Milken Innovation Center - Israel

FEBRUARY 2025

FINANCIAL INNOVATIONS LAB®

Innovative Finance for Rebuilding Israel's Regions

About the Milken Innovation Center

The Milken Innovation Center at the Jerusalem Institute for Policy Research focuses on developing market-based solutions to Israel's and developing economies' greatest challenges in regional development, agriculture, health, energy, and water. Our applied research projects and Financial Innovations Labs together with our Israel and Global Fellows training are designed to build inclusive and regenerative economies for scale and that bridge social, regional and productivity gaps that are barriers to growth and prosperity.

Financial Innovations Labs

Financial Innovations Labs build upon our applied research projects designed to devise new business models, policy recommendations, capital structures and financial technologies to achieve concrete goals for job creation and capital formation. Using real and simulated case studies, diverse participants collaborate to address global and regional challenges through a financial lens to build a shared future.

Acknowledgments

The Milken Innovation Center thanks Apollo Global Management for their support of this project along with the PEF-Israel Endowment Fund. We are grateful to those who participated in the Financial Innovations Labs for their contributions to the ideas and recommendations summarized in this report. Special thanks to the Museum of Tolerance Jerusalem for hosting this Financial Innovations Lab on their Milken-Mizel Campus on June 18, 2024.

Thanks are due to Glenn Yago, Senior Director with the Milken Innovation Center and to Steven Zecher, Project Director, for the research and preparation for the Lab, and follow-up and writing of this report. Special thank you to Michael Kashani, Jonathan Bar, and Lori Shapiro from Apollo Global Management for their valuable insights and meaningful contributions to the Labs and this report. And finally thank you to Orly Movshovitz-Landskroner of the Milken Innovation Center for support in preparations and logistics for the Lab.

APOLLO

MILKEN INSTITUTE

Milken Innovation Center - Israel

MUSEUM OF TOLERANCE JERUSALEM
מוזיאון הסובלנות ירושלים • متحف التسامح - القدس

APOLLO OPPORTUNITY FOUNDATION

P.E.F. Israel Endowment Funds, Inc.

Cover: Red Kalaniot (Anemones) in the Be'eri Forest in February

Executive Summary

The October 7th War has severely impacted Israel's economy, particularly in the Western Negev region followed by the destruction and displacement in Northern Israel after Hezbollah and Iran's entry to the conflict shortly afterwards. Communities, businesses, and local authorities are grappling with significant fiscal challenges due to population displacement, structural damage, and loss of infrastructure.

Post-war recovery requires a leap forward in resolving Israel's dual recovery challenges for its southern and northern regions to close unsustainable gaps in income, jobs, and productivity. Regional recovery, as recognized in recent, incompletely funded government decisions, goes beyond reparations for physical losses from the October 7 invasion and nearly 30,000 missiles, rockets and drone attacks subsequently launched against Isael. Rebuilding requires broader regional investment that will attract returning and new residents, new energy, residential and commercial infrastructure, better basic and higher education and research training, health facilities, and other targets for long-term investment increasing regional integration and competitive advantage for tech-based growth. This requires coordinated investment from public, private, and philanthropic sectors through innovative finance solutions.

This Financial Innovations Lab was held at the Museum of Tolerance Jerusalem on June 18, 2024, gathering practitioners in finance, government, philanthropies, and the non-profit sectors to design innovative financing strategies for rebuilding of Israel's regions, particularly the Western Negev. The Lab focused on structured finance (both credit and equity), small business financing, and other priority project areas identified by regional leadership at the Tekuma Authority and throughout the Western Negev Municipality Cluster of communities, in developing actionable steps for integrated regional development. The Lab followed an introduction and planning session among capital market professionals in New York City on February 24, 2024, at the offices of Apollo Global Management.[1]

The purpose of the planning session was to assess the applicability and adaptability of structured credit and other asset backed finance tools to expand blended capital access to support small business financing and other regional development projects and programs required for post-war recovery, revival and restoration.

The Lab presented the use case of small business financing as operated by Ogen, the leading non-bank lender in Israel (see Case Study on Page 31). Ogen has built its portfolio of affordable loans to small businesses, packaged its portfolio, and sold its portfolio in the capital markets. This use of the capital markets has enabled Ogen to recapitalize its lending portfolio and leverage its capital base. Ogen is in the process of expanding its lending activities to the regions in need, including the Gaza Envelope, a strip of small settlements and towns bordering the Gaza Strip. This use case demonstrated the concept of securitization as a means of leveraging investment, creating scale, and increasing impact. It also demonstrates the creation of an investible portfolio of local and regional projects and leveraging those projects to crowd in additional capital.[2]

Context and Challenges

The Western Negev region, which includes the city of Sderot and multiple rural and municipal communities, faces significant needs in infrastructure, industry, housing, and economic development. Following the war, the primary challenge is not only physical reconstruction and emergency relief but also accelerating sustainable growth. These efforts require the development and implementation of structured financial solutions that attract both immediate and long-term investments to rebuild a more competitive region integrated into the national economy. This is consistent with the long-standing needs identified by the Israel Planning

Administration to enhance the Western Negev's unique features providing accessible services, infrastructure, health, energy, and employment enabling the region to converge with economic growth rates and services available in Central Israel to residents of the North and South after the war. This would permanently reverse trends of out-migration from the North and South to Central Israel.

There is a need for scalable, market-driven, and sustainable financial structures. The focus of this work is on blending public, philanthropic, and private capital to finance critical infrastructure and business recovery projects. Tools such as asset-backed finance and blended capital structures will lower the cost of capital, making it easier to attract investments that will drive regional development and provide considerable leverage government investment to crowd in private and philanthropic investors.

Priority Areas for Development

Regional authorities, through the Tekuma Authority, the government-sponsored recovery administration, identified several key sectors for targeted investment:

1. **Energy Security**: Projects include underground power transmission lines, rooftop solar installations, and home-based energy storage solutions. These projects aim to decentralize energy production and ensure energy resilience.
2. **Business Development**: Small and medium enterprises (SMEs) are vital to the region's economy. Programs focused on SME financing, microloans, and personal loans, accompanied by financial literacy and mentoring programs, will help businesses rebuild and grow.
3. **Planning and Development**: Affordable housing projects will focus on providing long-term rental and ownership options, targeting young adults, families, and seniors. Mixed-use developments integrating commercial and community spaces will also be prioritized.
4. **Technology Centers of Excellence**: The region's strengths in agriculture, water, and energy technology present opportunities for building competitive advantage. Expanding these sectors into regional growth centers and leveraging the region's proximity to research institutions like the Volcani Institute, Sapir Academic College and Ben Gurion University will accelerate success in this area.
5. **Local Authorities**: Creating economic development and financial support to build and strengthen local authorities advancing rural-urban integration within the region and between the Western Negev region and the center of the country.

Financial Tools and Structures

The Lab participants agreed innovative capital structures should blend public, private, and philanthropic investments utilizing a variety of debt, equity, and hybrid financial instruments that could then pool projects into themed bonds consistent with the International Capital Markets standardized typology for green, social, and sustainability-linked securities design.[3] This will secure project financing through structured credit, mitigating financial risks for both investors and local authorities while utilizing catalytic capital from government and philanthropic sources to crowd in private domestic and foreign direct investment into the region.

By pooling high-quality assets, regional administrations and developers can potentially borrow at significantly lower rates, reducing overall funding costs. By drawing upon private financing via structured credit markets and new equity vehicles for technology development and adaptation, the proposed public-private-philanthropic partnership can transfer risk to capital market

investors and free up balance sheets for more immediate lending. With more variegated capital structures, these debt packages with different risk tranches can attract and address varying risk appetites for a broader range of investors ultimately increasing capital allocation and the number of capital providers (both domestic and international) to access these growth markets.

Derisking Israel's Recovery: Next Steps

At this writing, the estimated costs of damage and expected costs for Israeli regional redevelopment are still incomplete ranging from 24-34 billion NIS based on current Ministry of Finance and Bank of Israel estimates. Uncertainty still reigns on damage estimates in the North and delineating the region included for rehabilitation and redevelopment. That uncertainty still extends to the economic future of the Western Negev despite the considerable emergency response and development work of the Tekuma Authority, Western Negev Eshkol, and adjacent communities in the Southern region.

The financial innovations discussed at this Lab enables expanding beyond the Israel's limited fiscal space without compromising financial stability. The toolkit for regional finance platforms reviewed here increases the availability and flexibility of structured credit for urgently needed development projects (for small business lending, renewable energy and storage, technology development centers, infrastructure, tourism, and other development targets).

The immediate priority is to establish a centralized blended financing platform that can pool resources and deploy capital efficiently. Stakeholders will focus on quickly identifying relevant projects, designing tailored financial solutions, and recruiting fellows to provide technical assistance (which already began in October after the Lab). By implementing these strategies, the region can accelerate its recovery and foster long-term economic resilience. The next phase involves executing a comprehensive work plan that outlines specific goals, timelines, and responsibilities. This includes continued collaboration between public, private, and philanthropic investors to ensure that the region not only recovers but thrives in the long term.

Table of Contents

Executive Summary ... 3
Table of Contents ... 6
Introduction ... 7
Context and Challenges ... 9
  Regional Needs ... 9
  Priority Areas ... 10
  Guidelines for Sustainable Projects ... 11
Key Components of a Financing Platform ... 13
  Capital Structure Strategies ... 13
    Financial Tools ... 14
    Investor Types ... 17
  Operational Strategies ... 18
  Risks ... 21
Proposed Financial Platform Design ... 23
  Finance Platform ... 24
  Feasibility and Sustainability ... 25
  Organization and Ownership ... 26
  Financing Scenario ... 27
  Social and Environmental Impact ... 28
  Government Support ... 28
Case Study: Structured Credit for Small Business Financing ... 30
Project/Program Development Plan ... 35
  Energy Security ... 35
  Business Development ... 37
  Planning and Development ... 38
  Technology Centers of Excellence: R&D Platforms in Agri- and DeserTech ... 40
  Local Authorities ... 41
Conclusion: Derisking Israel's Post-War Recovery ... 43
Appendices ... 46
  Appendix 1: Lab Participants ... 46
  Appendix 2: Lab Workshop Participants ... 48
  Appendix 3: Financial Tools Glossary ... 50
  Appendix 4: Revenue Models ... 59
Endnotes ... 62

Introduction

The events of October 7th dealt a devastating blow to the Israeli economy, affecting individuals, communities, businesses, and governments. Local and regional authorities are operating with limited resources while grappling with increased fiscal challenges. The region is also experiencing economic decline, demographic out-migration, and structural issues that could result in permanent population and industry losses in some of the country's most productive and livable areas.

Before the war, 63,978 residents lived in the Tekuma (Gaza Envelope) Region, with approximately half in the city of Sderot and the other half spread across 46 rural settlements within the regional councils of Eshkol, Shaar HaNegev, Sdot Negev, and Ashkelon Coast. Following the attack on October 7, 2023, most residents were evacuated, resulting in extensive physical damage to homes, public facilities, and essential infrastructure. Currently, 14,529 people remain displaced outside the region, some residing in urban and rural intermediate housing solutions, while others are in various temporary accommodations. The Western Negev region, extending beyond the 7 kilometers that define the Tekuma Region, is similarly marked by significant social and economic disparities, both within the region and in comparison, to Central Israel. Adjacent communities in the cities of Netivot, Ofakim, and Ashkelon, along with an additional 34 rural communities (totaling around 96,000 residents), have also been adversely affected by the war. The need for capital formation, job creation, and affordable housing is critical for recovery.

Since 2006, the Israeli government passed several legislative decisions and plans for the Western Negev.[4] On December 20, 2023, Government Decision 980 established the Tekuma Recovery Administration with an estimated 19 billion NIS to present a 5 year Strategic Plan presented in July 2024.[5] Despite a proposed 7% cut in the budget proposed for the Tkuma's 2025 budget, there is enormous potential -- as reflected at the Lab -- to amplify and accelerate recovery by designing a regional financial platform that can reshape the region, provide cutting edge and innovative solutions for clean technologies, agriculture, tourism, and other sectors, and preserve the high-level of quality of life achieved in recent years.

Horizontal inequalities in education, income, and opportunities both within the region and with Central Israel can be overcome through this period of rebuilding and increased connectivity with markets, technology, and trade. There is an urgent need for catalytic capital to accelerate growth without marginalization of any regional community. Relying solely upon unleveraged budget allocations will not deliver recovery and reintegration of the Western Negev into the mainstream Israeli economy. Nor will the national economy achieve a sustainable recovery without regional integration mainstreaming the North and Southern communities.

While returning residents to their homes is the priority, there is a unique opportunity to leverage private, public, and philanthropic financing, catalyzed by innovative government policies and programs, to deliver lower weighted average cost of capital (WACC) solutions by averaging the rate of all the projects' sources of capital and enabling investors to calculate their opportunity cost to finance the region's assets. New capital access models would raise and deploy equity/debt instruments faster, design leveraged and scalable public-private-philanthropic partnership models to finance infrastructure and generate new sources of capital which can accelerate mission-critical financing for the sectors and regions hit hardest by the war.[6]

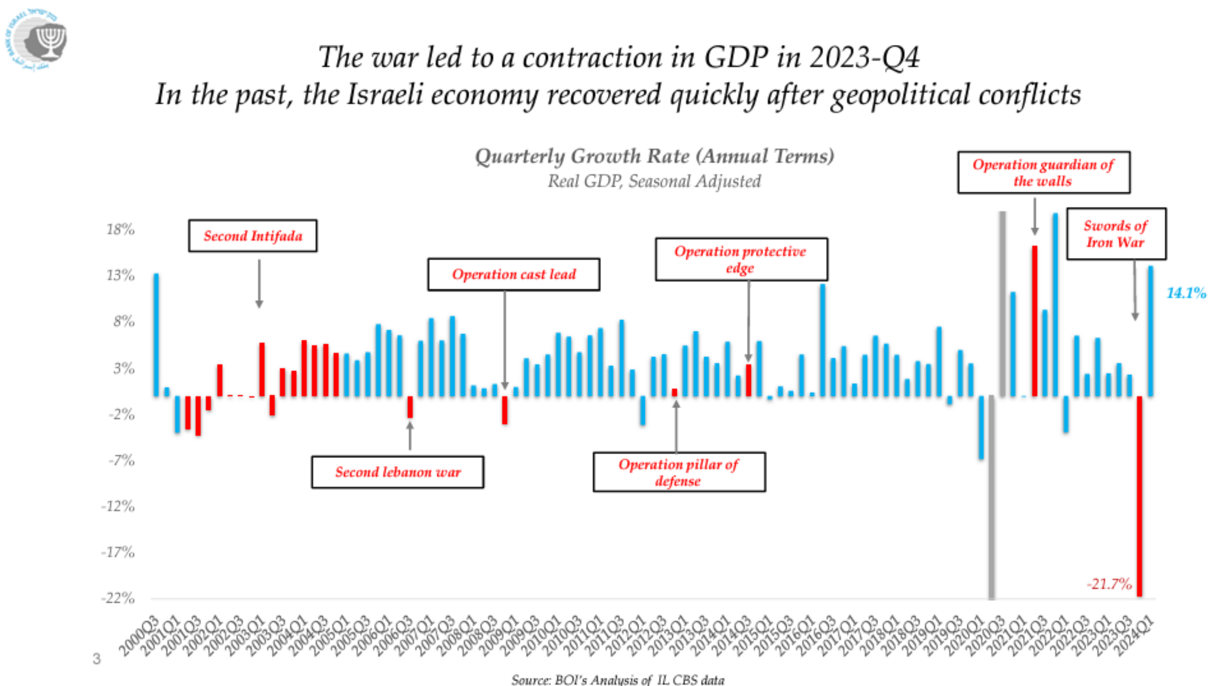
Context and Challenges

The Lab presented the regional needs and proposed projects and programs identified by the Tekuma Administration and other local and regional authorities in the Western Negev Cluster to respond to these needs. These project categories align with the local and regional governments' priorities.

Regional Needs

Lab participants discussed the overall framework of regional needs, focusing on both the urgent task of rebuilding the area swiftly and establishing a sustainable foundation for future growth and stability that exceeds the conditions prior to October 7.

Figure 1 GDP from 2000 through 2024 Q1, Bank of Israel[7]



The context of the war, marked by significant physical destruction and major disruption to the Israeli economy, has created a profound and widespread need for investments in infrastructure, industry, health, economic and community development, population services and support, and labor infrastructure (both for current residents and to absorb new in-migration skilled labor).

Representatives from Tekuma identified its initial objectives according to the official government priorities and its work with regional leaders. Igal Gurevich, Deputy Director General at the Tekuma Authority, discussed the immediate needs for temporary housing and long-term plans for regional growth. The focus is on rehabilitating the area to its pre-conflict state and ensuring sustainable development to accelerate economic and demographic growth.

Lab participants raised questions about how structured finance can address these obstacles and accelerate rebuilding. The initial discussion focused on leveraging structured finance tools to lower the cost of capital and attract investment for regional projects.

Lab participants discussed the need for leveraged solutions: building scalable, market-driven, and sustainable financial solutions for the region. Participants in the Lab explained the use of

asset-backed finance and blended capital structures to create scalable solutions for infrastructure, housing, and small business development through sustainable finance.

Priority Areas

Hadas Shabtai, project manager at Tekuma, introduced the project priorities being considered by Tekuma in the following framework comprising the 5 pillars of the Tekuma Authority's strategic plan:

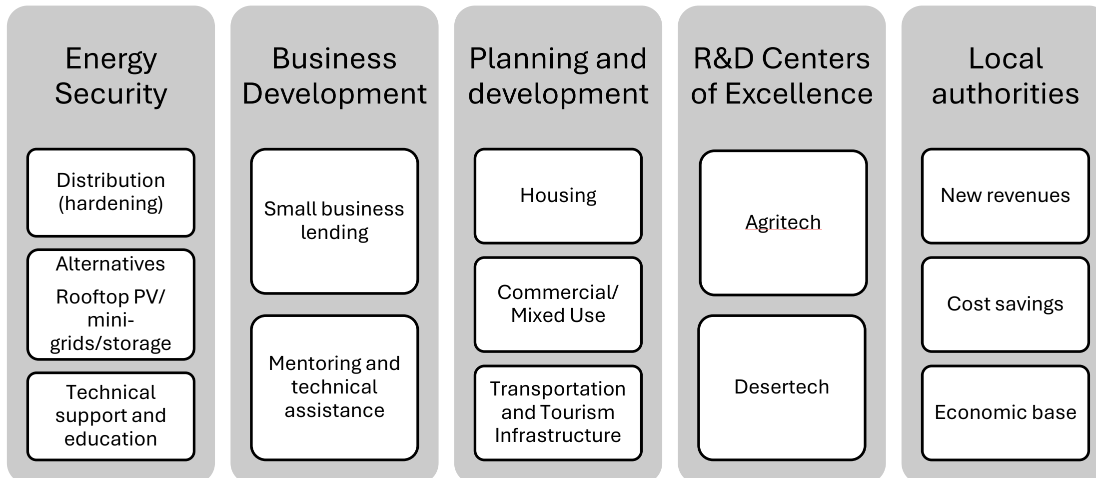


Table 1 Priority areas and project types

Lab participants raised a series of key questions about how to build sustainable projects based on these priorities to create an investible pipeline of transactions. The questions included how to: leverage budget by creating revenue models for regional projects; utilize philanthropy, impact investors, and market investments; build sustainable capital structures for regional projects that create scale and reduce costs; focus investment on key sectors like those identified by local and regional authorities and Tekuma; and engage institutional investors.

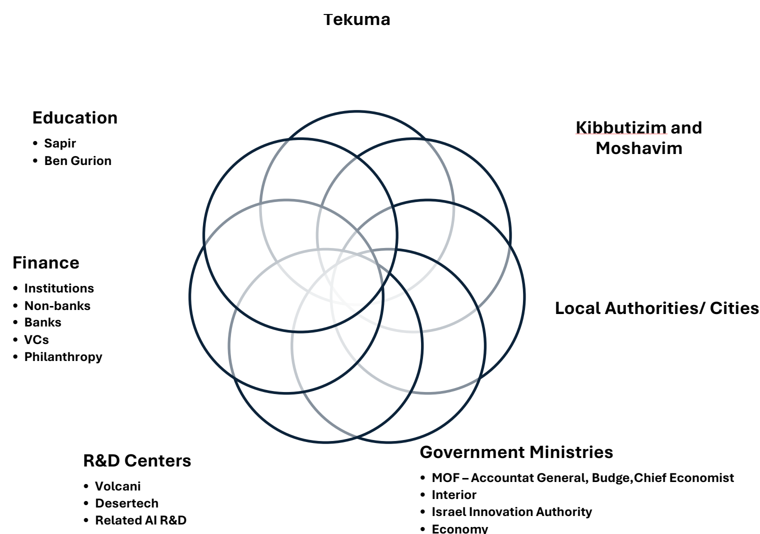
The discussion offered a series of guidelines for organizing and building sustainable projects most effectively. These guidelines included:

- **Budget Leverage:** *Create revenue models which optimize budget allocations, attract private investment, and accelerate impact.* Instead of directly funding projects, develop revenue-generating models that use public funds to attract private investment and ensure project sustainability.

- **Leveraging Philanthropy:** *Develop strategies to attract philanthropy and impact investors.* Engage philanthropic organizations and impact investors to provide initial capital and reduce risk for larger institutional investors.
- **Sustainable Structures:** *Build capital structures that mitigate risk and generate returns.* Create sustainable financial structures that balance risk and return, ensuring long-term viability of projects.
- **Sector Focus:** *Target investments in critical sectors to drive regional growth.* Prioritize strategic sectors such as desert tech, energy, tourism, agriculture, and water solutions to stimulate economic growth and resilience in the region.
- **Institutional Investors:** *Engage institutional investors in regional development projects.* Attract institutional investors by demonstrating the financial viability, risk mitigation, and impact potential of regional projects.
- **Partnerships:** *Engage stakeholders throughout the region to collaborate on plans and development strategies.* The participants in the Lab demonstrate the range and roles of stakeholders. The interactions of these stakeholders described in the diagram in Figure 2 will help to build strategies that lead to investable projects.

Project Development Questions
- What are the revenue sources?
- Where is the project, how big is it, and how does it reach the target market?
- What is the capital structure and funding strategy?
- What are the unit economics and how does the project scale and become sustainable?
- Who owns and manages the project?
- How can the investment be structured to price and mitigate risks and realize returns in a timely manner?

Figure 2 Partnership Landscape



Guidelines for Sustainable Projects

A variety of solutions can help progress the project priorities discussed in the previous section. Among these are a mix of innovative financial tools and programs. The following section discusses takeaways from the Lab on how to how to organize, fund, and introduce these tools and programs to the market.

Best Practices for Post-War Reconstruction

Wars have significant impacts on human, social, and physical capital. Consequences often include the destruction of infrastructure, population displacement and emigration, increase in the number of people needing assistance, budget deficits, and inflation. The ability to mitigate these impacts by accelerating growth and employment are key to reducing the cost and time needed to accelerate recovery.

There is extensive economic literature which addresses the most successful financial tools in post-conflict rebuilding efforts. Among other solutions, these include reconstruction bonds that leverage budgets to encourage future investment. Recent advances in financial innovation have greatly enhanced the design of these securities, improving their ability to attract both public and private investment in long-term economic growth projects that strengthen the economy's resilience and quicken the pace of recovery. For Israel, addressing reconstruction challenges effectively and avoiding delays in the post-war recovery process is essential to ensure lasting stability and growth.

Key lessons include:

- Early planning and preparation for reconstruction programs;
- Financing infrastructure rebuilding; and
- Supporting economic adjustment, adaptation and recovery.

Successful post-war reconstruction goes far beyond emergency relief and recreating the past. There is considerable economic research which suggests that the post-war period offers an opportunity to address long-standing development via targeted programs aimed at stimulating economic development and mitigating risk factors that gave rise to the conflict.[8] Opportunities include reconstructing the health and education sectors, improving physical infrastructure and transportation, advancing economic reintegration and employment, and reducing demographic inequalities.

For Israel, these findings inform and reinforce the Tekuma Strategic Plan by suggesting ways to effectively issuing reconstruction bonds which pool investible projects such as those identified at the Lab. To ensure success, key priorities include front-loading support, coordinating diverse funding sources, and expanding ownership and investment in new domestic production capacity in the region. These strategies will accelerate economic outcomes while rebuilding trust throughout the region and the national commitment to financing the Western Negev's promising future.[9] Initiatives such as ReGrow Israel, Place-IL, the Western Negev Rebuild Initiative, SouthUp, the Kibbutz Be'eri-Hatzerim Campaign, Brothers-in-Farms, and numerous other self-organizing initiatives demonstrate the social capital available to support these financial initiatives and drive a swift recovery which reinvents this vital region of the country.

Key Components of a Financing Platform

The Lab discussion focused on capital structure, operations, and potential risks with specific questions about investor preferences, blended structures, leverage, and scaling.

Capital Structure Strategies

The following are key points and design approaches from the Lab discussion.

1. **Investors' Perspective:** Understanding the criteria and expectations of investors in structured finance is critical. Lab participants highlighted the importance of achieving investment-grade ratings to attract insurance companies, pensions, and sovereign wealth funds. This involves creating a diversified, well-structured investment portfolio that appeals to a spectrum of investors, each with unique risk appetites and liquidity needs.
2. **Security Design:** Designing investment structures that are attractive to a range of investors is the goal. Michael Kashani of Apollo Global Management presented an overview of structured finance to Lab participants, explaining how pooling assets can reduce risk and create scale, making them more appealing to investors.
3. **Mechanics and Benefits:** Structured finance adapts proven formats and structures from one market to another, leveraging governmental support and market demand to maximize effectiveness.
4. **Blended Capital Structures:** Developing capital structures that minimize financing costs is a priority. The concept of blended finance was introduced as a way of lowering the cost of capital through a multi-layered approach, leveraging both public and private funds.
5. **Leveraging Budgets:** Leveraging budget funding will maximize impact. This includes using budget allocations effectively to create sustainable and scalable financial tools for regional development.
6. **Scaling Programs:** Scaling existing financing programs is key to achieving broader impact. Scaling involves expanding successful pilot projects and leveraging existing financial tools to reach a larger audience.

The key questions to be answered include:

1. What do investors look for?
2. How to design investment structures that are attractive to a range of investors?
3. How to create blended capital structures to lower the cost of financing and refinancing portfolios?
4. How to leverage budget funding?
5. How to scale financing programs to meet the needs of investors and projects in the market?

Financial Tools

A diverse array of financial tools is essential to successful regional redevelopment, with each tool playing a distinct role in meeting capital requirements, managing investment risks, and incentivizing private and public investments in targeted community projects. These tools include debt instruments, credit enhancement, structured and specialized debt, equity tools, tax incentives, real estate and land financing tools, and alternative investment vehicles. Below is a description of selected tools, how they function, and their importance within the context of regional redevelopment.

Credit Instruments

Small business loans and microloans are fundamental tools, especially for small businesses that lack access to traditional forms of financing. These loans provide a crucial source of capital for small businesses with insufficient collateral, enabling them to grow and contribute more meaningfully to the local economy. Loan funds for these programs are typically capitalized through partnerships involving public and private institutions, ensuring a steady flow of funds to stimulate small business growth.

Bridge Financing can be a crucial tool when a project requires short-term capital. Bridge loans are often structured as short-term, convertible debt that provides necessary working capital to get a project off the ground before long-term financing is secured. These loans are typically organized through government or philanthropic sources and help meet regulatory requirements or operational benchmarks necessary to begin project development. Bridge financing is particularly valuable in situations where initial equity is required before a project can commence, acting as a critical steppingstone toward full project funding.

Subordinated Debt serves as an essential component in stratified project financing structures by providing a secondary tier of funding behind senior debt. This type of debt is secured by a secondary claim on both project assets and cash flows, and is typically amortized over the project term, offering more flexible repayment terms while maintaining competitive interest rates. Alternatively, other mezzanine debt elements could have bullet payment or different repayment if needed. By improving debt coverage ratios for senior lenders and lowering the weighted-average cost of capital (WACC), subordinated debt helps attract conventional bank and institutional financing to projects. The benefits include reduced overall borrowing costs and enhanced cash flow flexibility, creating a more efficient capital structure. These advantages become particularly significant when government agencies or philanthropic institutions provide the subordinated funding, as their involvement can make higher-risk projects financially viable. Through this layered financing approach, subordinated debt serves as a strategic tool for optimizing the capital stack and enabling project completion while ensuring better potential returns for all stakeholders. Especially in cases of post-war recovery, the strategic nature of capital structuring enables flexibility in the portfolio of projects stimulating growth in the Western Negev for rapid reconstruction, inter-regional integration into Israel's future growth economy, and connectivity of infrastructure for robust job creation and capital formation throughout the country.

Bonds are debt issued in the public or private capital bond markets. A project issues bonds secured by expected revenue streams or specific assets, such as a portfolio of loan receivables, or revenues from a single project. The bond issuer sells the bonds publicly (e.g. to sophisticated investors) or privately (e.g. to pension funds, corporate investment funds, etc.). The bonds proceeds are used to capitalize the project, with the proceeds recorded as debt. The debt service (interest and principal repayment) is paid according to a scheduled timeline. (Some

bonds may be structured as interest-only with no principal repayment due. These are known as Perpetual Bonds.) Depending on the credit worthiness of the project, bonds may require letters of credit, guarantees, or special insurance. Bonds often provide longer terms for repayment, fixed interest rates, and predictable payment schedules. Public or philanthropic sources may provide partial guarantees, reducing investor risk by covering specific losses or providing limited recourse to the project or program's cash flows.

Credit Enhancement[10]

First Loss Guarantees are essential for reducing the risks associated with project financing. A first loss guarantee is a pledge to cover a portion of a project's debt in the event of delinquency or default, transferring part of the risk from the lender to a third-party guarantor, such as a government or philanthropic entity. This guarantee can be structured to cover a portion of the debt or the entire first loss, and it serves to reduce the interest rate on loans by lowering the lender's risk exposure. This makes projects financially viable and can result in savings for borrowers. While borrowers pay a fee for this guarantee, the funds for these guarantees come from a combination of philanthropic, government, and social investment sources.

Bond Guarantees are critical instruments for larger-scale, long-term projects. A bond guarantee involves a third party, such as a government or philanthropic institution, pledging to cover part or all the debt on a bond issuance in case of default. This guarantee lowers the borrowing cost by reducing risk, making bond financing more accessible to projects that might otherwise struggle to secure capital. Bonds issued by project finance entities or municipalities can be structured with longer repayment terms making it easier for these entities to fund infrastructure and community development projects. Additionally, long-term bonds can also be structured as perpetual bonds that pay interest only. The bonds are competitive and can be traded competitively. The bond market provides a substantial source of capital, with public and private investors contributing to the recovery, growth and improvement of regional areas.[11]

Structured and Specialized Debt

Collateralized Loan Obligations are a type of special purpose vehicle (SPV) or entity (SPE) created to pool together corporate loans and issue different tranches of debt and equity securities to investors. The proceeds from issuing debt and equity tranches are used to purchase a portfolio of corporate loans. Cash flow from the portfolio is then used to pay interest on the debt, cover expenses, and provide equity dividends. CLOs pool together many small business loans, creating a diversified portfolio that reduces exposure to any single borrower. CLOs have shown resilience during economic downturns compared to other structured products, due to their diversified portfolios and structural protections. CLOs offer multiple tranches with varying levels of risk and return, allowing investors to choose the tranche that best matches their risk tolerance and income needs. CLOs generate cash flows from interest and principal payments on the underlying loans, providing a regular income stream for investors.

Tax Incentives

Tax Credits and **Tax Exemptions** also play a significant role in encouraging private investment in regional projects. Through tax credits, private investors can reduce their tax liability when they invest in development projects. Projects report these investments to tax authorities, who in turn

issue certificates confirming the tax credit amount. This not only incentivizes investors by boosting their returns but also increases the available equity for projects, improving project cash flow and increasing investors' ability to fund further projects. In parallel, projects that meet certain performance criteria can also qualify for tax exemptions on their net income, significantly improving their financial sustainability. Both tax credits and exemptions involve the government foregoing a portion of its tax revenue in favor of attracting investment to the region.

Equity Tools

Shared Equity programs provide an innovative solution to affordable housing and other community-based investment challenges by allowing public or philanthropic investors to share in the equity required for purchasing properties, such as apartments or neighborhood commercial district developments. Eligible buyers contribute a portion of the required equity, while a shared equity pool covers the remaining amount. When the property is eventually sold or refinanced, the shared equity pool receives a proportional share of any appreciation in value. This structure lowers the upfront cash equity required from market buyers and minimizes the need for additional debt, making homeownership more accessible and affordable for regional residents. These programs are typically funded through a combination of public and philanthropic investments.

For agri-food tech and desert tech innovation hubs (also covering innovation targets in distributed energy systems and storage, seed innovation and food security, and other investment targets specific to the region, shared carry funds would share about half of General Partner Funds' operating within regional tech centers. These catalytic equity funds would work closely with R&D Labs, field testing and accelerate co-innovation partnerships in life sciences (therapeutics, diagnostics, medical devices), biotechnology, agriculture, clean tech (air, water storage), and sensors primarily of Seed and Series A investments. Secondary and continuation equity funds could also play a role.

Real Estate and Land Tools

Land Banking and **Land Leasing** are strategies that municipalities can use to unlock value from publicly owned land. By creating a land bank, a municipality can "deposit" available land and lease it for development, generating a consistent revenue stream while retaining control over the land's use. These revenues can be reinvested into regional development or used to secure additional financing, such as bonds. This approach not only generates new capital for municipalities but also ensures that land development aligns with long-term community goals. Similarly, land leasing allows municipalities to retain ownership of land while leasing it to private developers, ensuring that the city continues to benefit from the land's value while supporting private investment in regional growth.

Regional Tax Sharing mechanisms are helpful for ensuring that the benefits of development are distributed equitably across a region. By creating a tax-sharing district, local authorities can pool taxes collected from developments and distribute them according to an agreed-upon formula based on factors such as population, development area, workforce, or community need. This approach aligns the interests of municipalities within a region, fostering a collaborative economic development strategy. For example, each local authority could gain additional tax revenues by participating in such a tax-sharing arrangement, while the region benefits from a coordinated approach to attracting larger, higher-value projects that stimulate regional growth.

By leveraging these diverse financial tools, regions can access the capital and investment needed to spur redevelopment while mitigating risks and encouraging both private and public sector participation. Each tool plays a vital role in shaping a sustainable and inclusive approach to revitalizing communities, ensuring that growth is both economically viable and socially equitable. The following table identifies key project areas in which these financial tools could be strategically applied to meet the needs of the region.

		Regional Priority Areas				
Type	Financing Tools	Energy Security	Small Business Financing	Planning and Development	Economic Centers of Excellence	Local Authorities
CREDIT INSTRUMENTS	Microloans		●			
	Subordinated debt	●	●	●		●
	Bridge financing	●		●		
	Public and Private Bonds	●	●	●	●	●
	Perpetual Bonds			●		●
	Mini bonds			●		●
	Covered Bonds	●		●		●
CREDIT ENHANCEMENT	Loan and bond guarantees		●	●		
	First loss guarantees		●	●	●	
STRUCTURED AND SPECIALIZED DEBT	Collateralized Loan Obligation	●	●			
	Development Impact Bonds	●		●		●
EQUITY TOOLS	Shared equity	●		●		●
	Traded Late-Stage Venture Equity		●		●	
TAX INCENTIVES	Tax Credit	●	●	●	●	
	Tax exemption	●	●			●
REAL ESTATE AND LAND TOOLS	Regional Tax Sharing			●		●
	Land banking			●		●
	Land leasing			●		●
ALTERNATIVE INVESTMENT VEHICLES	Venture Capital Trusts		●		●	
	Business Development Companies	●	●		●	

Table 3 Priority Project Categories for Select Financial Tools[12]

Lab participants emphasized the need for scalable, market-driven, and sustainable financial structures. The focus is on blending public, philanthropic, and private capital to finance critical infrastructure and business recovery projects. Tools such as asset-backed finance and blended capital structures can help lower the cost of capital, making it easier to attract investments that will drive regional development.

Investor Types

In a blended financing platform, the diversity of investor types – each with unique risk tolerance, investment preferences, and impact priorities – is essential for pooling resources and expertise to drive meaningful change. Each type of investor brings unique priorities, resources, and perspectives, enhancing the platform's capacity to address complex regional challenges effectively. Below is a description of each investor type and their potential role in the financing platform.

Philanthropic Investors: Philanthropic investors are entities or individuals who prioritize social impact over financial return. They are typically foundations, non-profit organizations, or affluent individuals seeking to address social, environmental, or cultural issues through their investments. In a system financing platform, philanthropic investors often provide the seed capital necessary to kick-start projects with high impact potential but uncertain financial returns.

Public Sector Investors: Public sector investors include governments and intergovernmental organizations that invest in projects contributing to public goods, such as infrastructure, education, healthcare, and environmental conservation. In a system financing platform, they may inject substantial funds into projects that align with public policy objectives and societal needs. Public sector investors can offer favorable financing options, including grants, low-interest loans, and guarantees, which help reduce risks for other investors and catalyze additional private sector investment. The local public sector also can repurpose its subsidies to support local and regional developments, including public institutions and amenities that are difficult for private actors to monetize.

Private Investors: Private investors encompass a broad range of entities, including individuals, corporations, family offices, private equity and venture capital firms, and institutional investors focused primarily on achieving financial returns. In a system financing platform, they bring financial skills, market-driven perspectives, and the potential for substantial capital deployment. Private investors can be attracted to blended or system financing platforms that offer innovative solutions with the promise of scalable financial returns, alongside measurable social or environmental impacts.

Impact Investors: Impact investors focus on investments that generate a positive, measurable social or environmental impact alongside a financial return. They range from individual investors to funds and institutions. In a system financing platform, impact investors are key players who help bridge the gap between philanthropic capital and traditional investment by proving that it is possible to achieve both impact and financial returns. They are particularly interested in projects that can demonstrate clear and measurable impact outcomes.

Socially Responsible Investors (SRI): SRI investors are those who apply specific environmental, social, and governance (ESG) criteria to their investment decisions. They aim to invest in companies or projects that are not only financially viable but also align with their environmental or social values. In a system financing platform, SRIs play an important role by channeling capital into projects that meet high standards of social responsibility and sustainability. Their investment decisions often consider the long-term environmental and social implications of their investments.

Each type of investor contributes to the sustainability of a financing platform, ensuring a robust, multi-faceted approach to tackling complex challenges through strategic financial investment, mitigating risk, and providing an affordable capital solution to projects in the region.

Operational Strategies

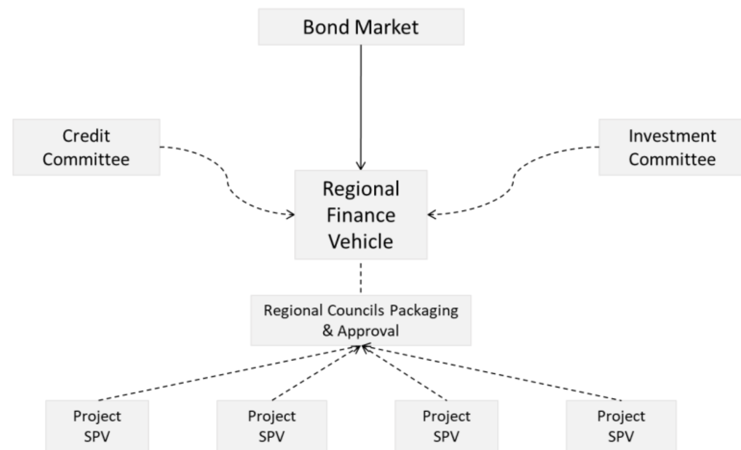
The operational blueprint for a blended financing platform is focused on creating a central hub with multiple access points to streamline the financing of local and regional projects and programs. This approach ensures the efficient and sustainable allocation of financial resources, driving meaningful advancements in regional resilience and productivity. Core elements of the operational plan include creating an efficient central platform to coordinate portfolios among regional stakeholders, managing these portfolios with assistance from regional managers, providing technical support and building capacity for project development,

financing, and management within the region, and executing a shared or pooled investment hub that distributes and manages risk efficiently and effectively.

As shown in Figure 4, the regional finance vehicle is the conduit for local and regional councils to review, approve, and recommend projects for financing. The hub manages the professional work of a credit and investment committee that provides underwriting, closing, disbursement, and investment and loan receivables management.

Centralized Platform with Multiple Entry Points: The foundation of the operational strategy is to establish a central blended financing platform that serves as the nexus for all financing activities, while providing multiple points of entry for stakeholders and investors. Lab participants emphasized that this approach allows for a cohesive strategy that can cater to the varied needs of investors, sectors, and regions. By centralizing financial operations, the platform can leverage economies of scale, streamline processes, and ensure consistency in the application of best practices. At the same time, the platform offers flexibility by providing multiple points of entry through regional systems, delivery networks, and local councils ensuring broad accessibility.

Figure 4 Organization for regional access



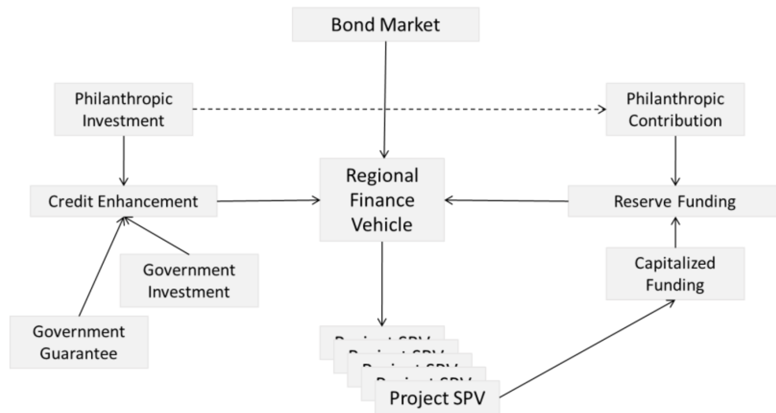
Portfolio Management through Regional Agents: The platform will engage with regional agents to manage the portfolio on the ground. These regional entities will bring professional expertise in underwriting and investing, ensuring that investments are made in opportunities that are not only financially viable but also deliver a positive environmental or social impact. As emphasized in the Lab, this localized management approach fosters a better understanding of regional challenges and opportunities, enabling tailored solutions that are more likely to succeed. This approach will be particularly valuable when expanding into different sectors and geographies.

Building Expertise and Teams for Project Financing: Recognizing the need for specialized knowledge in project financing, the platform will build dedicated teams focused on this area. These teams will engage in both active and passive management strategies to adapt and respond to the evolving needs of the region. Active management might involve direct participation in project implementation and ongoing monitoring, while passive management could include the provision of funds to third parties with expertise in specific areas of regional development.

Technical Assistance through Regional Teams: A key component of the operational plan is to provide comprehensive technical assistance, coordinated nationally and delivered through regional teams. This assistance is critical at every stage of project implementation, from planning and development to execution and monitoring. By ensuring the most effective solutions and best practices are adopted, the platform can proactively manage project risks and improve the likelihood of success.

Shared Investment Model: The platform will adopt a shared investment model, allowing investors to pool resources and share in the risks and returns proportionately. As shown in Figure 5, the platform pools a combination of investments from the capital markets, including philanthropic investments. The platform manages a variety of credit enhancement tools, including government guarantees and reserve funding built from philanthropic contributions and project revenues. This model not only diversifies investment risks but also opens opportunities for smaller investors to participate in larger, impact-driven projects. By sharing investments and prorating returns, the platform can attract a wider array of investors, from individuals looking for impact investments to large institutions seeking sustainable investment opportunities.

Figure 5 Capital Flows



Management and Governance: The organizational structure for the system financing platform is designed to ensure a cohesive approach to rebuilding and recovery investments. The governance structure of the regional facility includes a board of directors composed of investors, sector and regional experts, and other key professionals. Furthermore, the management team is made up of professionals with specialized technical, financial, and operational expertise. This strategic composition ensures a wide range of perspectives are considered in decision-making, enabling the organization to pursue its mission with valuable insights from diverse stakeholders.

Risks

The development and implementation of a successful financial platform to support regional development projects is subject to various financial, program, and development risks. These risks stem from economic, operational, and market factors, which must be managed to ensure the platform's success. Below is a detailed discussion from the Lab of the key risks and proposed mitigation strategies to derisk investing in Israel's regional recovery.

Risk Category	Mitigation
Interest Rate Risk: Interest rate risk arises from fluctuations in economic cycles, which could lead to changes in the cost of borrowing and the overall financial health of the platform. A significant rise in interest rates could increase the cost of capital, particularly for long-term investments, making financing less accessible to projects.	The platform can mitigate this risk by offering **short-term loans**, which are less sensitive to interest rate changes over long-term cycles. For longer maturities, **higher-priced capital** can be employed to balance the increased risks of fluctuating interest rates.
Currency Risk: Currency risk is inherent in foreign currency investments, where fluctuations in exchange rates could negatively impact both project financing and the platform's financial position. Given the international nature of development projects, this risk is particularly relevant.	To address currency volatility, a **currency hedge** can be implemented to protect against unfavorable exchange rate movements. Another effective strategy is to conduct **all investment and lending activities in local currency**, minimizing exposure to foreign exchange risks.
Project Risk: Development projects may fail to perform as anticipated due to various factors, including management inefficiencies or external shocks. This risk poses a significant threat to the platform's credibility and financial sustainability.	Forming **clusters and networks** can help ensure that projects benefit from shared knowledge and best practices, improving their likelihood of success. Offering **financial guarantees** can provide a safety net for underperforming projects, reducing the risk of default. Employing a **service model** to manage projects could also lower the risk of financial loss by transferring some operational risk away from the platform.
Collateral Risk: Collateral risk emerges when the liquidation value of assets is insufficient to cover debt obligations. This is particularly problematic in regions where asset markets may not be deep or liquid, limiting the recoverability of investments in the case of default.	**Lease financing with specialized terms** can be used to reduce dependency on high-value collateral. **Guarantees** and the creation of a **blended capital structure**, involving subordinated debt, can also enhance the financial security of projects and ensure greater liquidation value if necessary.
Credit Risk: Credit risk arises when financed projects are unable to repay their loans from net operating income, leading to financial losses for the platform. Given the uncertainties in project execution and market conditions, this is a central concern.	**Performance or participation financing** can be utilized, linking repayments to project success, which mitigates the risk of outright defaults. Increasing **equity contributions** to projects can also reduce the platform's exposure to credit risk, ensuring a buffer for financial obligations.

Price Risk: Competition within the region may drive prices down to levels that are below breakeven, or prices may rise too high, making solutions unaffordable for users. Both scenarios present challenges to the financial sustainability of projects.	To mitigate this risk, the platform should focus on building **affordable revenue models**, including shared services or subscription-based offerings, to maintain financial viability while staying competitive in the marketplace.
War/Regional Conflict Risk: War or continuing regional conflict could disrupt the implementation of development projects, create financial instability, and reduce investor confidence. It is important for the platform to consider geopolitical risks that could arise in the region.	Mitigants: To mitigate these risks, the platform should maintain flexible and adaptive financing structures and work with regional partners to develop contingency plans, deferral plans for repayment and/or distributions in case of such disruptions.

By proactively addressing these risks with the suggested mitigation strategies, the platform can foster a more stable and resilient environment for financing, ultimately supporting sustainable redevelopment and growth of new development initiatives in the region.

Proposed Financial Platform Design

Post-War recovery can be accelerated by judicious strategic use of the government's First Loss Guarantees with possible philanthropic and mission-driven fund participation in the guarantee program. Specifically, there is an urgent need to pledge a full or partial guarantee to cover part of the debt on a project, transferring a share of the risk for the debt from the lender to the guarantor, thus lowering the risk and cost of capital. Lab participants discussed several design choices that are relevant to building a structured credit product that could serve other project and program priority areas.[13]

Aggregated financing – Projects need to be of significant scale to be considered for financing in isolation. However, smaller projects may be aggregated into pools to achieve sufficient scale for financing (like the securitization approach taken by banks in the US and Europe as well as endorsed by the Bank of Israel and recently approved by the Ministerial Committee on Legislation's Securitization Law (July 2024)). This would enable issuers to attract local and global institutional and capital market investors.

Securitizing portfolios – Selling packages of loans or projects to achieve risk reduction and cost efficiency.

Blending capital – Mixing sources of capital among philanthropic, private, and public investors and sponsors to lower the weighted average cost of capital. This helps provide an attractive return for investors while enabling a lower cost of financing for the borrower.

Custom solutions – Projects must be developed based on specific needs in the region, market conditions, capital structures, and revenue models to ensure effectiveness.

Guarantees – The platform should be supported by a partial guarantee assigned to the pool of projects either through a philanthropic or publicly sponsored guarantee, or stand-alone project-level guarantees, if the projects are large enough. This includes pledges which cover part or all the debt on a bond, effectively transferring risk from the lender/bond buyers to the guarantor, making borrowing possible and lowering costs.

Financial and program management – The platform should offer central financial management and decentralized program management, allowing local and regional authorities to prioritize relevant projects and aggregate them into pools. It also enables the platform manager to underwrite, document, and manage the loans and equity investments.

Scalable returns – The platform must generate substantial interest earnings, equity returns, and project fees, enabling it to deliver returns to investors, cover operating costs (including losses), and retain earnings to enable growth. Returns should be commensurate with the sources of capital.

Sustainability – All projects should be able to clearly articulate an environmental and/or social impact, along with a financial return.

Finance Platform

The regional facility's operational activities are segmented into three main groups: planning and predevelopment, project design and development, and project financing and implementation. Each segment plays a pivotal role in fulfilling the mission, designed to complement each other while addressing different aspects of sustainable growth and redevelopment.

The financing platform should be robust enough to support predevelopment and design, development, implementation, and management of development projects. Integrating these phases into a single structure requires a Public, Private-Philanthropic partnership (PPPP) to deliver planning tools, a financial platform to crowd-in and leverage new capital, and policy leadership to identify and deploy new policy initiatives across all phases of development.

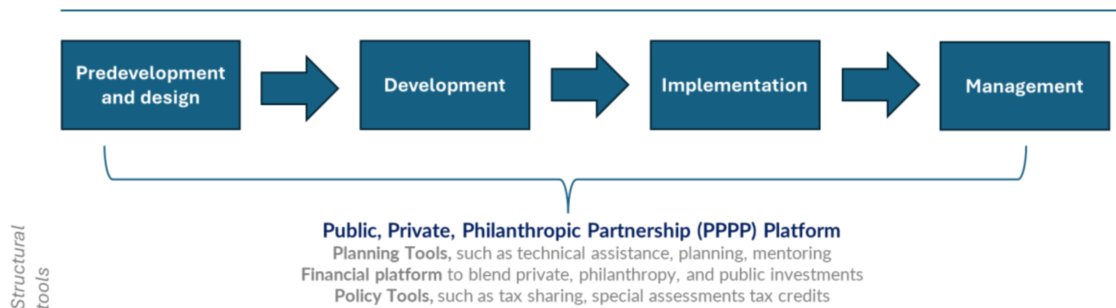


Figure 6 Public-Private-Philanthropic Conceptual Framework

The operating budget creates the basis for continuing operations, balancing expenses and revenues, paying back the long-term debt costs, and making distributions to equity investors. The retained earnings can be carried forward to support subsequent operating years and pushed forward into the capital budget program. The start-up capital support is provided to the operating budget to cover shortfalls in the initial years until interest earnings build-up from

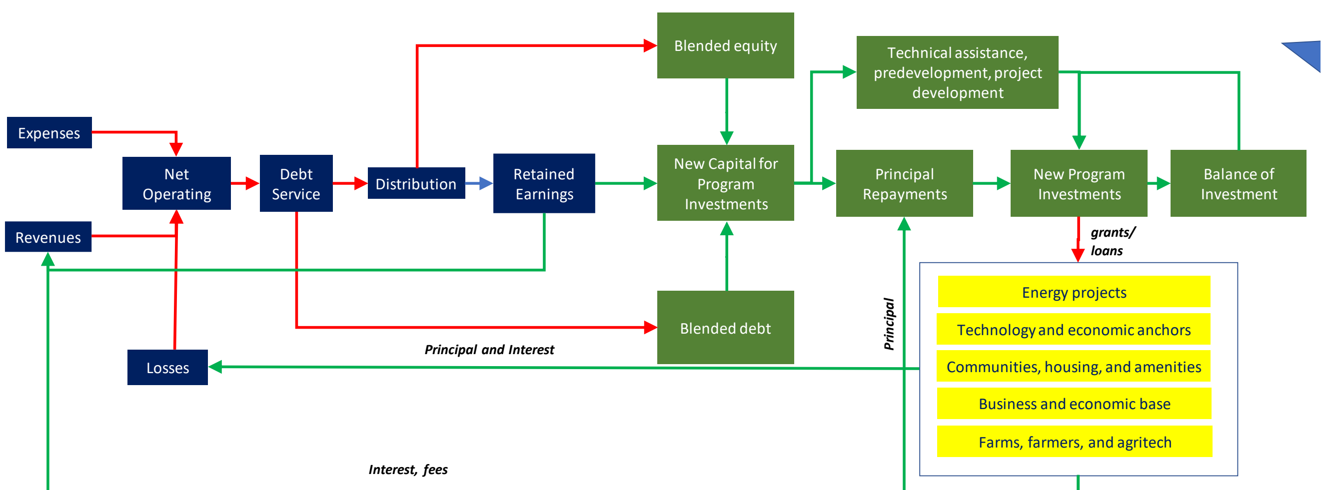


Figure 7 Conceptual financial flows diagram for the blended financial platform

investment activities. The platform will blend a combination of equity and debt investments, providing a range of financing tools to support the regional priorities.

The capital budget is funded through raising equity and debt capital in the capital markets, along with a distribution of the retained earnings from the operating budget. The available capital is augmented by the returned principal from investment activities. The combined capital budget is used to invest in the program activities, including training, tech assistance, and predevelopment work. It is also used to fund development financing and permanent financing. Funding that is not invested in program activities is carried forward into the next year and combined to support new investment activities.

The platform will manage a diverse range of investment types, creating sufficient scale in a blended structure. The platform will deploy investments to the target projects and manage the receivables. The receivables will be used to pay for the operations of the platform, and to return funds to the investors (and lenders).

Feasibility and Sustainability

The financing platform is structured in a way that that blends debt and equity investments to foster local and regional development. This approach is designed to enhance the platform's impact, ensuring both long-term viability and scalability.

Capital Structure and Funding Strategy: At its core, the platform plans to raise capital through a combination of debt and equity. The debt component is envisaged to be relatively long-term, extending to 20-30 years, with an interest rate (coupon) set at around 3-6%. This rate aims to secure a broad base of investors while maintaining the sustainability of the platform's financial operations. On the equity side, the platform distinguishes between market rate equity and impact equity. Market rate equity targets yields exceeding 10%, appealing to investors looking for steady, balanced returns, whereas impact equity, with yields ranging between 2-5%, caters to those prioritizing social and environmental outcomes. The phased investment approach, spanning 3-5 years, is designed to align capital deployment with new emerging opportunities and deal flow, ensuring effective utilization of funds.

Investor Base and Scale Objectives: The platform's investor base is diverse, drawing from public and private grants, market equity, banks (for bridge financing), and institutional investors. The diverse investor base becomes particularly valuable when the investment pool reaches a significant threshold (i.e. $200 million). The strategic vision includes packaging the portfolio to attract additional capital through structured credit sales with partial guarantees, thereby recapitalizing the platform and achieving economies of scale. This strategy underscores the platform's goal of creating a self-sustaining financial ecosystem.

Operational Sustainability: Financial sustainability is ensured through a combination of interest payments on loans, along with origination, closing, and servicing fees. This revenue stream supports the platform's management and operations, allowing for continuous reinvestment in program activities. These activities are broad and include direct support for technical assistance centers, network hubs (encompassing validation, pilots, and training), and a variety of financial products such as short-term loans, lease financing, guarantees, insurance, and equity investments.

Investment and Reinvestment Mechanisms: Loans are originated and serviced through network hubs or regional specialists, while guarantees and insurance products are managed directly by the platform. Equity investments are channeled through a specialized venture fund, ensuring expertise in venture equity management. The principle of reinvestment is central to the

platform's operations, with principal repayments on loans being funneled back into new investments, while interest payments cover operational costs.

Investor Returns and Growth Strategy: The platform is committed to providing returns to investors, with net operating income earmarked for repaying investor loans. Surplus cash, after meeting these obligations, is reinvested into lending and investment activities, with a portion also distributed to investors, balancing immediate returns with long-term growth for market investors (~10%+ IRR) and impact (~2-4%). The platform's growth strategy includes regular engagement and recruitment of new investors to diversify its capital base and expand its reach into new sectors and regions.

Investor Engagement: Recognizing the diverse preferences and requirements of its potential investor base, the platform aims to offer a transparent view into the entire value chain. Instead of targeting individual specific segments or links in the value chain, the system's investments are blended to create a balanced and shared return.

Organization and Ownership

Several options exist for the legal organization and ownership structure of the financing platform. Based on the discussion in the Lab, we are including a brief discussion of two options: Special Purpose Vehicle and Partnership/Joint Venture. The following is a summary of the benefits and challenges of each option.

Special Purpose Vehicle (SPV): A Special Purpose Vehicle (SPV) is a separate legal entity created to serve as a conduit for financing and delivering financial tools within a value chain. This entity typically involves financial participants, who contribute through equity, debt, or grants; service providers, who offer technical services and support; and suppliers, who supply equipment, materials, and technical expertise. The key benefits of using an SPV include risk isolation, as the entity legally separates financial risk from the parent company, and asset securitization, which enables the conversion of assets into liquid securities for investors. Additionally, SPVs facilitate project-specific financing without exposing the parent company to associated risks, and multiple SPVs can be created for different markets or value chains. However, there are obstacles to using SPVs, such as legal and administrative complexity, particularly if multiple SPVs share a common management group. SPVs may also face regulatory scrutiny, especially in financial sectors, and transparency issues may arise when participants have limited visibility into ongoing activities due to the nature of their roles.

Partnership or Joint Venture: A partnership or joint venture is a business structure in which two or more individuals or entities share ownership, management, and financial responsibilities. It is typically governed by a partnership agreement that outlines the rights, responsibilities, and distribution of profits and losses. There are various types of partnerships, including general partnerships, where all partners equally share management duties and liabilities, and limited partnerships, where general partners manage the business while limited partners contribute capital with limited liability. Partnerships share some similarities with the SPV model, including management flexibility and access to pooled resources, allowing partners to leverage each other's expertise and market access to enter new markets. Partnerships also benefit from simplified, pass-through taxation, where earnings are reported on partners' personal income, avoiding corporate tax. However, partnerships also come with challenges, including unlimited liability for general partners, potential internal disputes that could affect the stability of the business, and limited options for raising capital, as partnerships cannot issue stock like corporations.

The proposed financing platform will be structured as an SPV at the global, national, and regional or local levels, enabling shared ownership among investors and participants across

both the capital structure and program delivery. The SPV model offers flexibility to include both financial and program-related investments, while limiting the financial exposure for each participant. The SPV can accept both debt and equity contributions and will act as a conduit for structured credit offerings in the capital markets, when conditions allow, further enhancing its capacity to attract diverse capital sources.

Operational efficiency, professional expertise, and strategic partnerships are at the heart of the blended finance platform's operational plans. By creating a centralized platform that leverages regional expertise and adopts a shared investment model, the initiative aims to drive significant impact in the region, making it more resilient, productive, responsible, and sustainable.

Financing Scenario

Based on discussions in this Financial Innovation Lab, the Milken Innovation Center project team formulated a financing scenario for the first phase of the financing platform. The following is a summary of the major elements of this financial scenario, including capital structure, expected revenues, operations, expected losses, and distributions.

Capital Structure: The capital structure will include equity from market rate investors and impact investors along with debt and initial grants. The structure is designed to be flexible and can be adapted to include an alternative mix of equity, debt, and philanthropic support, as available. The capital structure may include a guarantee for a portion of the debt. The terms for repayment of the debt will include a deferral for an initial period (3-5 years), with principal payments commencing thereafter. The loan is expected to be amortized.

Revenues: The financial platform will have several revenue sources, including interest earnings on funds on hand (retained earnings), interest payments on debt financing, origination and loan management fees, and gains from equity sales (if any).

Operations: The operating budget will include annual staffing cost for administration, operations, financial management, underwriting and receivables managements. The operating budget will be amortized over the whole fund, so the fund must be large enough to support the operating costs. Some of the operating costs may be distributed regionally.

Losses: The portfolio includes a mix of program terms based on the beneficiary. The average loss rate on loan receivables is estimated to be 1.5-4%, depending on the projects, sectors, and regions.

Distributions: Distributions to equity investors will begin when debt commences repayment and will be weight adjusted based on the type of investor (market or impact).

The projection anticipates a transitionary ramp-up period from initial losses to positive earnings. After the ramp-up period and initial capital funding, the cashflow is expected to remain positive each year. [1]

---

[1] Notes on Financial Statement: Operating income includes interest on capital, loan management fees, equity management fees and carried interest, origination fees, insurance premium payments, and interest from loans. Operating Expenses include personnel, administration and operating costs, grants for training, technical assistance, and validation, insurance payouts and claims, guarantee claims, and depreciation and amortization. Loan loss is estimated separately for each segment of the portfolio for all loan receivables due in each period. A portion of retained earnings will be distributions to equity when long term bond principal begins to be repaid. The remaining retained earnings will be reinvested in the program.

Social and Environmental Impact

In addition to increasing economic activity and potential growth, the projects financed by the platform will also deliver measurable environmental and social benefits. Prioritizing environmental and/or social impact is crucial as it ensures the projects foster sustainable development and improve quality of life for local communities. Addressing environmental challenges, such as climate resilience, not only strengthens regional ecosystems but also aligns with global sustainability goals. Similarly, projects that promote social equity, create jobs, and enhance infrastructure contribute to long-term community stability and growth.

Highlighting these impacts can unlock additional pools of capital from socially and environmentally conscious investors, development finance institutions, and philanthropic organizations. These capital sources are increasingly prioritizing investments that generate measurable positive outcomes, making the integration of environmental and social benefits a key strategy for attracting diverse, long-term financing. To maximize these benefits, tracking environmental and social impact through measurable Key Performance Indicators (KPIs) is essential. By establishing clear metrics, the platform can ensure transparency and accountability. Regular reporting on these KPIs will not only demonstrate progress but also build investor confidence, further enhancing the platform's appeal to capital providers seeking to align their investments with measurable and meaningful outcomes.

Government Support

Lab participants emphasized the need for Government support for a new regional initiative. In addition to the initial support provided through Tekuma, the role of the government includes direct and indirect support for projects and programs. The initial list of government roles include:

Direct grants – To assist with planning and predevelopment work.

Seed funding – To support the organization and start-up of the platform.

Guarantees – To shift risk from the market investors, lowering the weighted cost of capital for the borrowers and projects.

Fees – To lower the development fees for permits and taxes on priority projects within the targeted regions.

Direct payments – To provide direct payments for leveraged capital market financing on behalf of the communities and residents. This is particularly important where the payor is unable to pay, such as home reconstruction, community amenities (dining halls, schools, etc.)

Regulation – To provide legal and regulatory support for the regional financing initiatives, including regional authority, adjustment to capital market restrictions, and new financing tools:

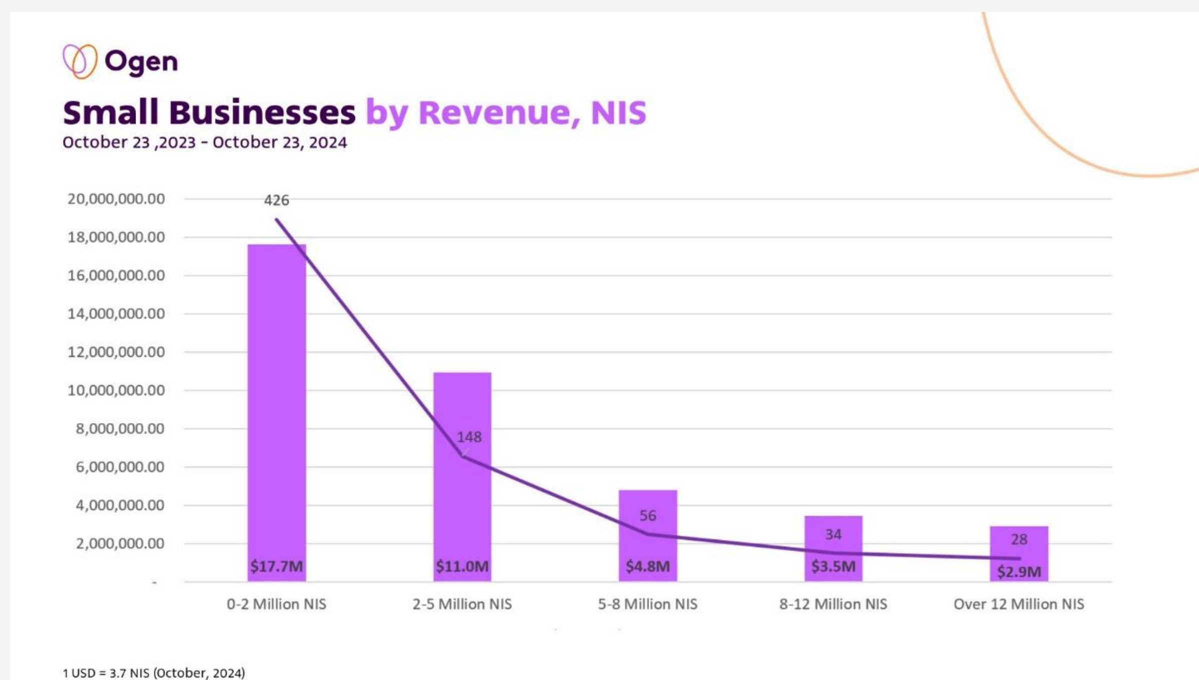
1. The regional financing authority will be established under Israeli law to permit debt and equity issuance, direct financing, guarantee, and insurance activities, and equity and loans management services.[14]
2. The financing platform will require start-up capital to organize, staff, and secure initial investors in the organization and ramp-up of a regional financing platform.
3. Securitization – authorize the pooling and issuance of bonds for backed securities, especially with the small business lending portfolios and other asset-based targets.[15]
4. New tools – including regulatory and program initiatives to leverage the tax code to help with project financing, including tax exempt financing to lower the interest cost of long-term bonds and tax credit to open access to new sources of equity investors.

Case Study: Structured Credit for Small Business Financing

Ogen Group is a not-for-profit social-finance group working to increase financial health, inclusion and opportunity for disadvantaged populations in Israel through the provision of credit and mentoring to low- and middle-income Israelis, small businesses[16], and not-for-profit organizations. Ogen is essentially the first social bank in Israel (despite not having a formal banking license) with a focus on borrowers that are often ignored by the traditional banking system. Ogen has been instrumental in providing affordable loans to small businesses, leveraging philanthropic funds and government support to lower the cost of capital and reduce risk. Ogen also offers coaching and mentoring to borrowers to ensure they have the proper financial tools and literacy.

Driving Economic and Social Impact through Small Business Lending

Ogen has made 80,000 loans since 1990 (NIS 2B; USD 550M) and manages approx. NIS 650M (USD 175) in loan capital.[17] Collectively, Ogen's small business loans have impacted over 1,300 employees, with approximately 40% of capital deployed to small businesses in the socio-economic periphery. Additionally, according to a study conducted by Ben Gurion University[18], Ogen's business mentoring initiatives have a Social Return on Investment ratio of 17.7, indicating that for every shekel invested in the program, a return of almost NIS 18 is generated. The results also show that businesses using the service reported longer business activity, employee growth, and increased revenue. These achievements underscore Ogen's significant social and economic impact; by providing capital to SMEs and underserved markets, Ogen is not only addressing immediate financial constraints but also laying the groundwork for sustainable business growth and long-term economic resilience.



Pioneering Small Business Securitization in Israel

Through its two Credit Access Bond Issuances, Ogen became the first entity in Israel to successfully securitize loans to small businesses. During the Lab, Michael Lustig summarized these initial pilots alongside Ogen's team.[1] Ogen's issuances have included:

- Credit Access Bond I (2022): Ogen's first impact investment bond, raising NIS 50M (~$15 mil).
- Credit Access Bond II (2023): Ogen's second impact investment bond, raising 150M NIS (~$42.5M). Risk is spread across >900 loans to small businesses (85%) and non-profits (15%). The senior notes (Series A) in Ogen's existing ABS facilities are rated "Aa3.il" (equivalent to Baa2/Baa3) by Midroog, an Israeli subsidiary of Moody's.

According to Ogen, these bonds signify a significant stride towards responsible investment in Israel, successfully drawing institutional markets to participate in impactful ventures. Credit Access Bond II, the first bond of its scale in Israel, offers market-rate returns to investors while generating meaningful social impact. Additionally, the bond's listing as a private-traded product on the stock market, enhances accessibility and visibility for investors, making it easier for them to participate in socially responsible investments.

Transforming Challenges into Opportunities through Blended Finance

Blended finance forms the cornerstone of Ogen's strategy. By combining philanthropic funds with private investment, Ogen is able to reduce risks for financial institutions, making it safer for these institutions to lend to Ogen and encouraging private capital to flow into high-potential sectors. However, philanthropy alone is insufficient for Ogen to achieve its full impact. Government involvement is essential to extend the reach of Ogen's programs and further mitigate risks for investors. Government support in the form of guarantees and risk-sharing mechanisms can reassure both private and philanthropic investors, ensuring a steady influx flow of funding into key sectors.

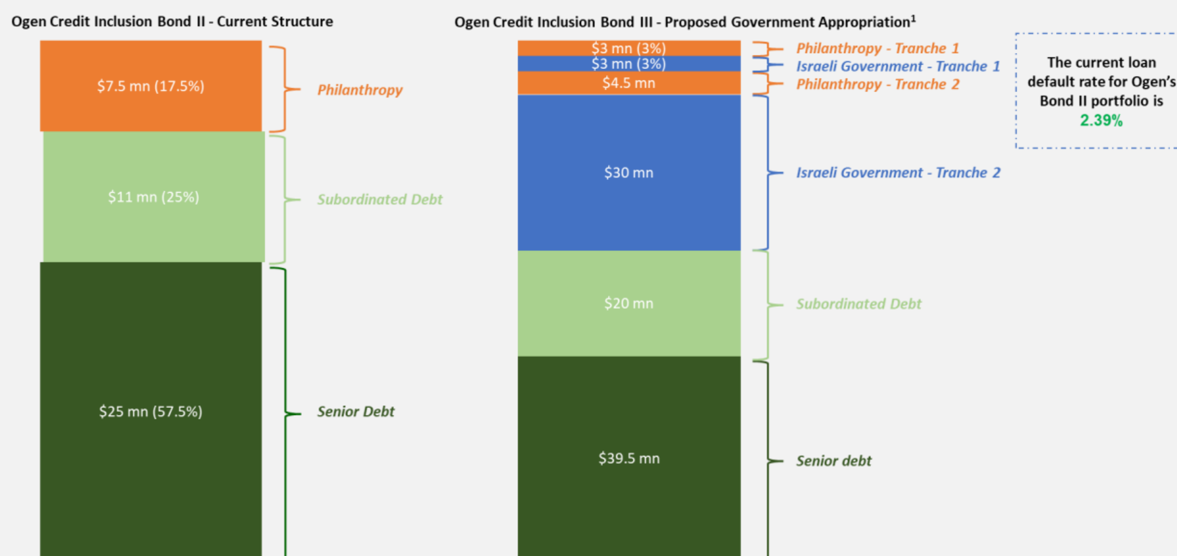
During the Lab, participants proposed several strategies to support Israel's structured credit market through budget funding. While most options are not expected to impact Israel's sovereign credit rating, they could significantly enhance the credit quality of structured securities and expand the availability of innovative financial solutions for small business borrowers.

Options to Support Israel's Structured Credit Market	Description and examples	Classification of government spending by category
1. Security default coverage	Full state backing in the case of default, which could impact Israel's credit rating	-
2. Security first loss support through one-time government appropriation	Similar to philanthropic capital utilized by other companies providing financial support to small businesses today (i.e. Ogen)	Bearing a default cost of 3%-6% (actual payment if required)
3. Full or partial coverage of security issuance costs	Coverage for costs relating to rating agencies, second party opinions (green or social), tax, legal, etc.	One-time full participation payment
4. Security business interruption insurance	Support in the case of regional conflict or physical catastrophe	Payment transfer upon criteria fulfillment
5. Financial support for underlying borrowers	Costs incurred by small business at- or post-loan signing (if they continue to pay on time and in full)	-
6. Full or partial business interruption insurance for underlying borrowers	Support in the case of regional conflict or physical catastrophe	Payment transfer upon criteria fulfillment
7. Business tax benefits for underlying borrowers	Small businesses given ability to write-off all or a portion of interest from loans to lower tax burden	-
8. Operational support for underlying borrowers	Financial education, technology, advertising	-
9. Hiring tax benefits for underlying borrowers	Support for small business hiring through tax benefits	-
10. Mentoring and training benefits for underlying borrowers	Subsidize interest for small businesses which receive a certain level of mentoring and training	-

In the Lab, Ogen identified options 2, 3, 4, and 6 to be the most helpful and feasible. The images below illustrate how these options can be implemented in practice for Ogen's portfolio and allowing it to effectively scale, enhance risk management, and maximize its impact across key sectors.

Security First Loss Support Through One-Time Government Appropriation

In its current form, default rates would need to double for the first government tranche to be depleted and increase ~5x for the second tranche to be impacted



(1) Assumes a bond size of $100,000,000.

Benefits of One-time Government Appropriation

One-time government appropriation should be placed in a credible "lock box" structure

Potential Benefits[1]	Description and examples
Risk Mitigation	Reduces financial risks associated with the management of funds, ensuring that payments are protected and distributed in a timely and efficient manner.
Credit Enhancement	A lock box structure can potentially lead to better ratings from credit rating agencies (source: Moody's).
Accountability and Transparency	Ensures that funds are used appropriately and transparently, and enhances trust that the government payments are used exclusively for their intended purposes.
Attractiveness to investors	The structure may make the securities more widely attractive for institutional investors, particularly those that prioritize capital preservation.
Expanded access	Enables Ogen to expand access for borrowers, especially smaller or riskier businesses that might not otherwise qualify for financing.
Low Risk of Government Tranche Depletion	Given the low cumulative rate of default, there is a relatively low likelihood of Israel's contribution to be depleted.
Earning Potential for Israeli Government	Israel can invest funds in interest-bearing vehicle to earn a return.
Increased Philanthropy	Philanthropic support may increase if people know that the government is invested alongside them.
Bolstered Social Impact Argument	Government contributions strengthen the social impact argument and the lock box provides additional support for the management of proceeds analysis by an external reviewer.

(1) Assumes best practices for lock boxes are met including: Lock box is managed by a trustworthy independent trustee to ensure impartiality; funds in the lock box are segregated from other financial assets and managed strictly according to the terms of the securitization; conditions of the government's appropriation are clearly outlined (i.e. proceeds can't be used for other purposes before maturity of the security); clear disclosure of the status of the lock box provided by the trustee to investors, including inflows, outflows, and any relevant financial metrics; clear strategy for unwinding of the lock box at the end of life of the security.

Full or Partial Coverage of Security Issuance Costs

Government will provide full or partial costs of issuances under the criteria defined for support for SMEs

Model	Bond 2 (2023) - $41M	Bond 3 (Expected 2025) - $83M
Total Legal Expenses	82,200	172,800*
Accountant	65,750	141,500*
Trustee	32,900	65,800*
Recruitment Expenses	32,050	62,100*
Institutional Sequence	58,500	-
Rating and Second Party Opinion Expenses	100,750	317,300*
Total	**372,150**	**759,500***
% of Total Bond Portfolio	0.9%	0.9%*

*Estimated

Security Business Interruption Insurance

The state will issue a tender to provide an insurance policy for a credit provider that will extend credit to businesses whose classification has been pre-defined by the state as high-risk (based on pre-defined criteria that will be detailed further).

This is intended to incentivize the provision of credit to this sector of businesses, which bear a significant burden of military and reserve service and are therefore at risk of being denied credit by credit providers, potentially leading to their economic collapse.

Full or Partial Business Interruption Insurance for Underlying Borrowers

The state will establish criteria to provide assistance to business owners who have taken out a loan and are in financial crisis. Sample criteria may include:

- 50% of the senior management was called up for reserve military service (under mobilization order 8)
- 30% of the positions that were filled prior to the war remain unfilled due to absence resulting from reserve military service or evacuation orders from the Home Front Command Significant depreciation of the NIS exchange rate (over 30%) for import-reliant businesses (over 50% of raw materials imported)
- Forced freezing of business activity as a result of security directives stemming from a security situation. Damage will be calculated based on a daily damage calculation derived from financial turnover and number of employees

Project/Program Development Plan

The Lab explored further each of these priority areas which could form the basis of an investment strategy addressing the recovery needs of the region. Shabtai described the projects, including a brief scope, and their priorities in the region. Lab participants discussed these projects and how they might be pooled into a development authority recovery financing platform.

Energy Security

Lab participants discussed the process of energy production, transmission, and storage as an immediate and high priority use case. They explored the opportunity for investment in energy-water systems through an integrated, secure distributed energy system. Energy security and water are featured as priorities in the regional development plan.

Figure 8 Schematic of potential energy and water projects within communities in the region. (Source: Tekuma)

Need - The region's need for energy security is underscored by the system vulnerabilities observed during and after October 7. Almost immediately, residents lost power, which was a critical foundation for communication and security.

Building energy security through distributed energy systems involves utilizing decentralized energy resources to enhance the reliability, resilience, and sustainability of energy supply reducing dependence on centralized power plants and long transmission lines. Microgrids could operate in conjunction or separately from the main grid providing backup during emergencies as occurred on October 7, while simultaneously providing lower energy costs for consumers. This approach could empower the region to integrate renewable energy sources, enabling the region to scale clean energy solutions rapidly, reduce greenhouse gas emissions, and promote a more participatory energy market. It could also potentially integrate additional technologies including battery storage systems, solar canopies, bidirectional EV charging infrastructure, and green buildings (with monitoring) throughout the recovery and reconstruction process.

Objective - The objective is to rebuild a resilient system with decentralized and cost-effective production, hardened transmission lines in the trunk (main lines) and lateral system (from the trunk to the homes and businesses) connections, and behind the wall storage to allow for levelling across the peaks and valleys in the demand cycle.

Opportunity - The region has a unique opportunity to transform its energy infrastructure through strategic investments in renewable energy and resilient power systems, supporting both immediate needs and long-term growth. Building a distributed energy system would enhance energy security by reducing dependence on centralized grids and enabling local control especially during emergencies. With integrated technologies such as microgrids, battery storage, and solar canopies, the region can rapidly scale clean energy solutions, lowering costs and greenhouse gas emissions. This initiative would also align with the regional development

plan's priorities by fostering sustainable growth, increasing local resilience, and creating opportunities for community and investor engagement.

Plan Elements:

1. **Underground Power Transmission -** This project focuses on the relocation, protection, and expansion of power distribution through underground power transmission lines, ensuring resilience and reliability in energy delivery.
2. **Rooftop Solar -** The rooftop solar initiative will facilitate the installation of solar panels on buildings, supported by a service model with financing tied to service payments and secured by a lien on the property. This allows property owners to transition to renewable energy with manageable financial commitments.
3. **Mini-Grid Solar -** Designed for commercial and community areas, this project supports the installation of solar energy systems at a larger scale, utilizing a shared service model to distribute renewable energy efficiently and affordably.[19]
4. **Agrivoltaics:** Integrating solar panels with agricultural land and greenhouses to optimize land use and integrate food production with energy generation. This builds upon an existing Ministry of Energy initiative in this field.
5. **House-Based and Community Energy Storage -** This project aims to install "behind-the-wall" energy storage solutions in homes. In Sderot or larger communities, community-scale battery energy systems would also enable the power grid to become cleaner, more resilient and less costly. By storing energy during off-peak hours, homeowners and communities can benefit from cost savings. Incorporating battery storage would enhance the reliability of energy supply, allowing for energy storage during peak production times and release during peak demand. This initiative could also create real estate financing for energy storage projects in connection with a solar and storage real estate investment trust combining solar and storage projects. Financing will be based on the projected energy savings, providing an incentive for adoption. Market potential exists for both residential and community systems subject to housing density and consumer preferences.

Project Structure: Both Solar and other renewable energy installations along with energy storage development are both land and capital intensive. The project structure contemplates creating a regional operator that procures, installs, services, and manages this power-related infrastructure. This energy services company (or ESCO) could be structured as a special-purpose vehicle (SPV), allowing for a limited partnership among equipment and engineering service providers, and provide pooling of all energy services via a fee for service model. This energy-as-a-service model would allow customers to access solutions without upfront investments. Providers would install, maintain and manage the energy systems and offer services based on usage. Relatedly, a publicly traded yield company (Yieldco) could be evaluated as a developer as well as to own and operate renewable energy assets and storage based on long-term contracts and energy efficiency savings.

Capital Structure: The SPV could be financed through a blended combination of stratified equity and debt, along with limited guarantees or reserve funds to ensure liquidity and

continuous operations. Additionally, long-term power purchase agreements with large consumers could provide guaranteed revenue streams and ensure stable cash flow enabling an overall lower WACC. The WACC can account for 20-50% of the levelized costs of electricity in a solar PV project, so lower financing costs are critical for the affordability of energy transitions.[20]

- **Revolving Credit Facilities:** Working capital could be used by developers through a structured credit facility to finance ongoing project development and operational needs secured by project assets or expected cash flows.
- **Regulatory relief:** The project would require a fee-in tariff from the Israel Electricity Corporation, allowing the sale of power to the grid, as available during non-peak times.
- **Tax incentives:** The project could deploy tradable tax credits to investors, attracting new efficient sources of equity. The tax incentives should be tailored to post-war recovery by utilizing both investment and production tax credits for renewable energy and storage. Utilizing tax equity financing, where investor provide capital in exchange for tax benefits (for both U. S., U.K., and Israeli investors) could significantly reducing the financing burden for these projects. [21]
- **Flexible repayment models:** The envisioned models would serve as a form of outcomes-based financing by allowing investors to receive repayments based on a percentage of revenue generated and carbon emissions reduction achieved by these projects. Such repayment models would reduce the financial burden during low-revenue periods and encourage the achievement of sustainability targets (i.e. through sustainability-linked bonds or collateralized loans).[22]
- **Crowdfunding:** Platforms which allow Israeli and Diaspora community members to invest small amounts could raise capital and increase engagement.

Outcomes: The project would provide key outcomes for the regional residents and for retail and institutional investors including low-cost, distributed production; secure transfer and distribution; shared storage; and the potential for fee-based income.

Business Development

Small businesses are a fundamental component of the regional economy and create the backbone for economic growth.

Need: Banks provide most of the capital for business financing, yet Israel's regions have long had problems attracting competitive bank financing.[23] During the current crisis, the gaps in available credit are even more acute. Addressing this challenge requires finding ways to shift risk and lower the cost of capital to enable expanded financing for small businesses. Small business loan securitization would exemplify the strategic financial intervention to foster resilience and innovation. As the case study of Ogen demonstrates above, the application of derisking by brining government, private market investors, and businesses together can be applied to transactions across the roadmap for recovery identified in the Western Negev and beyond in the North of Israel as well.[24]

Objective: The objective is to identify a set of tools that can be leveraged to help support the growth and development of small businesses in Israel, accelerating job creation, philanthropic support, and capital formation.

Opportunity: Small businesses, which make up most of the Israel's economy and are struggling to receive bank credit as financing needs accelerate. Businesses with <20 employees account for 93% of all companies in Israel, employing 1,049,400 people, 45% of the total workforce. These small businesses account for 34.3% of Israel's GDP, three times more than Israel's high-

tech sector. Despite making up >90% of the Israeli economy, small businesses in Israel receive only ~13% of credit.[25]

Up to 60,000 Israeli businesses are expected to shut down in 2024, according to estimates by Coface BDI, with 46,000 already forced to close since the beginning of the war. About 77% of these businesses are small businesses with up to five employees.[26]

Plan Elements:

1. **SME Financing –** The project would provide guarantees on financing for SMEs along with grants to assist with equity requirements, helping businesses recapitalize and sustain growth.
2. **Micro Financing -** Leveraging philanthropic and government funds, this initiative offers small, short-term loans to individuals and businesses, particularly those in underserved communities, to support immediate financial needs.
3. **Personal Loans -** Designed to provide gap loans, this project assists individuals facing disruptions such as relocation or emergency reserves. It aims to ensure financial stability during transitions or unexpected events.
4. **Technical Assistance, Financial Education, and Mentoring -** This initiative organizes financial literacy programs, workshops, and business mentoring services, empowering individuals and businesses with essential knowledge and skills for financial management and business success.

Project Structure: The projects include small business development activities, including inventory, equipment, and labor expenses. Small business financing would bundle and pool loans for small businesses across various industries, creating a diversified portfolio that mitigates risk and achieves scale. The currently planned securitization law approved and promoted by the government, Israel Securities Authority, and Bank of Israel would enable the repayment of issued loas secured by anticipated and defined cash flows from credit portfolios including small business loans and related asset-backed transactions.

Capital Structure: Lab participants discussed ways of shifting the risk for portfolios to lower the cost of capital to borrowers and increase the volume of capital available to meet the market needs in the region. The capital structure would therefore be built on a blended financing model**,** combining philanthropic grants, government funds, and private debt and equity. Philanthropic capital would provide a first-loss layer, helping to absorb initial risks and making the portfolio more attractive to institutional investors. In addition**,** budget funding support from the Israeli government would further mitigate risk, enabling the issuance of bonds with a lower weighted average cost of capital. This blended approach would enhance the credit profile of the security, making it more widely attractive for investors, while also expanding access to loans for borrowers.

Outcomes: The project would provide key outcomes for small businesses and for retail and institutional investors. The concept of blending philanthropic capital with market capital and the use of limited public guarantees on the loans within the portfolio would enable securitizations with lower cost.

Planning and Development

Need: The residential and economic conditions within the region have been significantly impacted. The region has already begun picking up pieces with slow rebuilding – largely supported by grants in aid from the national government and philanthropic support from Diaspora communities abroad. But rebuilding efforts are slow and technical, and often encumbered by planning and regulatory processes.

Objective: A strategic benefit of economic development in the Western Negev is that it presents an exemplary opportunity to redefine regional dynamics between the center and peripheral regions of the country and eliminate the dichotomy between urban cities and rural localities. Both urban and regional planning theories and empirical findings suggest that urban and rural areas enjoy different, but complementary advantages and resources. A collaboration between Kolker-Kolker-Epstein Architects and the Israel for Structural Reforms has contributed valuable spatial analysis to support regional connectivity. Access to more extensive train and road networks as well as micromobility options would enable urban renewal of affordable housing projects and infrastructure, expand property rights, and accelerate development through regional councils both within the region, with Central Israel, as well as the Central and Eastern Negev.[27] Regional inequality could therefore be substantially reduced by targeting affordable housing and creating regional connectivity linking to the Central Region of Israel.

Opportunity: 63,978 residents lived in Tekuma Region, about half of them are in the city of Sderot and half in 46 rural settlements in the regional councils of Eshkol, Shaar HaNegev, Sdot Negev and Ashkelon coast. The region has a total area of approximately 400 thousand dunams, and 20 thousand housing units in a combination of single family, multi-family rental and owner-occupied housing. The region has a high percentage of low-density, single-family housing relative to the national average of 25%.

Plan Elements:

1. **Housing Development -** Affordable housing solutions will be provided through rental and for-sale options targeted at young adults, families, and seniors. This project will incorporate shared equity participation, long-term debt options, guarantees, development grants and payments ensure access to sustainable housing for former residents.
2. **Mixed-Use Development -** This initiative focuses on creating blended developments that integrate commercial, office, community, and amenity spaces. The projects will be funded through a combination of private and public financing models to create vibrant, multi-functional spaces. The region has distributed and small mixed-use centers, including commercial, light industry, and local retail located in small settlements (kibbutzim and moshavim).
3. **Tourism Development -** A tourism district will be established to enhance tourism assets, generate new revenue streams, and support tourism development. The district will also focus on site restoration and the creation of recreational amenities. Tourism has the potential to play a vital role in building the region's economic foundation, with opportunities to greatly increase both domestic and international visitors. Key areas of focus include archeology, history, nature, agricultural (farm work), culinary sites, bike paths, and camping and hiking trails.
4. **Transportation Infrastructure -** Linking rural areas, known for high quality of life and environmental resources, with urban areas, which offer more developed services and markets, will foster regional integration. Increased urban-rural connections will drive economic prosperity and improved well-being through more affordable housing options, increased property ownership, land development by local authorities, and expanded property rights.

Project Structure: Projects will be bundled and pooled to achieve scale and mitigate project risk. Housing projects will be supported through sales and long-term rents. Tourism projects can be combined to create a tourism asset district with a combination of destinations and program support. Commercial and mixed-use projects will be issued under a tender, with revenue participation by the local authorities.[28]

Capital Structure: The projects will combine a blend of public, philanthropic, and private sector investments through a range of flexible debt and equity investments. While the projects,

including replacement housing and community assets for community members, should be financed at 100% of the replacement cost, the payor for the long-term debt for those assets should be the Government.[29]

Outcomes: The initiative will create affordable housing with a variety of product types and price points available in the market. The projects will also create a range of tourism assets, supported by the regional economy with an affordable and secure revenue base.

Technology Centers of Excellence: R&D Platforms in Agri- and DeserTech

The region's economic development objectives focus on creating technology-based solutions that attract investment, generate jobs, and provide competitive incomes for residents. By leveraging the region's strengths in agriculture, food, and adaptive technologies for desert and arid communities, these solutions aim to drive technology-based growth and provide the region with a competitive advantage.

Need: The war has resulted in over half a billion dollars in lost farmer income, coupled with damage to 40,000 hectares of agricultural land, which has reduced agricultural production areas by 30%. The destruction of critical farming equipment was destroyed has resulted in the loss of 10,000 experienced farmworkers in a region that historically supplied 70% of Israel's fresh produce. Beyond the emergency response efforts in 2023, the current objective is to drive innovations in climate-smart agriculture and food systems to strengthen economic resilience and support recovery initiatives.

Plan Elements: Agritech and **Desert Tech** initiatives will focus on creating scalable technological solutions specifically tailored to the region, while further developing and commercializing these innovations for broader market adoption. The goal is to combine cutting-edge plant and soil science, water management, food and energy solutions, and materials science technologies to create an effective ecosystem for economic growth in the region.

Opportunity: The region serves as a showcase for technological solutions in agriculture, water, and energy and pooling of AI applications for gating and validated new technology and solution sets. Proximity to the Volcani Institute, Sapir Academic College, and the Desert Tech institutes at Ben Gurion University presents opportunities for the development, deployment, testing, and validation of solutions. The region can model solutions in key areas such as:

- Seeds and Fertilizers—grounded in soil and plant science
- Distributed drip irrigation solutions
- Soil testing
- Post-harvest storage
- Low-energy desalination

Project Structure: Projects may evolve as a series of special purpose vehicles or partnerships between local operators, research institutes, and investors, focusing on developing these centers through a Real Estate Investment Trust (REIT) that emphasizes precision agriculture, water management, and desert tech innovation clusters in the region. Research clusters such as these could populate laboratories and research centers with high quality tenants and cash flows supported by long-term contracts. Research labs are not overbuilt in this region which has high potential demand potential for research, development and commercialization potential in these areas of science and technology driven innovation. They are unique and far less cyclical than office and other commercial real estate. This approach would build on experiences in Europe and the U.S. to create a differentiated business model aimed at fostering Ag/Water/Desert Tech ecosystems that combine R&D, alpha and beta site testing, and scaled

growth to enhance precision agriculture and food security both in Israel and globally. Strategic and integrated verticals would encompass real estate, private equity investment funds for tech development, and business development that catalyze innovation for global agricultural and food security solutions in desert environments.

This Western Negev Ag/Desert Tech Hub would connect with other similar testbeds for food production in water-scarce environments throughout the MENA region and Africa, enhancing food security and reinforcing Israel's role in technological solutions for food security.

Capital Structure: Project partnerships can be aggregated or bundled into financing pools, supported by public and philanthropic investments, and placed in capital markets. These initiatives would be capitalized through participating loans to sustain operations during the development and initial startup phases. The financing pools would require a reserve fund to mitigate some risks during the ramp-up and implementation periods, along with limited guarantees to ensure repayment to priority investors.

Outcomes: The initiative aims to establish anchor projects that strengthen the economic base and create potential for future growth within the region. It will leverage advancements in plant, soil, and agricultural science as well as technology solutions to drive cultivation, post-harvest processing, and storage.

Local Authorities

Need: The Gaza Envelope includes the region in Israel's Western Negev that lies within 7 kilometers (approximately 4.3 miles) of the Gaza Strip border. This area encompasses several local authorities, including the city of Sderot and the regional councils of Eshkol, Hof Ashkelon, Sdot Negev, and Sha'ar HaNegev. Sderot, one of the largest cities in this region, is home to a little over 30,000 people. The region hosts numerous educational institutions, community centers, synagogues, and healthcare facilities, including hospitals and clinics, to serve its residents. Since Oct 7, much of the local infrastructure and local operations are in poor condition or lost entirely. Given the extensive damage to physical infrastructure and rate paying assets (homes, businesses, farms, industrial centers) as well as significant labor losses, local authorities face the urgent need for financial stability. This stability must be paired with enhanced capacity to rebuild and maintain the basic civic infrastructure to support growth and encourage reinvestment.

Opportunity: Beyond the government transfers to stabilize local and regional authorities, there is a need to support access to new sources of capital and to build a platform that will enable blending of those new sources. Access to long-term capital to finance pools of projects will lower long-term operating costs and enable local and regional authorities to sponsor new capital projects. With new, leveraged and sustained resources, local and regional authorities will be able increase the tax base and reduce operating costs.

Plan Elements:

1. **Local and Regional Authority Sustainability** - This initiative explores new revenue generation models for local and regional authorities, including benefits assessments, land banking, tax sharing, shared procurement, and managed competition, ensuring sustainable governance and operations.
2. **Economic (Base) Development -** Aimed at fostering sustainable communities, this project focuses on business development, recruitment, retention, and commercial growth through strategic initiatives and incentives.

Project Structure: The local authorities can participate in a shared platform to leverage their tax bases for additional, low-cost financing. The local authorities will determine their capital

investment plans based on their own priorities. Once they decide to pursue a project or program investment, the administrators of the financing platform will underwrite the investment and manage the financing.

Capital Structure: The capital structure will combine local and regional tax revenues, new projected revenues (resulting from the investment), and a blended combination of public, philanthropic, and private investments – in the form of reserve funds, standby guarantees, and participating and/or term debt.

Outcomes: The initiative for local authorities will create sustainable sources of capital investment, leveraged project investments, and new flows of tax and project revenues to support financing.

Conclusion: Derisking Israel's Post-War Recovery

This regional finance platform will enable access to the capital markets, enlarging the supply of capital beyond traditional debt and equity and leverage government budget expenditures into investible projects building revenue returns to the region and the government. At the same time, the platform will open the opportunities for alternative financial sources, including government and philanthropic sources. Through a blended financing approach, the platform can lower the weighted average cost of capital, leverage additional investment, and provide a scalable solution for a resilient regional economic recovery.

The Platform will also provide new opportunities for financing for projects needed in the region, including projects to rebuild assets destroyed in the war that may not have traditional revenue models, such as tourism projects, community assets and facilities, housing and energy security projects, and R&D projects of new technologies and initiatives. In addition, the initiative will enable the financing for new initiatives in the region to increase economic activity and potential growth.

Building practical solutions requires addressing the key questions raised in this report, such as how to quickly identify relevant projects and design effective and scalable solutions. In summary, a collaborative approach aligned with regional development goals will enable stakeholders to quickly vet and prioritize potential projects. In terms of solution design, bringing together participants from various sectors will help foster the development of innovative financial solutions that are tailored to the specific needs of each project. The following section outlines the proposed project and program development plans, providing a roadmap for actionable progress.

The immediate next step includes developing policy consensus about the conclusions of this Lab among policy and regional leadership about projects and a platform to support those projects. This step should include the creation of a working group of regional leaders, policy professionals, philanthropic investors, and finance and industry leaders to design and implement a blended regional financing platform through a public, private, philanthropic partnership.

Project Development

The goals of the project development activities are to build investable projects – with support, plans, staffing and organization, and capacity to carry out the plan. The first step forward is to continue the important work of identifying projects and working to plan, develop, implement and manage these projects. These steps include the scope and objectives of projects, including its market, understanding how the project will be managed and staffed, and designing how the project will work financially. Later stages include design of the physical and organization project structure, developing financial projections, and crafting the financial and project plan. For those projects that are ready, the project includes executing the organizational plan, the financial plan, and physical plans. Finally, project development includes implementing a management strategy for the operations, growth, and stability of the project.

Table 2 describes the essential tasks for designing, developing, implementing, and managing projects.

Table 2 Project Development (across stages)

Predevelopment and design	Development	Implementation	Management
1. Scope and objectives 2. Market gap/market reach 3. Management plan 4. Recruit core team 5. Unit economics/ revenue models 6. Capital Structure/initial investment scenarios 7. Ownership and partners	1. Project structure 2. Bylaws, mission statement 3. Financial assumptions and term sheet 4. Marketing plan 5. Build supply and customer relationships 6. Design information and management systems 7. Design physical space 8. Financial projections and sensitivity analysis 9. Investment proposition 10. Recruit and secure talent	1. Establish legal entity 2. Secure leadership/ board committee 3. Execute financing/secure initial funding 4. Execute supplier and customer agreements 5. Secure team 6. Execute initial supplier/custome r contracts 7. Execute management and data systems 8. Execute facility plan	1. Manage operations 2. Report financial performance 3. Manage board and staffing 4. Build strategic partnerships within value chain 5. Build and leverage financial value

Platform Development

The goals for creating a public, private, philanthropic partnership (PPPP) on a platform are parallel to the project development processes describe above, however, they focus on designing, building, and managing a sustainable, scalable financial facility that can pool investments of a variety of types, manage those investments and receivables, screen and structure the deploy of the invested capital to projects, and manage those investments so that they will return capital to create a financially stable platform.

Table 3 describes the essential tasks for designing, developing, implementing, and managing a platform that can be used to organize, underwrite, package, and finance the projects.

Table 3 Platform Development (across stages)

Predevelopment and design	Development	Implementation	Management
1. Establish legal authority 2. Scope and objectives 3. Market gap/market 4. Use cases 5. Capital Structure/initial investment scenarios/pricing/returns, etc. 6. Ownership, organization and partners 7. Roles – central, regional, local authorities 8. Recruit core team 9. Source deal flow	1. Confirm legal standing 2. Financial plan, including capital structure and returns 3. Secure bridge funding 4. Organize capital markets team (underwriting, rating, sales agreement, purchase agreement, letters of credit, PPM/OS, etc.) 5. Investor terms and conditions 6. Reserve funds design and conditions 7. Underwriting, loans receivables, and management 8. Technical assistance and soft support 9. Prepare guidelines/build deal flow	1. Establish entity/bylaws 2. Secure initial staffing and board 3. Execute partnership agreements with local/region and capital markets 4. Execute initial investment rounds 5. Implement information management systems 6. Launch underwriting team 7. Document bond transactions 8. Close initial project/program financings	1. Convene board 2. Close bond transaction(s) 3. Repay bridge financing 4. Manage project pipeline 5. Report project activities 6. Report financial activities, results, and outcomes 7. Manage loan/investment receivables 8. Manage teams

Appendices

Appendix 1: Lab Participants

Museum of Tolerance, Jerusalem, June 2024

Raanan Agus
Goldman Sachs

Hovav Alster
Ministry of Finance

Jonathan Avisar
Phoenix

Leo Bakman
Negev Future Fund

Naty Barak
Orbia (Netafim)

Daniel Barkan
Apollo Global Management

Shachar Ben Zvi
Ministry of Finance

David Botbol
Clarity Capital

Matt Brody
Apollo Global Management

Gil Cohen
Accountant General's Office /Ministry Of Finance

Moshe Daniel
Ogen

Michael Eisenberg
Aleph Venture Capital

Ben Epply
Apollo Global Management

Eyal Gassenbauer
Ogen

Aaron Goldberg
Jewish Federation of Los Angeles

Igal Gurevich
Tkuma

Tal Israeli
Budget Office/Ministry of Finance

Eugene Kandel
RISE Israel, Tel Aviv Stock Exchange

Michael Kashani
Apollo Global Management

Yadin Kaufman
Veritas Venture

Eldan Kaye
Ogen

Guy Lakan
Hebrew University

Amir Leibovitch
Clarity Capital

Josh Lowenstein
Migdal

Michael Lustig
NYU-Stern School
Israel Forum for Impact Economy

Suzanne Lyons
Aon-Israel

Zvi Marom
BATM

Jon Medved
OurCrowd

Daniella Moshel
ICAR Collective

Orly Movshovitz Landskroner
Milken Innovation Center

Aya Navon
Israel Forum for Impact Economy National Advisory Board

Vardi Ofek
HUJI

David Ram
Goldrock Capital

Wootliff Raul
Number 10 Strategies

Naomi Reem Tarshish
Tkuma Authority

Itzik Sabato
National Insurance

Matthew Salter
Jewish Federations of North America

Daniel Schydlowsky
Global Development Policy Center Hebrew University Business School

Jean Semama
MENIVENERGY

Hadas Shabtay
Tkuma Authority

Lori Shapiro
Apollo Global Management

Lisa Silverman
ICAR Collective

Jason Smilovitz
Ogen

Elise Steinberg
Ministry of Foreign Affairs

Barry Topf
Israel Citizens' Fund-Investment Committee

Gil Vardi
Fellow-Milken Innovation Center

Scott Weiner
Apollo Global Management

Jason Wolf
Iron Nation

Glenn Yago
Milken Innovation Center

Nir Yannay
Rebuild Initiative, Western Negev Cluster

Saar Zacharish
Bizi Finance

Steven Zecher
Milken Innovation Center

Tally Zingher
Blue Laurel, Dawsat

Elan Zivotofsky
Israel Moelis

Appendix 2: Lab Workshop Participants

Apollo Global Management, February 2024

David Alter
Goldman Sachs

Natalia Angel
Apollo Global Management

Sagi Balasha
Ogen

Jonathan Bar
Apollo Global Management

Bart Baum
Ionic Capital

Michael Ben-Eli
Sustainability Laboratory
Benjamin Brookstone
Apollo Global Management

Daniel Castaline
Apollo Global Management

Lauren Coape-Arnold
Apollo Global Management

Moshe Daniel
Ogen

Liron David
Eventique

Howard Edelstein
BioCatch

Robert Friedman
Full Stack Modular

Taylor Friedman
Apollo Global Management

Eyal Gessenbauer
Ogen

Yochanan Gordon
PwC

Aryeh Hauptman
Bloomberg

Yonah Hiller
LuminArx Capital

Michael Kashani
Apollo Global Management

Eldan Kaye
Ogen

Adam Kostrinsky
Apollo Global Management

Gideon Lubin
Moody's

Michael Lustig
NYU-Stern School
Israel Forum for Impact Economy

Caitlin MacLean
Milken Institute

Rafi Musher
Stax Consulting

Glenn Myles
First Wall Street Capital

Drew Newton
FourSixThree Capital

Diomedes Nunez
Eventique

Ilana Odess
Our Crowd

Charles Pesant
Paul, Weiss, Rifkind, Wharton & Garrison LLP

Steve Rubin
Apollo Global Management

Aleksander Rudner
PwC

Ruth Salzman
Rusell Berrie Foundation, Former CEO/Advisor

Jeff Schachter
Emes Capital

Michael Seidman
Diameter Capital Partners

Carl Seldin Koerner
White and Williams

Rebecca Shalam
The Acceleration Project

Lori Shapiro
Apollo Global Management

Steve Shenfeld
Mid-Ocean Partners

Jonathan Simon
Apollo Global Management

Jason Smilovitz
SMIL Group LLC

Shari Verschell
Apollo Global Management

Marc Utay
Clarion Capital

Rebecca Veron
The Acceleration Project

Eric Wielander
Eventique

Glenn Yago
Milken Innovation Center

Appendix 3: Financial Tools Glossary

Drawing from the Lab discussions about best practices, the following table provides descriptions and definitions of selected financial tools and programs tailored to different stages of regional development. Several of these programs have been incorporated into the modelling described in the appendix above.

Program	How does it work?	What is the benefit?
CREDIT TOOLS		
Microloans Small, short-term, unsecured loans to small business	• Loans are provided to small businesses through clusters or hubs • Technical assistance and field services is provided to groups of participating small businesses • Loans are repaid by each small business through the cluster or hub • Repayments include interest on the outstanding principal; principal is paid in lump sum at term	• Small businesses may have insufficient collateral to secure traditional loans • Small business networks or hubs can provide tailored support and guidance to small businesses as well as more flexible loan terms catered to the needs of the individual business.
Subordinated debt Amortizing debt paid from the project net operating income; applicable to revenue-generating projects	• Subordinated debt can be sourced from private, community, or government direct loans directed to eligible projects. • Collateral and payment obligations are subordinated to senior debt, typically following the primary lender (e.g. a bank) in priority order. • Depending on the source of funding for the subordinated debt, the terms may include payment deferrals, lower interest rates, and longer repayment periods. In exchange for being unsecured, subordinated debt may have a higher interest cost to compensate for the higher risk. • Often managed through a separate revolving loan fund or outsourced to a financial institution for underwriting and loan management.	• Improves the debt coverage ratio for senior debt, making conventional loans more feasible and encouraging senior lenders to participate in the project. • Adding subordinated debt to the overall capital stack can reduce the risk profile for senior debt, potentially lowering the average cost of capital. • The subordinated debt's flexible terms can support project cash flow, and its structure can improve yields for investors. • Loan funds may be capitalized by government and philanthropy investments and eventually the proceeds from securitizations of loan pools.
Bridge Loans Short-term loan to provide immediate capital for start-up costs, set up expenses, and initial working capital.	• A bridge facility is often organized by government and/or philanthropic sources to provide short-term funding to CDFIs. It can take forms such as a revolving credit line or convertible debt. • The CDFI prepares an operating, market, and financial plan, raises initial equity, and begins the approval process through government regulators. • The CDFI secures the bridge financing which provides set-up and initial working	• Bridge financing provides necessary initial capital that can help attract equity investors/members. • Many regulators require a sufficient level of capitalization for new businesses to operate. Bridge financing can provide the capital necessary to reach the required financial threshold,

Program	How does it work?	What is the benefit?
	capital. • Bridge financing loan terms are typically short-term with preferred interest rates. In some cases, bridge loans may be convertible to equity, depending on the lender's approval.	allowing the business to begin operations while working on securing longer-term financing.
Bonds Debt issued in the public or private capital bond markets	• A project issues bonds secured by expected revenue streams or specific assets, such as a portfolio of loan receivables. • The bond issuer sells the bonds publicly (e.g. to sophisticated investors) or privately (e.g. to pension funds, corporate investment funds, etc.). • The bonds proceeds are used to capitalize the project, with the proceeds recorded as debt. The debt service (interest and principal repayment) is paid according to a scheduled timeline. • Depending on the credit worthiness of the project, bonds may require letters of credit, guarantees, or special insurance.	• Bonds often provide longer terms for repayment, fixed interest rates, and predictable payment schedules. Competitive interest rates • Loan pools can be structured to diversify risk and improve the collateral and credit quality of the bonds. • Financing costs associated with the bond issuance can be included in the total financing, spreading the costs over the bond's life. • Bonds can be issued in the public and private bond markets allowing issuers to access a broad range of investors. • Public or philanthropic sources may provide partial guarantees, reducing investor risk by covering specific losses or providing limited recourse to the project or program's cash flows.
Perpetual Bonds A bond with no maturity data that pays continuous interest indefinitely, without repaying the principal.	• Generally, a "perpetual" bond is one without a maturity date. Effectively, the bond pays interest-only during its lifetime, lowering the cost to the borrower, and providing a steady annuity to the bond buyer. • Bonds are secured by the municipality and guaranteed by the Government. • These extremely long bond terms can be structured on pooled bonds of known projects or prospective projects anticipated over the near term. Typical projects can include long-term investments in city assets, particularly with long useful life, such as parks, roads, transit, water and sewage, communications, and the like. • These bonds can also be used for cultural resources and even private activity projects usually with an explicit public purchase.	• The bonds are tradeable securities, allowing holders of the bonds to sell them based on market prices, providing liquidity for the buyers and a competitive cost of capital to the municipality. The key benefits of these bonds are that they lower the cost of capital to the municipality.

Program	How does it work?	What is the benefit?
	• Bonds are highly liquid and may be bought and sold at competitive prices, thereby returning principal. The bonds act financially like an equity investment, paying a rate of return annually.	
Mini bonds Small-scale bonds typically issued by businesses or municipalities to raise funds from local investors.	• Mini bonds are small-denomination bonds issued for municipal projects or community initiatives. They are often customized to meet the needs of specialized and geographically based projects and programs, sometimes down to the neighborhood level. • Successful mini-bond programs may set up a mini-bond “desk” to handle bond issuance, track sales, and manage payments or contract with external provides for administration, sales, and servicing.	• Open new sources of capital by attracting local residents and retail investors who may not typically invest in larger bonds. • Mini bonds can be customized and branded for specific neighborhoods or community projects, making them more attractive to buyers who feel a direct connection to the initiative. • The low denominations of mini bonds (e.g., NIS 1000-5000) make them accessible to a broader range of investors.
Covered bonds A debt security issued by a financial institution and backed by a pool of high-quality assets, providing bondholders with dual recourse to both the issuing bank and the collateral pool.	• Banks or financial institutions issue loans which are then used as collateral for the covered bonds. • Proceeds from issues are returned to lender and can be used to fund new loans • Covered bonds incur issuance fees, including ratings, packaging, and underwriting fees.	• Covered bonds enable lenders to raise new capital by securitizing high-quality assets, which increases lending capacity • By issuing covered bonds, lenders can convert illiquid assets into liquid assets, improving their liquidity position • Provide a market-based return to investors that is relatively low-risk due to the dual recourse structure, making them attractive to risk-averse investors. • Upfront predevelopment costs may be covered by philanthropic support or government support
CREDIT ENHANCEMENT TOOLS		
Loan and bond guarantees A pledge by a guarantor to cover part or all the debt on a loan in the event of either delinquency or default, transferring a share of	• A guarantee is a contract to pay the lender a designated amount (all or a portion) of the debt in the event of either delinquency or default. • The borrower must repay the guarantor for the advance of the guarantee. • The borrower assigns rights of the assets to the guarantor to cover a portion of the loss. • The guarantees are a limited obligation,	• Guarantees may lower the risk of the borrowing, saving between 50–200 basis points on the debt, improving the financial feasibility of the project • Guarantees may make borrowing possible. • Guarantees lower improve creditworthiness, and possibly

Program	How does it work?	What is the benefit?
the risk for the debt from the lender to the guarantor.	capped at the agreed upon guaranteed amount, and are non-recourse to the guaranteed providers (e.g. philanthropy, government, etc.)	capital reserve requirements, thereby allowing the Bank to deploy more capital. • The fee is paid by the borrower based on 0.5 percent to 1.25 percent of the outstanding principal. • The guarantee funds are provided by a combination of philanthropic investments, standby social investments, and government funds.
First loss guarantees A pledge by a guarantor to cover initial losses on an investment up to a specified limit, absorbing a designated portion of potential losses in the event of either delinquency or default.	• In the event of delinquency or default, the guarantor makes a first-loss payment, covering initial losses up to a certain amount or a pro rata share, based on the terms of the guarantee. • The borrower may assign rights to the borrower's assets to cover a portion of the loss. • The guarantees are a limited obligation, capped at the agreed-upon guarantee amount, and are non-recourse to the guarantee providers (e.g., philanthropy, government). • A fee, typically ranging from 0.5 percent to 1.25 percent of the outstanding principal, is usually paid by the borrower for the guarantee.	• By covering initial losses, first loss guarantees may lower the risk of the bond/loan for senior investors. • This reduction in risk can lead to lower interest rates on senior tranches, often saving between 50 and 200 basis points, and improve the financial feasibility of the project. • First-loss guarantees enable financing of higher-risk, innovative projects by creating a layer of risk absorption. • First loss guarantees can enable a lender to issuer a market loan to a borrower who might otherwise not qualify for one due to perceived higher risk.
STRUCTURED AND SPECIALIZED DEBT		
Collateralized Loan Obligations (CLO) Type of special purpose vehicle (SPV) or entity (SPE) created to pool together corporate loans and issue different tranches of debt and equity securities to investors.	• Proceeds from issuing debt and equity tranches are used to purchase a portfolio of corporate loans. • Cash flow from the portfolio is then used to pay interest on the debt, cover expenses, and provide equity dividends. • This would require the implementation of long-considered securitization reform.	• CLOs pool together a large number of corporate loans, creating a diversified portfolio that reduces exposure to any single borrower. CLOs have shown resilience during economic downturns compared to other structured products, due to their diversified portfolios and structural protections. • CLOs offer multiple tranches with varying levels of risk and return, allowing investors to choose the tranche that best matches their risk tolerance and income needs. • The CLO structure can

Program	How does it work?	What is the benefit?
		mitigate adverse selection by ensuring that CLO managers are motivated to maintain high-quality loan portfolios, as their compensation and reputation are often tied to the CLO's performance. • CLOs generate cash flows from interest and principal payments on the underlying loans, providing a regular income stream for investors.
Development Impact Bonds (pay for success contracts) Development Impact Bonds are performance-based loans or equity investment in regional projects.	• Development impact bonds are structured to fund regional projects with measurable social or environmental outcomes. • Private investors provide upfront funding for the projects based on expected performance, with returns tied to achievement of the outcome targets. • The outcomes are measured to establish a basis for the dividend to the investors • If the specific outcome is achieved or exceeded by the project, investors (buyers of the Impact Bonds) receive their principal plus a performance bonus (usually part of the savings). The payer to the impact bond buyers is often the project sponsor (government entity), philanthropic organization, or NGO with a specific interest.	• Impact bonds mobilize private investors to assume the risks (and potential returns) associated with the projects' performance, shifting the financial risk from the government or NGO sponsor to the private sector investors. • With returns tied to project performance, private investors have an incentive to collaborate with service providers, encouraging innovation in project delivery and outcomes. • Projects are designed to create efficient outcomes, such as lower energy cost or lower water cost or affordable housing.
	EQUITY TOOLS	
Shared equity Ownership of an asset, typically a property, is split between an owner and an investor	• A patient shared equity fund, typically funded by public or philanthropic sources, is established. • Eligible buyers, based on criteria such as income level, location, or other requirements, contribute at least 10% of the equity in cash. • The shared equity pool provides the remaining amount of equity needed. • The shared equity pool is paid back its pro rata share of the equity upon sale or refinancing of the property, including any appreciation.	• Lowers the amount of upfront cash needed from buyers, making property ownership more accessible. • Reduces the buyer's need for additional debt, thereby creating an affordable solution to property purchases. • A shared equity fund can be created by a mix of philanthropic and public investments, maximizing resources for affordable housing. • If the property appreciates, the shared equity fund is repaid its proportional share upon sale

Program	How does it work?	What is the benefit?
		or refinancing, allowing it to reinvest in future projects.
Traded Late-Stage Venture Fund (TLVF) This type of vehicle would be structured as a mutual fund with an investment mandate that focuses on a particular technology niche (e.g., cyber security, biomed, agri-technology, water, or energy).	• The fund would invest its portfolio in listed securities within the niche, while the significant minority would be invested in substantial equity stakes (20 percent to 30 percent) in late-stage unlisted tech companies with market caps of roughly $30 million to $200 minimum. Disclosure requirements would be like those of mutual funds, with one exception: the private equity would be priced at its historic book value rather than at market value. • These funds could be closed-end venture capital/ private equity funds tailored to later-stage company needs, with an investment horizon of up to 15 years.	• With their low costs, these funds would be useful intermediaries between institutions worldwide, as well as worldwide tech opportunities. • Reductions in the costs of regulatory compliance and managerial incentives for proven management would be an important feature of these funds. For example, tax incentives could enable investors to pay long-term capital gains taxes only upon the sale of their participating units.
TAX INCENTIVES		
Tax Credits A credit against the general tax liability of an equity investor	• To qualify for a tax credit, a project must meet specific standards and provide services to targeted communities and/or populations. • An eligible investor provides equity funding to the project, according to specific terms and conditions (investment amount, timing). • The project reports the investor's investment to the tax authority or another entity with the responsibility to monitor performance and allocate the benefit. • The tax authority issues confirmation that the amount of the tax credit available to the investor is based on the amount of the investment. • The investors claim the tax credit against their tax liability, reducing the tax owned over the designated period. • If the project does not comply with the requirements of the tax credit program at any time, the tax credit may be prorated or revoked, potentially requiring the investor to repay some or all of the claimed credit.	• Expands the base of potential investors, especially those seeking tax benefits. • May increase the amount of equity available for the project, improving cash flow. • Boosts the returns to investors by reducing their general tax liability. • The government forgoes tax revenue equal to the value of the tax credit, effectively reducing income tax receipts. While there is no direct government expenditure, the tax credit is recorded as a tax expenditure in the government's budget.
REAL ESTATE AND LAND DEVELOPMENT TOOLS		
Regional Tax Sharing A cooperative financial	• The boundaries of the tax sharing district are defined before any development occurs. This ensures that all future	• Enables a coordinated economic development strategy across municipalities,

Program	How does it work?	What is the benefit?
agreement where multiple jurisdictions within a region pool and redistribute tax revenues from new developments.	development within the designated area contributes to the shared tax pool. • A baseline tax amount (based on current tax collections) is set, ensuring that existing revenues remain unaffected by the tax sharing agreement. • Tax rates are levied by each partner according to their own policies. • A sharing ratio (i.e., shares of development area, share of built area, share of population, or share of workers, etc.) is agreed upon and calculated • As development occurs, taxes are collected within the district and are distributed to each partner according to the sharing ratio.	aligning interests in development across the region. • Distributes new income among partners based on a clear, rational formula, increasing fairness and transparency. • Allows municipalities to leverage their unique assets and strengths in particular sectors. • While municipalities may give up direct revenue from developments within their own boundaries, they gain a share of revenue in regional projects, benefiting from the larger, long-term economic development strategy • By participating in the regional/national/international marketing strategy, municipalities can attract larger, high value projects, that may have not been feasible without regional cooperation.
Land Banking The process by which a municipal lank bank is established which acquires and holds vacant, distressed, or underutilized land and repurposes it for community development, creating a steady stream of revenue for the municipality.	• A land bank would be “capitalized” by a transfer of government land to the municipality for housing development. Like the transfer of land to a development authority, and to the local authorities for land for the IDF, and to the Ministry of Economy elsewhere for industrial and business park development, this recognizes the role of the municipality in building a stronger tax base. This approach includes the following steps: Transfer Government land to be sold for residential development to municipality • Each sale yields revenues to be shared between Government and municipality (or retained by the city for development) • Proceeds from land sales for the municipality flow into a municipal land bank • Cumulative proceeds from municipal land bank are invested in long term, higher yield bonds • Net annuity (annual yield and management and operation fees) from investments is distributed annually to the municipality to cover municipal	• Land banks can generate revenue for municipalities, which can be reinvested into further land banking activities or community projects. • Some land banks operate with the goal of preserving capital and only distributing investment yield, creating a long-term funding source for community development. • Municipalities or government entities often share in the proceeds from property sales, which helps generate revenue for community investments while supporting development goals. • Allows municipalities to Leverage municipal land for the benefit of the municipality, where the proceeds “stay in the city” by supporting municipal goals and local development. • Provides opportunities to lower the cost of land for

Program	How does it work?	What is the benefit?
	operating expenses	targeted projects, facilitating affordable housing and other community-focused development
Land Leasing The practice by which a public entity leases land to a private party for development while retaining ownership of the property.	• The Israel Land Authority allocates public land to a municipality, allowing the municipality to lease the land for private development. • In this model, the municipality grants long-term leases, rather than transferring full ownership, allowing for private development while preserving public control of the land.	• Land leasing allows the municipality to retain ownership while leasing land to private users. • Revenue generated from the land leases is collected and retained by the Municipality, creating an income stream that can support municipal development and operations. • A portion of the lease income may be pledged to secure a bond issue or other debt instrument to fund development projects. • The remaining revenues may be used to cover operating expenses, providing financial flexibility.
TAX INCENTIVES		
Tax exemptions Provision that allows a corporation to be exempt from paying a portion or all of the corporate tax on net income from operations.	• A project may qualify for a tax exemption by meeting specific performance thresholds, such as controlling cost of services, maintaining service levels for target populations, and adhering to leverage and loan requirements. • After accounting for interest income, non-interest income, expenses, and debt payment obligations, a project's net operating income may be eligible for corporate income tax exemption if it meets the specific performance thresholds. • However, any dividends or distributions to shareholders or members will be treated as taxable income, even if the project itself is tax-exempt.	• The tax exemption will improve the financial performance and sustainability of the program or project • The government forgoes the amount of the exempted taxes on corporate income taxes, which would be included in the government's operating budget. However, there is no direct government expenditure.
Investment tax credit A type of tax credit specifically for capital investments	• The developer structures an eligible project (e.g., a long-term multifamily rental) and receives approval to use investment tax credits. The project must meet certain criteria established by the tax credit program. • A percentage of the eligible capital costs (e.g., construction, design, direct financing, land) is applied to determine the total tax credit value. • The developer raises capital by selling	• Reduces the developer's equity requirement, freeing up developer resources. • Expands the base of potential investors in targeted projects, especially those seeking tax benefits. • May increase the amount of equity available for the project, improving cash flow. • Boosts returns to investors by

Program	How does it work?	What is the benefit?
	the tax credits to outside passive investors, who provide upfront funding in exchange for equity in the project and the ability to claim tax credits over a set period (e.g. 10 years). • The syndication costs are paid from the proceeds from the tax credit. • This capital from investors, after structuring and selling costs (referred to as syndication costs), is invested in the project as equity. • The passive investors claim the "face value" of the credit against their tax liability for the period of the tax credit. If the project is sold or does not comply with the tax credit regulations, the tax credit may be subject to recapture.	reducing their general tax liability. • The government forgoes tax revenue equal to the value of the tax credit, effectively reducing income tax receipts. While there is no direct government expenditure, the tax credit is recorded as a tax expenditure in the government's budget.
ALTERNATIVE INVESTMENT VEHICLES		
Venture Capital Trusts These are funds that offer private equity in unlisted companies through public trades in the capital markets.	• The first was an investment vehicle pooling investors to make long-term investments in startup and later-stage companies. The second was a lower-risk, planned-exit venture capital trust, focused on proven-revenue firms. Investors were granted tax rebates on up to 30 percent of their invested funds.	• Increases volume and opportunity for liquidity. • Provides tax advantages for investors, allowing them to defer income to a tax-exempt trust • Provides an efficient and flexible source of equity investments to small business.
Business Development Companies (BDC) BDCs are regulated, closed-end investment funds that invest exclusively in startups and small businesses.[30]	• BDCs have been both debt and equity investors for companies that would otherwise find it difficult to obtain financing. They provide an attractive opportunity for investors to access private-equity-like investments and give asset managers the advantage of access to permanent capital. Under recent U. S. legislation, BDC provisions are serving both to streamline the registration process and reduce the costs to new filers. • A transaction could occur through securitization in several ways; for example, an investor could contribute its limited partnership interests to a newly leveraged vehicle (including a collateralized loan obligation, or CLO) that was sector-specific in key areas of technological competitive advantages; it could also sell its direct interests, either to other funds or a structured vehicle	• These types of funds would be appropriate in both primary and secondary markets for venture capital and private equity firms. Buyout, growth equity, venture capital, and mezzanine debt could also be supported by these types of funds, thus leveraging both the equity and debt markets as sources of capital.

Appendix 4: Revenue Models

Each project or asset type identified in the regional financing priorities can be supported by a range of traditional and innovative revenue models. Based on the discussions among Lab participants, several financial tools have also been identified as most helpful and feasible in financing these activities. In combination, the revenue models and financial tools demonstrate potential solutions for each asset type.

Project/ Asset Type	Activities	Revenue models	Financial tools
Business and industrial parks	▪ Acquisition ▪ Site preparation ▪ Utilities ▪ Roads ▪ Remediation and clean-up	▪ Building tenant rent ▪ Land sales or annuities ▪ Fees ▪ Incremental taxes ▪ Development fees ▪ Special assessment	▪ Subordinated debt ▪ Bridge financing ▪ Public and private bonds ▪ Perpetual bonds ▪ Loan and bond guarantees ▪ Tax credits ▪ First loss guarantees ▪ Shared equity ▪ Tax sharing Districts ▪ Land leasing
Schools	▪ Building ▪ Renovation ▪ Books and supplies ▪ Operating costs	▪ Public per student payments ▪ Development fees ▪ Regional finance income ▪ Tuition (partnerships) ▪ Government	▪ Subordinated debt ▪ Minibonds ▪ Tax exemption
Community center	▪ Facilities ▪ Programs	▪ Smart board (info and events) partners ▪ User fees ▪ Regional tax sharing ▪ Mixed use rents/events ▪ Government	▪ Subordinated debt ▪ Minibonds ▪ Tax exemption ▪ Tax credits
Housing	▪ Multi-gen rental and sales ▪ Senior ▪ Assisted ▪ Nursing Homes ▪ Affordable ▪ Single family ▪ Multi-family	▪ Sales ▪ Land banking ▪ Fees ▪ Equity and rental ▪ Land annuity ▪ Government subsidies ▪ Land value annuity	▪ Subordinated debt ▪ Public and private Bonds ▪ Shared equity ▪ Covered bonds ▪ Perpetual bonds ▪ Loan and bond guarantees ▪ Tax exempt financing ▪ Tax credits – for affordability ▪ Tax credit – for restorations

Project/ Asset Type	Activities	Revenue models	Financial tools
Cultural center	▪ Facilities ▪ Operations ▪ Programs	▪ User fees ▪ Tourism assessments ▪ Hotel and Airbnb taxes ▪ Regional finance income ▪ Government	▪ Perpetual bonds ▪ Minibonds ▪ Regional Tax sharing
Incubator and accelerators	▪ Build ▪ Operate ▪ Services	▪ Memberships ▪ Fees ▪ Upside participation ▪ Service fees	▪ Business Development Corporations ▪ Venture Capital Trusts ▪ First loss guarantees ▪
Parks	▪ Design ▪ Building ▪ Maintain ▪ Program	▪ BID assessments ▪ Regional finance income	▪ Minibonds ▪ Perpetual bonds ▪ Tax exempt financing ▪ Tax credits
Recreation facilities	▪ Design ▪ Building ▪ Maintain ▪ Program	▪ Tourism assessments ▪ Hotel taxes ▪ Regional finance income	▪ Minibonds ▪ Perpetual bonds ▪ Tax exempt financing Tax credits Tax Exempt bonds
Small and expanding business	▪ Start-up ▪ Working capital ▪ New construction ▪ Equipment ▪ Inventory	▪ Interest ▪ Fees ▪ Participating loans ▪ Debt payments ▪ Stock sales ▪ Service fees	▪ Micro loans ▪ Subordinated debt ▪ Public and private bonds ▪ Covered bonds ▪ Loan and bond guarantees ▪ Collateralized loan obligations ▪ Traded Late-Stage Venture Equity ▪ VC Trust ▪ Business Development Corporations
Infrastructure/ alt energy/water	▪ Design ▪ Construction/ installation ▪ Maintenance and service	▪ User fees ▪ Increased property taxes/Arnona ▪ Transit Improvement District fees ▪ Recycled water ▪ Reduced water losses (savings) ▪ Service payments	▪ Subordinated debt ▪ Public and Private bonds ▪ Covered bonds ▪ Collateralized loan obligations (CLO) ▪ Development Impact bonds ▪ Shared equity ▪ Tax exempt financing ▪ Tax credit financing ▪ Business Development Corporation financing

Project/ Asset Type	Activities	Revenue models	Financial tools
Farms and greenhouses	▪ Equipment ▪ Supplies (consumables) ▪ Storage ▪ Transport ▪ Buildings	▪ Direct sales ▪ Services ▪ Carbon sales ▪ Partnerships ▪ Fees (for services e.g. water, energy) ▪ Government	▪ Land leasing ▪ Subordinated debt ▪ Micro loans ▪ Mini bonds ▪ Loan and bond guarantees ▪ Development Impact Bonds ▪ First loss guarantees ▪ Tax credit financing ▪ Regional tax sharing
Technology Centers (incubators, accelerators, demo/showcase, data, training etc.)	▪ Labs ▪ Researchers ▪ Buildings ▪ Equipment ▪ Mentoring	▪ Rents ▪ Commercialization fees ▪ Participation fees ▪ Sales and distribution commissions ▪ Fees for services	▪ Business Development Corporations ▪ Venture Capital Trusts ▪ First loss guarantees ▪ Subordinated debt ▪ Bridge financing
Applied Research and Labs	▪ Labs ▪ Researchers ▪ Buildings ▪ Equipment ▪ Technical support ▪ Business development	▪ Service fees ▪ Rents ▪ Grant fees and overhead	▪ Business Development Corporations ▪ Venture Capital Trusts ▪ First loss guarantees ▪ Subordinated debt ▪ Bridge financing
Local and regional authorities	▪ Infrastructure ▪ Amenities ▪ Administration and operations ▪ Services ▪ Development	▪ Taxes ▪ Resident fees ▪ User fees ▪ Service payments ▪ Participation payments ▪ Transfer payments	▪ Bonds and loans ▪ Regional Tax sharing ▪ Perpetual bonds ▪ Land banking ▪ Land leasing ▪ Subordinated debt ▪ Public and private bonds ▪ Development Impact Bonds

Endnotes

[1] This meeting was followed by an invitation-only follow-up meeting at the Milken Institute Global Conference on May 8, 2004 in Beverly Hills, California on "Scaling Impact to Rebuild Economic Resilience in Israel" with representatives from the institutional investor and philanthropic organizations, here.
[2] See Capital Access in Israel Underserved Markets, Financial Innovation Lab, Milken Innovation Center, March 2015 leading to further Milken Fellows' Research Bank of Israel, Ministry of Economy, Ministry of Energy on designing non-bank channels for capital access helping to lead to Ogen's recapitalization with a creditor provider license as a non-profit social bank provided by the Capital Markets Authority. See Michael P. Lustig, "An Innovative Model for using social investment to drive financial inclusion in Israel," Government Outcomes Lab, Oxford University, June 15, 2022.
[3] Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, June 2023; F. Allen and A. Barbalau, "Security Design: A Review," Journal of Financial Intermediation, 60 (October 2024).
[4] See also earlier Government Decisions concerning the region: No. 3979,3239,2017, 18465, 4328, 3469.
[5] https://govextra.gov.il/tkuma/tkuma-eng/home/
[6] Cusack, Jake. Every Deal is a Blended Finance Deal, CrossBoundary Group, June 2024; Blended Finance Mechanisms for Economic Recovery and Growth, Israel Forum for Impact Economy, July 2024. As the sustainable finance and impact investment market matures, there is increasingly less evidence that there is any trade-off between impact and return as projects and capital structure mitigate risk through more stratified capital structures to provide risk-adjusted rates of return. See Andrew Lo and Tuixun Zhang, "Quantifying the Impact of Impact Investing," MIT Laboratory for Financial Engineering. 18 April 2023. Also, Sir Ronald Cohen, Impact: Reshaping Capitalism to Drive Real Change, London: Edbury Press, 2020. Chapters 2 and 3: 34-85
[7] Macroeconomic trends, strengths, and challenges, Amir Yaron, Governor, Bank of Israel, March 6, 2024.
[8] Nikolaos Tzifakis, "Post Conflict Economic Reconstruction," Princeton University, 2008.
[9] Koczan, Zsoka and Maxim Chupilkin, "The Economics of Post-war Recoveries and Reconstructions,"VoxEU.org, November 22, 2022.
[10] Including overcollateralization and excess spread within pooled securities.
[11] Recovery Bonds, Innovative Sovereign Bond Structures for Financing a Sustainable Recovery, Rooquee, Arsalan Ali, et al, Climate Policy Initiative, May 2021. See //efaidnbmnnnibpcajpcglclefindmkaj/https://www.climatepolicyinitiative.org/wp-content/uploads/2021/05/Recovery-Bonds-Blueprint-May-2021.pdf; Post-War Reconstruction of Economy: Case Studies, KPMG, 2022.
[12] An annotated glossary of these financial tools is included in the Appendix.
[13] Leas, Brett and Akila Grewal, Asset Backed Finance: The Next Evolution of Private Credit, Apollo Academy, October 2023.
[14] Israel authorized the creation of several regional authorities, including the newly created Ministry of Authorities (comprising up to $10 billion anticipated to include Northern Israel rebuilding as well by the Ministry of Finance), the Negev and Galilee Development Authorities. These authorities are regulated through the Ministry of the Negev, Galilee and National Resilience. However, the scope of activities conducted by these regional authorities has not yet extended to financing. See, The Marker, November 26 and 27, 2004. https://www.gov.il/he/departments/ministry_for_the_development_of_the_negev_and_galilee/govil-landing-page [Hebrew]
[15] Israel's securities laws limit the types of financial securities permitted and the number of accredited buyers for public and private securities. These securities law will need to be reviewed and adjusted to permit the regional financing platform to issue different types of securities (open ended, closed) with a broader market (foreign and domestic).
[16] Small businesses are defined as those with $10M NIS (USD 2.75M) in revenue or less.
[17] As of December 10, 2024.
[18] Professor Avia Spivak & Dr. Eyal Carmel in April 2023
[19] "Grid Densification: Innovation Insight" Mini-Grid Innovation Lab, Cross boundary, June 20, 2023
[20] The Cost of Capital in Clean Energy Transitions, International Energy Agency, December 17, 2021.
[21] Crux Vinson and Elkins: Tax Credit Transfers 101-A Guide to Essential Steps, October 11,2024.

[22] Barbalau, Adelina and Frederica Zeni, "The Optimal Design of Green Securities," SSRN Working Paper, October 6, 2023; See also (relevant to both energy security and SME financing) the positive endowment effect (ownership impact through behavioral economics) in these securities design features to optimize impact: Carney, Kevin, et.al., "The Endowment Effect of Collateralized Loans," Development Innovation Lab, University of Chicago, Working Paper, No. 2022-70, May 2022.
[23] See Glenn Yago and Steven Zecher, "Israel Must Invest More in its Periphery," Haaretz, August 7, 2013. Based on two prior examinations of this problem: Financial Innovations for Economic Recovery in Northern Israel, Financial Innovations Lab, Milken Institute, January 7, 2007 (See Appendix II in this Lab Report or potential U. S. Tax-Exempt Bond Financing as potential channel for engaging U. S. private investors through public non-recourse debt issuance, pp 26-29); Strengthening Israel's Regions: Creating New Sources of Capital for Economic Development in the Negev and Galilee, Policy Brief, Milken Institute, September 7, 2013.
[24] Eldan Kay, "Derisking Israel: A blueprint for Economic Resilience," Times of Israel, November 12, 2024.
[25] Maya Haran and Gila Weinberger, "Evaluation of the Status of the Implementation of the Bachar Report," Milken Institute Fellows Report, Publication No. 68, November 2012. Ogen, 2023.
[26]Jerusalem Post, June 11, 2024. War-related disruptions are amplified by VAT, Income Tax, and National Insurance Security payments advanced prior to receipts which puts vulnerable small businesses exposed to lowering revenues and tightening cash flow. The businesses basically forward finance tax liabilities that may be reclaimed at a later point but increasing failure risk.
[27] See Kolker Kolker Epstein Architects/ Institute for Structural Reforms, Israel Envelope, January 2024, here. (Hebrew)
[28] See Tourism Tax in Jerusalem: Promoting Tourism Development, Milken Innovation Center, , September 2, 2019.
[29] While financing these assets may include a higher cost (principal and interest), the current portion of the payment for such financing is lower. Another reason for including these assets is to achieve scale and efficiency for the blended financing platform.
[30] In the United States, BDCs were created by Congress in 1980 as a modification to the 1940 Investment Company Act, and in response to a sharp decline in bank lending to small-cap and middle-market businesses.

Milken
Innovation
Center - Israel