

Executive Summary

Financing Israel's export economy

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About the Milken Institute Fellows Program

The Milken Institute Fellows Program accelerates Israel's economic growth through innovative, market-based solutions for long-term economic, social, and environmental challenges. Our goal is to accelerate Israel's transition from a Start-up Nation to a Global Nation with solutions that others can replicate.

Directed by the Milken Institute Israel Center, the Milken Institute Fellows Program awards annual fellowships to outstanding Israeli university graduate students. Through the Milken Institute Fellows program, we train some of Israel's best and brightest young professionals in creating pragmatic financing and economic policy solutions, and they deploy them as resources to government ministries, nonprofits and other key organizations. Our applied research and Financial Innovations Labs® are a launching pad for transformative change, using innovative financing mechanisms, programs and policies to bridge social, regional, economic and productivity gaps within Israel and between Israel and the world.

In addition, Fellows craft their own policy studies during their internship aimed at identifying barriers to job creation and capital formation in Israel. The Fellows' research, carried out under the guidance of an experienced academic and professional staff, support policy makers who shape economic reality in Israel. The program offers the ultimate training opportunity, combining real-life work experience with applied research.

Throughout the year, Fellows receive intensive training in economic and financial analysis, public policy processes, and research methods. They acquire tools for communication and presentation, policy analysis, leadership and project management. The fellows participate in a weekly research workshop where they meet senior economic and government professionals, business leaders, and top academic and financial practitioners from Israel and abroad. They also participate in an accredited MBA course. The course, which focuses on financial and economic innovations, is taught at the Hebrew University School of Business Administration by Prof. Glenn Yago (Senior Director/Senior Fellow at the Milken Institute).

Fellows Program alumni can be found in senior positions in the public and private sectors. Some serve in key positions in government ministries while others work at private-sector companies or go on to advanced graduates studies at leading universities in Israel, the United States and Great Britain. Within the program's framework, more than 80 research papers have been published, catalyzing reforms, reducing barriers, accelerating economic growth, and improving the quality of life for Israel's citizens.

The Milken Institute Fellows Program is a non-partisan, non-political organization. It is funded by the Milken Institute and other leading philanthropic organizations and individuals in the United States and Israel.

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The instability of financial markets in recent years has raised the cost of export finance significantly. Recognizing that this cost is often a crucial factor for potential buyers, many countries have decided to assist exporters in this area. This study focuses on medium- and long-term export finance, a complicated and high-risk area that usually requires more collateral as well as insurance.

As the research shows, the cost of export finance in Israel is substantially higher compared with the rest of the world. Further, given the limited potential of local and regional trade due to Israel's small size and secluded location, exports have a substantial effect on the country's GDP and growth. This research offers various tools to lower the cost of export finance, which in turn would better position Israeli exporters to compete globally.

The **first chapter** of the research analyzes the nature of Israeli exports. It finds that while Israel's main export destinations traditionally have been the United States and Europe, there has been a progressive shift towards developing economies in recent decades. The main reason for this shift—which is part of a global trend among developed countries—is that it's easier to gain share in less-developed markets. For Israeli exporters, these markets are especially appealing because they need military supplies and infrastructure—both well-developed industries in Israel.

However, the risks involved in exporting to developing countries, especially for long terms, may affect the ability to fund and execute export deals. **The second chapter** presents the export-finance process and the primary institutions in Israel that fund and insure medium- to long-term exports transactions.

The **third chapter** analyzes the main factors affecting Israeli exports and their funding, including the financial crisis of late 2007, the Eurozone crisis, the implementation of new banking regulations (Basel III), and the lack of competition in medium- and long-term export finance. The research shows that the cost of funding has risen in the past few years in many European countries, as a result of the financial and Eurozone crises. In Israel, not only is the cost of funding even higher than in many European nations but it is expected to rise further due to Basel III. Some of the reasons are inherent to Israel, such as the geopolitical risks, and others are systemic, such as the lack of governmental assistance and support compared with many OECD countries and the lack of competition in export finance. Since the cost of funding is in many cases a deal breaker, Israeli exporters start off at a disadvantage in the global market.

As mentioned above, both the 2007 financial crisis and the Eurozone crisis caused, among other things, a substantial rise in the cost of export finance. Many European countries responded by creating unique tools to lower the cost, whether by direct funding through DFIs (Development Financial Institutions) and governmental ECAs (Export Credit Agencies) by refinancing bank loans via governmental programs, or by refinancing export loans through the private market. **The fourth chapter** presents the different types of programs and suggests that some might serve as a solution also for the Israeli market.

The research recommends implementing Export Funding Guarantee Programs (sometimes called "refinancing guarantees"), as in Belgium, Germany, the Netherlands, Switzerland, and Denmark. Such a move would boost the supply of long-term export finance while lowering its cost to banks and institutional investors in Israel and abroad. These programs require minimal state funds and are especially crucial because banks are less likely to provide such financing once Basel III is implemented. By increasing the number of players in the field of export finance, these programs would ensure that Israel's exporters have a competitive edge in the global market.

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