II. COUNTRY PROFILE: ISRAEL

21. Israel

21.1. SMEs in the national economy

As of 2014, there were 504,224 businesses in Israel, 99.5% of which were SMEs that employ up to 100 workers. Independent businesses without employees accounted for 50.4% of the business population. Micro-enterprises (1-4 employees) accounted for 35% of the business population, and 11% of total employees. Small businesses (5-19 employees) accounted for 10% of the business population, and 18% of total employees. Medium businesses accounted for 3% of the business population, and 21% of total employees. Only 0.2% of Israeli employer companies have more than 250 workers.

Table 21.1. Distribution of firms in Israel, 2014
(By firm size)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of businesses</th>
<th>Number of employees</th>
<th>% of total business population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employed</td>
<td>254,377</td>
<td>254,377</td>
<td>50.4</td>
</tr>
<tr>
<td>Micro businesses</td>
<td>177,447</td>
<td>290,899</td>
<td>35</td>
</tr>
<tr>
<td>Small businesses</td>
<td>54,848</td>
<td>478,675</td>
<td>10</td>
</tr>
<tr>
<td>Medium businesses</td>
<td>14,885</td>
<td>575,225</td>
<td>3</td>
</tr>
<tr>
<td>Large businesses</td>
<td>2,667</td>
<td>1,091,360</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td>504,224</td>
<td>2,690,536</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (OECD, 2017[1]).

21.2. National policy framework to support SMEs in public procurement

Support for SMEs in public procurement can be found in various legal texts. To begin with, broader business policy identifies SME access to the public procurement market as one of the key areas for their development, as is the case in the actions set out by Government Decision No. 3409. Additionally, the Small and Medium Business Agency, which was established to concentrate all support for small and medium businesses in one government agency, works with the Government Procurement Administration in implementing government procurement policy on matters related to SME participation.

Under the public procurement regulatory framework, the Mandatory Tenders Law and its regulations promote values such as proper administration, competitiveness and equality. In addition, the law establishes rules designed to remove barriers and increase the participation of small businesses in government procurement, which include:

- the prohibition on setting threshold conditions that are not relevant
- the duty to explain threshold conditions beyond the threshold set by law
the prohibition on collecting participation fees in tenders whose total monetary amount is more than the amount prescribed by law

commitment to the participation of small and medium businesses as much as possible.

An administrative directive to the government ministries instructs the tenders committee to examine, prior to the publication of a tender, the conditions and requirements that may constitute a constraint on the participation of small and medium-sized businesses. In addition, this directive allows the Small and Medium Business Agency to apply to the tenders committees in cases where the agency finds that an unnecessary condition has been established that could block the participation of small and medium-sized businesses.

Furthermore, as part of its goal to promote procurement for innovation, the Governmental Procurement Administration is examining ways to simplify the procedures for contracting with start-up companies. This objective is also expected to promote the possibility of contracting with small and medium enterprises.

21.3. Implementation mechanisms

The Governmental Procurement Administration publishes administrative directives that guide the work of government ministries in the area of procurement and tenders. Government ministries are instructed to act in accordance with the administrative code regarding the participation of SMEs in government procurement. Among other things, the code instructs the tender committees in connection with the measures required before the publication of a tender.

The Government Procurement Administration has developed a methodology for conducting “challenge tenders”. In these tenders, the tender editor specifies the purpose of the contract, but does not specify the manner of execution required. These tenders enable suppliers who usually do not compete in government tenders to offer various solutions to the needs of the government without fearing that they will not meet the bureaucratic requirements that are typical of government tenders. They thus enable start-up companies and small and medium-sized enterprises to compete. Four “challenge tenders” have been published in the past year.

The Small and Medium Business Agency organises various training sessions and workshops for SMEs on various subjects, including public procurement. It also plans to set up a help desk service. SMEs currently can contact the agency’s regional centres for consultation.

The representative of the Small and Medium Business Agency takes also part of training courses for members of the tender committees and gives lectures on SME participation in government procurement. Participation in the training course is mandatory.

21.4. Monitoring performance

Starting from 2018, government ministries have the statutory obligation to publish data on public procurement contracts awarded to SMEs. The definition of an SME was established by law in August 2016. Accordingly, the obligation to report on engagements with SMEs was in place as of 2018. In light of this, rules will be set during the coming year for receiving reports from suppliers regarding their definition as part of the procurement process. The definition in the law is based on the number of employees and financial turnover, and the data collection will be based on the suppliers’ declarations.
Note

1 The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Reference
