

**September 2017 | Research # 115**

Executive Summary

# **Enhancing Israeli Export to Africa**

**Netanel Kahana**



## About the Milken Innovation Center Fellows Program

The Milken Innovation Center 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.

The Program awards annual fellowships to outstanding Israeli graduate students. We train and deploy some of Israel's best and brightest young professionals to create pragmatic financing and economic policy solutions. 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 projects during their internship aimed at 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 business and policy makers to 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 and research methods. They acquire tools for communication and presentation, policy analysis, leadership and project management. The fellows participate in a weekly research training workshop where they work with 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, taught at the Hebrew University School of Business Administration by Prof. Glenn Yago.

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.

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

In 2016, the Government of Israel set new goals to strengthen economic ties with African countries. Israel, like other global players, is interested in building economic bridges to the growing markets in Africa.

This paper examines the current state of Israeli exports to developing markets. It then reviews the tools currently employed by the Government of Israel to aid Israeli exporters and compares them to the methods used in other developed countries. The paper suggests that Israel establish a Development Finance Institute to increase Israeli exports to Africa and other developing markets. The paper concludes with a model of how such an institute may work.

The first chapter explores Africa's economic potential. Since 2000, African countries experienced considerable growth that has attracted both the public and private sectors. Despite the excitement, Africa's growth has slowed since 2014, mainly due to the fall in commodity prices and the impact of the "Arab spring" in North Africa. Considering these developments, observers questions whether rapid growth will continue or will slow down and perhaps halt altogether. While some urge caution, institutions including the International Monetary Fund and the World Bank are optimistic about continued positive growth and argue that many African countries have shown high growth figures over the past three years.

The second chapter identifies the characteristics of the Israeli export market to Africa. Israeli companies are indeed eager to seize opportunities to export to Africa and other developing countries. Nonetheless, as of 2016, most Israeli exports are directed to developed countries and are highly concentrated – 10 companies are responsible for 50% of Israeli exports. Notably, Israeli exports to developed countries falls below the OECD average. In high-tech, only 2% of Israel's 5282 start-ups (115 companies) are targeting emerging markets. While Israel incubates technological solutions in various fields that are relevant to developing countries, only 7% of Israeli Ag-tach companies, 10% of renewable energy companies and 12% of Water Treatment companies are targeting developing countries.

Developing economies attract many different players: multilateral aid institutions such as the World Bank and the African Development Bank, bilateral institutions, philanthropic

organizations, and the private sector. Chapter three reviews the major players working in developing markets.

Chapter four provides an overview of the current tools employed by the Government of Israel to encourage companies to deepen their involvement in developing markets. Compared to other players, Israel's activity in developing countries, and Africa in particular, is a mere drop in the ocean. Due to this situation, the Government of Israel decided in 2016 to prioritize the strengthening of economic ties between Israel and African countries, including expanding the existing government tools for Israeli companies interested in operating in Africa.

The final chapter recommends that the Government of Israel develop a development finance institution to achieve the goals set out in the 2016 resolution. In addition to profits and the ability to raise capital at low cost in the financial markets, a development finance body serves as a “one stop shop” for companies seeking to enter developing markets. These institutions allow countries to build and deploy the professional knowledge required to operate in these markets and to diversify the financial instruments that are provided to the exporting companies. Israel should look to the model of the Dutch development finance institute, FMO. FMO provides loans, guarantees, and capital to Dutch companies who are developing projects in Africa. As of 2016, FMO achieved a net profit of 176 million euros and enjoys a AAA credit rating by the leading rating agencies.

By establishing a new development finance institution, Israel can position itself as a more significant player in emerging markets and in Africa in particular.



The Jerusalem Institute for Policy Research  
Milken Innovation Center  
20 Radak St. Jerusalem 9218604  
Office: 02-5630175 (Ext. 34)  
[www.milkeninnovationcenter.org](http://www.milkeninnovationcenter.org)