How can next gov't sustain Israel's hi-tech success?

• By EYTAN HALON

The Israeli hi-tech ecosystem seems to be thriving, buoyed by a spirit of innovation and breaking records year after year.

Start-ups raised a record $6.4 billion in 623 financial deals in 2018, marking a sixth consecutive year of record growth in capital raising. In addition, technology-related services were the fastest growing sub-sector as Israeli trade reached unprecedented levels last year, setting an annual record of more than $110 billion in exports.

Yet, one challenge immediately facing the new government after the April 9 Knesset elections will be to maintain Israel's edge in global hi-tech.

To ensure that the hi-tech sector does not become a victim of its own success, already characterized by the 15,000 skilled workers needed to fill open positions as the rapid growth of the innovation sector outpaces the local supply of talent.

As Knesset hopefuls continue to battle it out for the electorate's favor, private sector leaders from the fields of investment, multinational R&D, and cybersecurity told *The Jerusalem Post* what the next government must do to ensure Israel's continued hi-tech success.

For Yuval Wollman, who boasts high-level experience in senior public sector roles and now as president of CyberProof and chairman of Stardat, both subsidiary companies of UST Global, the strength of the hi-tech industry has led to the formation of a dual economy within Israel.

"The Israeli hi-tech industry represents only roughly 10% of the population, but they have a separate ecosystem to everyone else in the country," said Wollman, a former director-general of the Intelligence Services Ministry and senior economic adviser to then-finance minister Yuval Steinitz.

"They work in a global market, with a different work culture, opportunities, finances, language and media," Wollman said.

"It poses a social challenge to the new government, which should aim for having that dual-economy model less polarized and more distributed into the 'other' Israel."

While a national plan to boost the hi-tech employee pipeline was launched in 2017, Wollman said he believes the government and the Israel Innovation Authority should reallocate some of the funds and resources currently at its disposal.

"The marginal shekel or dollar of the Innovation Authority should not go to fund start-ups, but to fund more boot camp programs, building more infrastructure in universities, and bringing back more professors from their post-doc studies in the United States," said Wollman.

"We have a lot of capital coming into the industry, so more government capital should be directed to boot camps and other academic institutions that can train and feed the pipeline so I won't be running to Eastern Europe or India to get a lower cost development workforce."

Dan Inbar, senior vice president and Israel R&D site lead at Dell EMC, said he believes there are two key challenges facing the new government.

"The main challenge we have today is that the talent pool is not growing as fast as the sector's potential," said Inbar, who is responsible for Dell EMC's four R&D facilities and more than 1,000 engineers across Israel.

"It's becoming challenging to keep key programs in Israel, simply because it's more difficult to get the human resources that you need. When you do, the cost of doing the programs in Israel is higher because the competition is so high," Inbar said.

To grow the talent pool, he added, the country requires significantly greater technology-driven education and to tap into underutilized population groups, including women, the ultra-Orthodox and the Arab sector.

"There is also the challenge of consistent guidance given to the multinational companies," Inbar said. "The rules change quite often and it makes it more difficult for a company to develop a long-term strategy. The government's role is to present stability to foreign investment.

"When there is a lack of confidence in the stability of decision-making and that things will not change, it increases the risk factor for going to into those countries."

To ensure greater consistency and stability, Inbar said he believes that multinational companies ought to increasingly sit together and forge a unified approach regarding support needed from the government.

"The Innovation Authority is quite active with many programs for start-ups and multinational companies for collaborations and opening R&D centers but, with regards to investors, the thinking right now is not very progressive," said Idan Mor, investment director at Centrica Innovations, the investment arm of international energy company Centrica and one of few early investors scouting for energy innovation in Israel.

Potential investors in Israel's hi-tech are required to establish a local entity, Mor added, and are subject to relatively aggressive taxes should their portfolio companies be acquired, compared to their countries of origin.

"For that reason, many multinational companies are trying not to set up permanent establishments in Israel," Mor said.

"Instead, they send representatives to Israel from time-to-time to look for investment, and I think this is holding back companies from making investments."

The new government, Mor said, needs to forge bilateral agreements with countries to give investors tax preferences, making it very attractive for them to establish a permanent presence in Israel.

"Israel should look at the benefits it can gain from countries that can provide access to cash that will be invested in Israel, and have the right arrangements in place to support that activity," Mor said.

YUVAL WOLLMAN, president of CyberProof and chairman of Stardat; Dan Inbar, senior vice president and Israel R&D site lead at Dell EMC; Idan Mor of investment director at Centrica Innovations.
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