serve as key platforms for fostering innovation and cultivating emerging talents. Programs run by MNCs typically provide start-ups not only with financial support but also with mentorship, access to global networks, and cutting-edge infrastructure. For example, technology giants like Google, Microsoft, and Intel have launched incubators and accelerators that focus on specific sectors, such as cybersecurity, artificial intelligence, and clean energy. These programs act as catalysts for growth and enhance start-ups' resources and expertise needed to expand their operations. Additionally, the symbiotic relationship between MNCs and start-ups facilitates knowledge exchange, introduces new perspectives to established corporations, provides important insights to start-ups, and exposes them to international markets.

This intricate network does not only propel the growth of individual startups but also enriches the broader entrepreneurial ecosystem, establishes Israel as a thriving center for technological breakthroughs, and attracts additional international attention and investments.

As part of the research conducted by EY, 35% of the companies that responded to the survey stated that they run acceleration programs or partnerships with an active local accelerator in Israel, and 21% operate incubation programs.



Chapter 4 - The indirect contribution of MNCs to the ecosystem

Most MNCs engage in additional innovation vehicles in Israel

47%

Conducted M&As
in Israel

41%

Invested in Israeli
startup companies

35%

Operate entrepreneurial or
acceleration program

32%

Operate an innovation lab

21%

Operate technological
incubator

18%

Participate in a topic-focused
entrepreneurial community

15%

Participate in accelerator

- **47%** of MNCs conducted **M&As** in Israel
- **41% invested** in local tech companies
- Most of the companies are engaged in at least one **innovation-related initiative** with the local ecosystem

Diagram number 12: Programs to promote innovation in the ecosystem operated by the multinational companies in Israel

Chapter 4 – The indirect contribution of MNCs to the ecosystem



4.4 Cooperation with Israeli technology companies and exposure to equipment, knowledge, and connections abroad

The work of MNCs in Israel allows for easy access to partnerships with Israeli companies. Thanks to these connections, significant opportunities open up for Israeli companies, enabling them access to knowledge, equipment, and connections to entities abroad that they may not necessarily have been able to reach independently. The ability of Israeli companies to sell to multinational entities or be their suppliers is enabled by the presence of these companies in Israel, especially in niche areas and those that require access to physical equipment and infrastructure, the presence of MNCs in Israel plays a significant role.

4.5 Collaboration with academia in Israel

The collaboration and synergy between MNCs and the academy and leading research institutions in Israel is a dynamic and mutually beneficial partnership that drives innovation and has been a cornerstone for groundbreaking innovation. Recognizing the country's abilities in technology and research, a large number of international companies have actively cultivated collaborations with leading universities and research centers. These partnerships go beyond traditional research and development agreements and often include joint initiatives, funded projects, and technology transfer programs. For example, companies like IBM, Intel, and Cisco have established research laboratories and innovation centers in cooperation with Israeli academic institutions. This collaboration not

only facilitates knowledge exchange but also provides a platform for innovative research that addresses real-world challenges. Furthermore, these agreements contribute to the training of future talents by involving students in practical projects and internships, creating a pipeline of skilled professionals well-versed in the latest technologies. The reciprocity between MNCs and Israeli academia highlights the transformative potential of collaborative research in driving technological advancement and strengthening Israel's position as a global innovation hub.

One of the areas where the influence of multinational corporations on the ecosystem stands out is the partnerships that these companies establish with academia. In fact, about 85% of collaborations between academia and industry are made by multinational corporations. These companies are a significant factor in Israel's leadership in fostering collaboration between academia and industry²².

4.6 Collaboration with healthcare bodies in Israel

In the healthcare sector, significant progress has been seen in recent years as a result of partnerships between MNCs and health bodies in Israel. This symbiotic relationship has resulted in transformative advancements in medical research, patient care, and health technology solutions. Prominent MNCs in the pharmaceutical, biotech, and medical technology sectors have formed strategic partnerships with Israeli health institutions, leveraging the country's renowned expertise in the health sector. These collaborations often

include joint research initiatives, clinical trials, and development of innovative medical equipment.

Major pharmaceutical companies like Pfizer, Novartis, Sanofi, and others have established collaborative frameworks with leading hospitals in Israel for drug discovery and clinical research. These partnerships facilitate the testing of new treatments and contribute to the development of innovative treatments for various medical conditions. In addition, MNCs specializing in medical technology often collaborate with Israeli health institutions to test and refine innovative health solutions. For example, partnerships between companies like Siemens, GE, Philips, and Israeli hospitals aim to implement advanced diagnostic and imaging technologies to improve patient care.

Furthermore, the intersection of artificial intelligence with healthcare has sparked collaboration efforts between multinational corporations and Israeli health institutions. Companies like IBM Watson Health have participated in joint projects with hospitals to explore the potential of artificial intelligence in medical diagnosis, personalized medicine, and data-driven health services management.

The collaboration between multinational corporations and health institutions in Israel not only accelerates the pace of medical innovation but also contributes to the overall improvement of health services.

²²Annual report – Status of Hi-Tech 2022, Israel Innovation Authority

Chapter 4 - The indirect contribution of MNCs to the ecosystem



4.7 Growth of significant entrepreneurs in the economy

The entrepreneurial landscape of Israel is enriched by people who have undergone a significant professional path and after working for a period as employees in MNCs, they went on an independent route and set up their own successful initiatives. The ability of MNCs to train excellent professionals, and to equip them with the standard and capabilities required to open their own start-up later on is very significant to the development of the local ecosystem.

There are several prominent and significant examples of entrepreneurs who started their path in MNCs and then founded successful start-up companies.

A prominent example is Asaf Rappaport, former manager of Microsoft's operations in Israel. Leveraging the expertise he gained in his role as a senior manager in a multinational company, Asaf established the startup WIZ, which is considered a remarkable success story in the Israeli ecosystem. To date, WIZ has raised 900 million dollars, with the latest funding carried out at a company value of ten billion dollars. It employs about 900 workers in the United States, Israel, Europe, and Asia, and is expected to hire around 400 employees in Israel and other countries this year. The company recently reported revenues of over 350 million dollars in 2023, just three years after its establishment.

Rappaport is one of a long line of senior executives and employees in MNCs in Israel, who have gained experience, training, and connections, and have gone on to establish successful startups, some of which were later sold to MNCs.

Zeev Farbman, one of the founding partners of the successful unicorn, Lightricks, which is one of the most successful and prominent startups in Israel, began his professional career as a software engineer at Samsung.

Eyal Waldman, former CEO and co-founder of the successful company Mellanox, which was sold in 2020 for the sum of 6.9 billion dollars to the global company Nvidia, started his path in a variety of technical positions in MNCs operating in Israel, including Intel. Uri Levine, co-founder of Waze, which was sold in 2013 to Google for over 950 million dollars, formerly worked in Israeli start-up companies that were acquired by eBay.

Chapter 4 - The indirect contribution of MNCs to the ecosystem



Examples of additional entrepreneurs who started their path in MNCs and later established successful start-ups on their own:

Some of the most prominent and successful entrepreneurs in Israel over the years began their professional paths in MNCs operating in Israel.

The success of these entrepreneurs highlights the synergy between corporate experience and entrepreneurial vision and shows how their roots in MNCs contributed to the vitality and innovation of the start-up ecosystem in Israel.



Zeev Farbman

Before he co-founded Lightricks, which recently achieved 'unicorn' status, Zeev Farbman worked as a software engineer at Samsung's R&D center in Israel.



Uri Levine

Co-founder of Waze, built his career in the tech world, contributing to various startups that were ultimately acquired by eBay.



Eyal Waldman

The co-founder and former CEO of Mellanox Technologies, which was sold to Nvidia; had technical roles in companies like Intel and Galileo Technology Ltd.



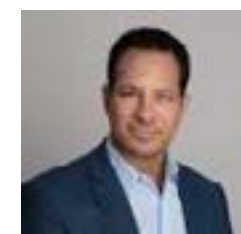
Assaf Rappaport

After working at Microsoft's R&D center in Israel, Rappaport co-founded Adallom, a cloud security company acquired by Microsoft for \$320 million.



Kira Radinsky

Before co-founding Sales Predict, and Diagnostic Robotics, she worked in research and development roles at Microsoft Research and eBay.



Doron Kempel

Prior to establishing SimpliVity, a data storage company, Kempel served as the Vice-Chairman & General Manager of the Business Critical Systems Unit at EMC Corporation.



Talmon Marco

Marco worked in the telecom industry, notably for ITG, Telekol, and the Israeli military, before co-founding the multimedia communications app, Viber.



Dor Skuler

Before founding Intuition Robotics, Skuler held executive positions in a number of global telecoms companies like Alcatel-Lucent, Clarity and P-Cube.



Ran Makavy

Co-founder of Snaptu, a mobile platform that was acquired by Facebook; Makavy started his career at Microsoft.



Ornit Dweck-Maizel

Before co-founding Sunbit, a leading payments startup, Dweck-Maizel worked as a software developer at Intel.

Chapter 4 - The indirect contribution of MNCs to the ecosystem

4.8 Social contribution

MNCs operating in Israel have adopted a commitment to Corporate Social Responsibility (CSR) initiatives, recognizing their role beyond economic contributions. These companies are actively involved in projects aimed at uplifting the local community and contributing to social welfare. From supporting education programs and scholarships to investing in health infrastructure and promoting environmental sustainability, MNCs in Israel undertake a variety of social responsibility initiatives.

One of the prominent companies in this field is Google. The company has a team in Israel whose goal is to promote social projects.

A notable example is a project initiated by Tel Aviv Municipality in collaboration with EY to establish an alliance of leading companies in high-tech, to promote projects in the fields of sustainability and climate, for the benefit of the residents of Tel Aviv Municipality. As part of the project, significant multinational companies joined the alliance, and contributed their time and resources to the initiation and promotion of projects for the environment and society.

Through these social responsibility efforts, MNCs not only fulfill their ethical obligations, but also cultivate a positive influence on the social fabric of Israel and leave a lasting legacy beyond their commercial endeavors.

4.9 Technological education

MNCs operating in Israel actively contribute to the development of community infrastructures with a special emphasis on education. Recognizing the central role of education in fostering social growth, many MNCs have invested significantly in initiatives aimed at improving educational opportunities for local communities. Through strategic partnerships with educational institutions, these companies have supported the construction of modern classrooms, advanced labs, and tech-equipped learning spaces. Moreover, MNCs often contribute to scholarship programs, vocational training, and mentoring initiatives, providing students with valuable resources and guidance.

An interesting example is a program called Mind The Gap, which has been operating for 16 years at Google, aims to encourage girls to study science and technology. The program started in the Israeli R&D center of Google, and later moved abroad, after showing significant success in influencing thousands of program participants to choose to study computer science. Following the success of the program, it expanded into a follow-up program called Hello Tech, which aims to reach all youth in populations that are today underrepresented in the Israeli high-tech - girls, ultra-Orthodox Jews, Arabs, residents of the periphery, etc. with the aim of inspiring them but also training them in content relevant to the worlds of artificial intelligence. By prioritizing community infrastructure development with a focus on education, MNCs not only meet immediate needs but also contribute to the long-term development of a skilled and empowered workforce, fostering a brighter future for the communities they serve.



Chapter 5 - Barriers to the continued operation of MNCs in Israel

In order to understand how to allow MNCs to expand their operations in Israel, and what steps are required to attract additional MNCs to local operations, we have addressed the current barriers to the continued operation of MNCs in Israel as part of our research. In the course of this research, a wide range of issues emerged that today's managers face as challenges for growth. In this chapter, we have compiled the main barriers that need to be addressed in order for Israel to remain an attractive hub for companies worldwide.

5.1 The talent pool in Israel

The Israeli job market is characterized by competitive demand for skilled professionals, which makes talent retention and recruitment a pressing concern for MNCs. Attracting leading talents requires offering competitive compensation packages, providing opportunities for professional growth, and cultivating a positive workplace culture. MNCs need to actively engage in talent development initiatives, including partnerships with local educational institutions and skills-building programs, in order to address potential skills gaps and ensure a pipeline of credentialed workers. Successful talent retention strategies involve creating a supportive and inclusive working environment that aligns with the values and expectations of the local workforce. In the interviews we conducted, a common concern among many senior managers was the size of the Israeli talent pool. If Israel is not significantly able to increase the size of the local talent pool, it may not be a significant attraction for MNCs in the future. There is a need to emphasize

technological education at younger ages, encourage young people to choose scientific degrees, and ensure extensive technological training programs. Additionally, there is a need to integrate populations that are currently underrepresented in high-tech into the job market and train additional engineers who could potentially work for these companies in the future.

The high employment costs of quality manpower pose a significant challenge for MNCs operating in Israel.

5.2 Human resources costs

Over the years, Israel has experienced a notable trend of rising labor costs for high-quality manpower, reflecting both the country's economic development and the changing dynamics in the labor market. As the country has developed into a global technological hub and a high-income economy, the demand for skilled professionals has increased, contributing to a rise in wage levels. The influx of MNCs and the growth of the start-up ecosystem has increased competition for talent and put upward pressure on

salaries. Additionally, regulatory steps aimed at improving working conditions and ensuring fair compensation have contributed to the overall rise in labor costs. While the higher wages reflect the country's economic prosperity and the value placed on skilled labor, they pose challenges for businesses in managing operational expenses. Striking a balance between competitive salaries to attract and retain talent, and maintaining operational efficiency, is an ongoing consideration for businesses navigating the evolving work landscape in Israel.

5.3 Unique areas of expertise

For years, Israel has been considered a global power in technology innovation. However, rapid technological advancement in prominent tech fields in recent years such as Artificial Intelligence (AI) and quantum computing, have led to a gap and shortage of skills in these leading areas. The demand for skilled professionals in AI and quantum computing outstrips the available workforce, creating a competitive situation where companies, including multinationals and startups, are vying for a limited pool of unique talents. MNCs choose to move or establish leading development centers in these fields, in other countries where there is a significant pool of talent in specific areas that are expected to be at the forefront of technology in the coming years. As AI and quantum computing applications become more integral to various industries, from healthcare to finance, the need for skilled talent has become a critical bottleneck.

Chapter 5 – Barriers to the continued operation of MNCs in Israel

To cope with this shortage, initiatives such as educational programs, research collaborations, and industry-academic partnerships are being cultivated. Universities and research institutions in Israel play a central role in nurturing the next generation of experts through specialized courses and degree programs. In addition, efforts are made to attract and retain professionals by offering competitive salaries, benefits, and career development opportunities. The challenge of the talent crunch in artificial intelligence and quantum computing underscores the importance of sustained investments in education and manpower development to maintain Israel's leadership in these transformative technological fields.



5.4 Lack of political and security stability

Geopolitical tensions in the Middle East inject an element of uncertainty for MNCs operating in Israel. The geopolitical landscape of the region is known for its complexity, and any escalation of political tensions can have direct consequences on market stability and investor confidence. MNCs may face challenges when making long-term investment decisions, and sudden changes can affect supply chains, distribution networks, and the overall business environment. Successfully navigating these challenges requires a diverse understanding of geopolitical dynamics, strong risk management strategies, and contingency plans to adapt quickly to changing circumstances.

In recent years, Israel's instability has been increasing, which poses a significant risk from the perspective of local management of the operations of MNCs. In interviews we conducted, some managers mentioned that they have to employ teams in other countries, as their companies are reluctant to increase their dependency on manpower located in Israel due to the situation.

Stability and certainty for future years are perceived as having high value by MNCs. The frequent changes in Israel's political system, which affect the work of various government ministries, pose a significant challenge for them in making decisions about expanding operations in Israel.

Chapter 5 – Barriers to the continued operation of MNCs in Israel

5.5 Regulation and bureaucracy

The regulatory environment in Israel poses challenges to MNCs due to its dynamic nature and inherent uncertainty. Frequent updates of laws and regulations require MNCs to maintain alertness and adaptability. Changes in compliance requirements may require modifications to operational protocols and necessitate additional resources to adhere to laws and regulations. Government intervention in the form of policies or new amendments can impact strategic planning and potentially create uncertainty in the business environment. MNCs need to establish proactive monitoring systems to anticipate regulatory changes, ensure compliance and navigate potential legal complexities.

In several interviews we conducted, managers mentioned that in some cases, even for transactions that were completed several years ago, a clear decision has yet to be made regarding the tax rate that the company is required to pay. The uncertainty makes it difficult for the company to make decisions and prevents certain transactions from reaching completion.

5.6 Tax benefits

The lack of significant government incentives for MNCs operating in Israel has emerged as a prominent challenge in recent years. While Israel has managed to cultivate a strong innovation ecosystem and attract foreign investment, the lack of comprehensive government incentives has been a point of contention for MNCs looking to establish or expand their operations in the country. In contrast to several competing countries that offer extensive tax breaks, financial incentives, or grants to attract MNCs, Israel's approach has leaned more towards its substantial strengths in innovation, technology, and research and development. While these strengths are significant attractions, there are areas where significant government financial incentives are required, to offset the high operating costs, particularly in sectors where there is fierce competition for talents and resources.

The limited scope of government incentives may pose challenges for MNCs, especially in industries with high capital requirements or where establishing a presence involves substantial initial investments. The lack of tailored incentives for specific sectors, such as biotechnology or clean energy, may deter potential investors looking for targeted support in line with their business goals.



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5.7 Export costs

The high cost of exporting from Israel and the associated costs in the supply chain have emerged as significant constraints for MNCs operating in the country. Israel, being geographically situated in a complex region, faces logistical challenges that contribute to increased export costs. These costs include shipping, customs, and compliance with changing international regulations. In addition, the relatively small size of the local market may lead to additional challenges which make export costs a significant factor in overall operational expenses. Furthermore, the complex geopolitical landscape can lead to disruptions in the supply chain, increasing the risk and cost associated with ensuring a consistent and safe flow of goods.

5.8 Competition against other centers in the world

Israel faces the challenge of competing with other global technology hubs to attract MNCs. In recent years, countries in Asia like India and Singapore have aggressively positioned themselves as leading technology centers. The rapid technological advancement of China and India, extensive manufacturing capabilities, and growing market have attracted MNCs looking for opportunities in some of the world's largest economies. Singapore, with its strategic location, pro-business policy, and robust infrastructure, has also become a competitive destination for companies looking to establish their regional headquarters or innovation centers in Asia. Furthermore, European cities like London, Berlin, and Stockholm, alongside emerging countries worldwide, with an emphasis on

India, have emerged as dynamic technology centers, offering a combination of innovative talents, supportive government policy, and access to a large consumer base. These hubs attract MNCs by providing a gateway to significant markets and serve as hubs for technology-driven industries like FinTech and Biotechnology. To overcome these challenges and stay competitive, Israel must continue improving its value proposition for MNCs. This includes focusing on regulatory clarity, targeted incentives, infrastructure development, and strategic partnerships to position itself as an attractive and unique destination in the global technology landscape.

5.9 Brain drain from Israel – emigration abroad

In several interviews we conducted as part of our research, managers noted that many of their best employees are offered opportunities over the years to relocate abroad as part of their employment in a multinational company. In many cases, these are the cream of the crop from Israeli teams, integrating into global teams operating in other branches of the multinational company overseas. Over the years, the trend has grown of employees choosing to extend their stay abroad and, in many cases, even immigrate and permanently move their residence from Israel.

5.10 Infrastructure – electricity, transportation

Certain sectors in Israel may face challenges due to infrastructure constraints. While the country has made significant strides in developing its infrastructure, gaps still exist, especially in rapidly evolving industries. MNCs are required to actively engage with relevant stakeholders, including government bodies, to address infrastructure constraints that may impact their operations. A significant issue raised in interviews we conducted with companies that have significant technological or manufacturing infrastructure in Israel is the stability of the electricity grid. According to them, the supply of electricity in Israel is not reliable enough, and there are breakdowns, which force them to ensure the backup of significant infrastructures by purchasing generators and providing for the possibility of independent electricity production if necessary. Another significant issue that came up in the interviews we conducted is transportation. Many managers shared that the extensive time required for employees to get to work, and the inefficiency of the public transportation system in Israel, along with significant traffic jams on the roads, pose a significant challenge for them. Managers shared that the cost of employing workers in Israel is high anyway, and when they take into account the significant amount of time required for the employee to physically arrive at the office, the implication is a huge waste of resources. Joint efforts to improve logistics and transportation infrastructures will contribute to more effective movement of goods and services, cultivating a conducive environment for business growth.

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To maintain its attractiveness and global status as a leading innovation center, Israel needs to actively offer benefits that will attract MNCs to establish operations there and prefer it over other centers around the world.

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5.11 For companies in the field of healthcare – lack of standardization when working with various healthcare bodies

One of the challenges that came up in our conversations with MNCs in the healthcare field relates specifically to the lack of a common standard among the various players in the Israeli healthcare system. A notable challenge is the fragmentation of the healthcare system, which includes many healthcare service providers, insurers, and regulatory bodies. The absence of a standard framework can create complexities for MNCs seeking to navigate the regulatory landscape and establish partnerships within the Israeli health sector. Additionally, the variety of healthcare players in Israel may lead to changing standards, ways of working, and operational issues. MNCs operating in the healthcare sector often require uniform processes and interoperable systems to facilitate smooth cooperation and

integration of innovative technologies.

Moreover, the regulatory approval process for healthcare-related products and services can vary between different authorities, adding another layer of complexity. Another challenge mentioned among companies operating in this field is the difficulty in approving drug trials in the early development stages and clinical research, with an emphasis on first and second phase trials. Streamlining regulatory processes and creating a more unified standard for healthcare-related innovations would not only increase ease of doing business for MNCs but would also cultivate a more cohesive and efficient health system in Israel. Tackling these challenges will be essential to position Israel as an attractive destination for MNCs in the healthcare sector, promote collaboration, and promote advancements in healthcare technologies and services.



Chapter 6 - Insights and next steps

To address the barriers and challenges identified during the research, we have opted to propose several solutions that will address the issues raised by managers of MNCs. The goal of the tools proposed in this chapter is to allow for the continued development of the MNCs currently operating in Israel, alongside attracting additional companies to operate in Israel. The proposed tools have several aspects to consider in-depth in order to design a well-structured government plan that takes into account the significant impacts and values of these companies on the economy, and that acts to maintain them in Israel over time and encourages them to expand their local activities

6. Creating a stable environment

Creating a stable environment for MNCs in Israel requires a multidisciplinary approach that addresses regulatory, economic, and geopolitical concerns. Firstly, the Israeli government can enhance stability by providing clear and consistent regulatory frameworks. Ensuring transparent, easily understood regulations subject to minimal changes over short periods helps MNCs make long-term investment decisions with confidence. Regular consultations with industry stakeholders, including MNCs, enable the government to stay updated on the evolving needs of businesses, promoting an environment of collaboration and mutual understanding. Economic stability is another critical aspect, and the government can play a central role in promoting a fiscal policy that fosters steady economic growth. Maintaining low inflation rates, a stable currency, and prudent fiscal management contribute to a comfortable economic climate. By proactively addressing

economic uncertainties and implementing measures to prevent potential downturns, the Israeli government can instill confidence in MNCs and investors alike. Furthermore, creating a comfortable tax environment, with reasonable and predictable tax structures, can provide MNCs with financial stability and encourage them to commit to long-term investments in Israel. A stable and predictable economic landscape not only attracts MNCs but also cultivates an environment suitable for sustainable growth and innovation.

A stable regulatory, geopolitical, and economic environment is a decisive factor in the ability of MNCs to operate in Israel over time.

6.2 Innovation-driven regulation

Regulatory process efficiency is crucial to creating a more attractive and efficient business environment for MNCs operating in Israel. The government should initiate a comprehensive review of existing regulatory frameworks to identify redundancies, complexities, and bottlenecks. Simplifying bureaucratic processes for business registration, permits, and compliance reporting will reduce the administrative burden on MNCs, allowing them to focus more on their core operations. In addition, the implementation of digital solutions, such as online platforms and electronic record systems, can expedite the processing of regulatory requirements, improving efficiency and transparency. By cultivating a clear, accessible, and business-responsive regulatory environment, Israel can enhance its competitiveness, attract a broader array of MNCs, and promote sustained economic growth.

In addition, the government should consider adopting a consultative approach to formulating and amending regulations. Regular engagement with industry stakeholders, including MNCs, industry associations, and legal experts, will ensure that proposed regulatory changes are well-informed and take into account the practical implications for businesses. This collaborative effort could lead to the development of regulations that achieve a balance between safeguarding public interests and providing the flexibility required by MNCs to efficiently navigate the regulatory landscape. By prioritizing a more efficient and consultative approach to regulation, Israel can create an environment conducive to business growth and innovation and position itself as an attractive destination for multinational investments.

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6.3 Training the next generation of talent

Prioritizing education and human development is essential to ensure a pool of skilled talents that meet the evolving needs of MNCs operating in Israel. The government should invest in educational programs that align with the requirements of key industries, such as technology, biotechnology, and clean energy. By partnering with leading industry companies, educational institutions can adapt their study programs to provide students with the practical skills and knowledge needed for a successful career in these sectors. Furthermore, fostering partnerships between MNCs and universities can create specialty programs, internships, and mentoring opportunities, providing students with practical experience and a direct pathway to the workforce.

In parallel, the government must actively promote learning and upskilling initiatives to meet the rapidly changing demands of the labor market. Supporting lifelong learning programs, reskilling initiatives, and professional development opportunities ensures that the existing workforce remains aligned with changing market demands. This emphasis on education and human development not only strengthens the available talent pool for MNCs but also contributes to the overall resilience and competitiveness of the Israeli workforce in the global economy. By prioritizing these initiatives, Israel can position itself as a knowledge-driven economy with the most skilled and dynamic workforce, attracting and retaining multinational investments for years to come.

In addition to a general investment in education, emphasizing scientific and technological excellence, Israel needs to place

an emphasis on greater involvement of populations that are not currently represented in high tech in a manner proportionate to their share of the population. Programs to promote the choice of scientific professions, and encouragement of advanced degrees are especially important among women, as well as Arab and Ethiopian students.

High-quality technological education and training, connected to the advancement of technology, and the continued cultivation of the local talent pool, are key factors in Israel's ability to maintain its global position as an attractive hub for MNCs.

6.4 Creating a high certainty tax environment

Many companies we interviewed as part of our research noted that the tax rate is not the most significant consideration for them in making business decisions regarding Israel, but rather their level of certainty about the expected tax rate. The more the level of certainty about the taxation of various business aspects of the companies' activities in Israel increases, the easier it will be for these companies to make data-based business decisions and choose to make long-term investments in Israel.

6.5 Effective collaboration with academia

Establishing collaborative research and development (R&D) initiatives is a strategic necessity for fostering innovation and technological advancement in Israel. The government should actively encourage partnerships between MNCs, local start-ups, and academic institutions to create a dynamic system of knowledge exchange.

By facilitating joint R&D initiatives and relevant government incentives, stakeholders can leverage complementary expertise and resources and accelerate the pace of innovation. This collaborative approach not only cultivates a culture of open innovation but also positions Israel as a global hub for innovative research across various industries.

To stimulate collaborative R&D, the government could introduce specific grant programs that support joint projects between MNCs and local bodies. These grants could be intended to fund initiatives in strategic sectors, such as healthcare, clean energy, or artificial intelligence, where the convergence of diverse talents often leads to groundbreaking innovations. Additionally, creating innovation hubs or research clusters that physically bring together MNCs, start-ups, and research institutions can facilitate spontaneous collaboration and knowledge sharing.

Academic excellence and opportunities for knowledge sharing are key factors that can accelerate innovation and create significant knowledge hubs.

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Academic excellence and opportunities for knowledge sharing are key factors that can accelerate innovation and create significant knowledge hubs.

6.6 Tax benefits to attract companies

Introducing optional tax incentives is a strategic approach to improving Israel's appeal as a destination for MNCs. The government may consider offering flexible tax schemes that allow MNCs to select from a menu of tax incentives based on their specific business activity and strategic goals. For example, granting accelerated depreciation for capital investments in R&D facilities or technology infrastructures could encourage MNCs to make significant long-term investment in these critical areas. Optional tax credits for creating jobs, training workers, and contributing to sustainable practices may further tailor incentives to align with corporate social responsibility objectives and human capital development.

In addition, the government should investigate the implementation of special tax regimes for industries that are vital for technological innovation and economic growth. For example, creating a comfortable tax environment for companies involved in advanced manufacturing, Artificial Intelligence or clean energy could attract MNCs specializing in these sectors. The flexibility of optional tax incentives allows MNCs to choose the incentives that best fit their business strategies, fostering a sense of autonomy and personal customization. By offering these optional tax incentives, Israel could demonstrate its commitment to adapt and respond to the diverse needs of MNCs, ultimately encouraging increased investments and significant contributions to the local economy.

Israel has recently been characterized by a lack of economic stability, which makes it difficult for companies to make decisions to start operations. The more Israel can create a stable, clear tax environment, with a forward commitment, which is not easily affected by political instability, the easier it will be for MNCs to make decisions to operate in Israel.

6.7 Government incentives to support R&D

Implementing government incentive programs is a key strategy for Israel's government to attract and retain MNCs while fostering economic growth and innovation. The government should consider designing incentive packages tailored to the specific needs and preferences of MNCs operating in strategic sectors such as artificial intelligence, biotechnology, and clean energy. These incentives

can include tax breaks, grants, or subsidies for research and development (R&D) activities, as well as other financial incentives that align with investment criteria and the companies' long-term objectives. Offering competitive incentive packages can position Israel as an attractive destination for companies looking for not only a conducive business environment but also tangible benefits that support their growth and innovation agendas, particularly in cases where the IP is maintained in Israel.

Furthermore, the government should proactively market and promote these incentive programs, both locally and internationally. Clear communication about the benefits and opportunities available through these programs is vital in drawing MNCs to invest in Israel. Proactively approaching MNCs that are not currently operating in Israel, assisting them in navigating incentive programs, and facilitating their involvement in local resources can streamline the process and make it more appealing for MNCs to establish and expand their operations in the country. The success of improved incentive programs relies on a strategic and proactive approach that aligns with the evolving needs of MNCs and emphasizes Israel's commitment to fostering a business-friendly environment.

Given that a large proportion of the employees working for MNCs in Israel are engaged in R&D, significant emphasis needs to be put on securing extensive government grants for these activities in Israel, particularly if the IP is kept in Israel and proactive steps should be taken to allocate budgets for these initiatives.

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6.8 Government incentives for manufacturing, infrastructure (including equipment purchases, construction of cleanrooms, etc.)

Introducing government incentives that specifically focus on investment in development and production infrastructure (research labs and production lines, including for scale-up stages) and capital expenses (CAPEX), can play a crucial role in attracting MNCs to manufacture in Israel. The government may consider offering optional tax breaks or deductions designed to encourage MNCs to invest in manufacturing infrastructure. Suitable incentives can include deductions for CAPEX linked to the establishment of manufacturing facilities, the purchase of advanced machines, and technological upgrades. By offering these incentives, the government not only supports MNCs in cutting significant initial costs related to manufacturing investments but also aligns with its strategic vision to strengthen the country's manufacturing capabilities.

In addition to tax incentives, offering grants or subsidies specifically intended for manufacturing initiatives can make a significant impact.

Financial support for CAPEX investments in manufacturing, especially in the early stages, encourages companies to choose Israel as a manufacturing center. This proposed incentive framework could include cooperative efforts between the government, local authorities, and regional authorities. Establishing partnerships that allow for the development of advanced manufacturing facilities not only attracts MNCs looking to expand their manufacturing capabilities but also positions Israel as an appealing destination for companies wanting to establish state-of-the-art manufacturing plants. These incentives together contribute to fostering a vibrant manufacturing ecosystem in Israel, driving economic growth, and creating long-term employment.

6.9 Incentives to attract IP development to Israel

To increase Israel's attractiveness as a significant destination for MNCs' activities, a variety of government incentives can be offered. In addition, significantly increased incentives should be offered for MNCs that choose to transfer substantial intellectual property to Israel, or to develop advanced new technologies by teams stationed in Israel, keeping the intellectual property rights at the development centers in Israel. Government incentive programs can encourage the transfer of knowledge to Israel, in a smart way that will generate very wide circles of influence on the Israeli economy and allow companies to base and position their local activity stably over the years.



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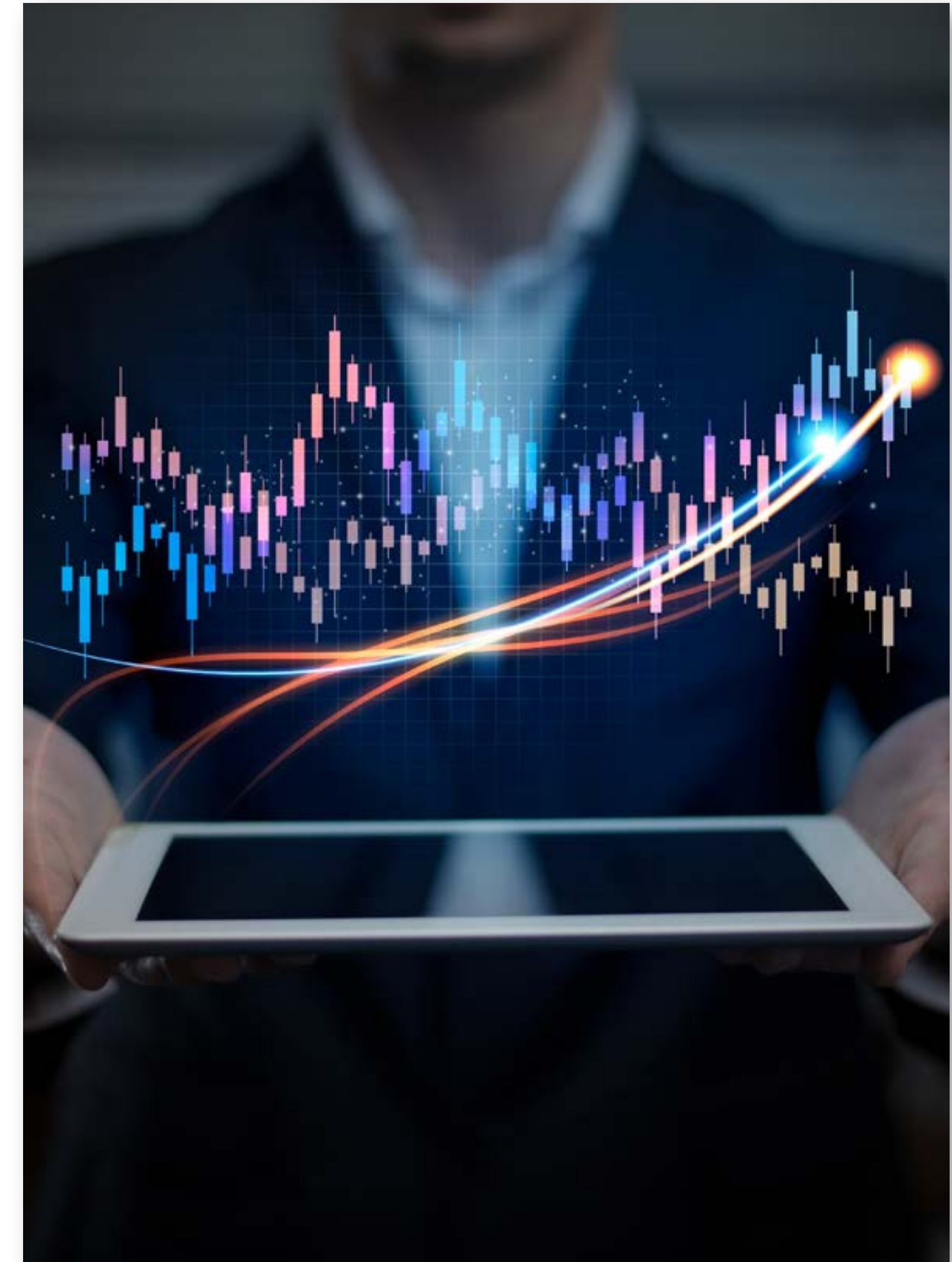
Smart government incentives that allow for the establishment of intellectual property in Israel, and the creation of wide employment circles, in areas that the country desires, can generate broad circles of influence.

6.10 Investment in infrastructure

Investment in infrastructure is a fundamental pillar in creating a conducive environment for MNCs in Israel. The government needs to prioritize significant investments in transportation networks, including roads, ports, and airports, to combat logistical challenges and enhance the efficiency of supply chains. Improving transportation infrastructure not only reduces the costs associated with the movement of goods but also allows for faster and more reliable connectivity between key business hubs.

In addition, investing in modern logistics facilities and warehouses can further streamline distribution and storage processes for multinationals, contributing to improved operational efficiency and competitiveness.

Moreover, the government's commitment to developing infrastructure goes beyond physical transportation. Investments in digital infrastructure, such as high-speed internet links and advanced communication networks, are vital to support the growing reliance on digital technologies. A well-developed digital infrastructure is vital for MNCs operating in technology-driven sectors, ensuring they have the tools and connectivity required to operate smoothly and stay at the forefront of innovation. Through strategic investment in both physical and digital infrastructures, the Government of Israel can enhance its attractiveness as an investment destination for multinational corporations, providing the vital framework for sustainable economic growth.



The report's authors - EY innovation team

The EY innovation team accompanies multinational companies in innovation activities and collaborations with the Israeli ecosystem. The innovation team has over 40 expert consultants, who come from a technological and business background, and provide service to a wide variety of companies in various sectors. EY has a unique model for innovation which is called Innovation realized, allowing to identify growth engines of a company and of the industry in which it operates, including segmentations based on sub-sectors and geographical areas of excellence. The Israeli team accompanies a large number of multinational companies in building their strategy in Israel, establishing open innovation and acceleration platforms, representing multinational companies and corporate investment fund in collaboration with the Israeli ecosystem.



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