framework report for comparative analysis indicating the components, procedures, regulations, resources necessary to establish a

successful SinnoLAB

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Contents:

1	Social Responsibility and Social Innovation in SME'S	1
2	India SME's Situation	5
3	Indianans promote SME's activities	11
4	Israel SME's situation	13
5	SME's Policy in Israel	16
6	Choice of business entity	18
7	Summery and SILICE Projects in India and Israel	19
8	Four Hub Structure Model	21

Social Responsibility and Social Innovation in SME'S

Social Responsibility and Social Innovation in India has traditionally been seen as a philanthropic activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated. As a result, there is limited documentation on specific activities related to this concept. However, what was clearly evident that much of this had a national character encapsulated within it, whether it was endowing institutions to actively participating in India's freedom movement, and embedded in the idea of trusteeship. As some observers have pointed out, the practice of SRO in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. Also, with global influences and with communities becoming more active and demanding, there appears to be a discernible trend, that while SRO remains largely restricted to community development, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large

number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing SRO reports. The Companies Act, 2013 has introduced the idea of SRO to the forefront and through its discloseor-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which lists out the social responsibility organizations activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating SRO into its core operations, the draft rules suggest that SRO needs to go beyond communities and beyond the concept of philanthropy. It will be interesting to observe the ways in which this will translate into action at the ground level, and how the understanding of SRO is set to undergo a change. SRO and sustainability Sustainability (corporate sustainability) is derived from the concept of sustainable development which is defined by the Brundtland Commission as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" 4. Corporate sustainability essentially refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental stewardship. SRO in India tends to focus on what is done with profits after they are made. On the other hand, sustainability is about factoring the social and environmental impacts of conducting business, that is, how profits are made. Hence, much of the Indian practice of SRO is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks. An interesting case in point is the NVGs for social, environmental and economic responsibilities of business issued by the Ministry of Corporate Affairs in June 2011. Principle eight relating to inclusive development encompasses most of the aspects covered by the SRO clause of the Companies Act, 2013. However, the remaining eight principles relate to other aspects of the business. The UN Global Compact, a widely used sustainability framework has 10 principles covering social, environmental, human rights and governance issues, and what is described as SRO is implicit rather than explicit in these principles .

Globally, the notion of SRO and sustainability seems to be converging, as is evident from the various definitions of SRO put forth by global organisations. The genesis of this convergence can be observed from the preamble to the recently released draft rules relating to the SRO clause within the Companies Act, 2013 which talks about stakeholders and integrating it with the social, environmental and economic objectives, all of which constitute the idea of a triple bottom line approach. It is also acknowledged in the Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises issued by the DPE in April

20135. The new guidelines, which have replaced two existing separate guidelines on SRO and sustainable development, issued in 2010 and 2011 respectively, mentions the following: "Since corporate social responsibility and sustainability are so closely entwined, it can be said that corporate social responsibility and sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical" (Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises- http://www.recindia.nic.in/download/DPE_Guidelines_SRO_Sust.pdf)

Benefit Benefits of a robust SRO program As the business environment gets increasingly complex and stakeholders become vocal about their expectations, good SRO practices can only bring in greater benefits, some of which are as follows: • **Communities** provide the license to operate: Apart from internal drivers such as values and ethos, some of the key **stakeholders that influence corporate behavior include governments** (through laws and regulations), investors and customers. In India, a fourth and increasingly important stakeholder is the community, and many companies have started realizing that the 'license to operate' is no longer given by governments alone, but communities that are impacted by a company's business operations. Thus, a robust SRO program that meets the aspirations of these communities not only provides them with the licence to operate, but also to maintain the licence, thereby precluding the 'trust deficit'. • Attracting and retaining employees: Several human resource studies have linked a company's ability to attract, retain and motivate employees with their SRO commitments. Interventions that encourage and enable employees to participate are shown to increase employee morale and a sense of belonging to the company. • **Communities as suppliers**: There are certain innovative SRO initiatives emerging, wherein companies have invested in enhancing community livelihood by incorporating them into their supply chain. This has benefitted communities and increased their income levels, while providing these companies with an additional and secure supply chain. • Enhancing corporate reputation: The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective SRO .programmes. This allows companies to position themselves as responsible corporate citizens

Global principles and guidelines A comprehensive guidance for companies pertaining to SRO is available in the form of several globally recognised guidelines, frameworks, principles and tools, some of which are discussed below. It must be noted that most of these guidelines

relate to the larger concept of sustainability or business responsibility, in keeping with the fact .that these concepts are closely aligned globally with the notion of Social Innovation

UNGC is world's largest corporate citizenship initiative with the objective to mainstream the adoption of sustainable and socially responsible policies by businesses around the world. The 10 principles of the UN Global Compact have been derived from various UN conventions such as the Universal Declaration of Human Rights, ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on environment and development, and the UN Convention Against Corruption. These principles cover four broad areas: • Human rights (support and respect the protection of international human rights and ensure that business is not complicit with human rights abuses) • Labour rights (uphold the freedom of association and effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labour, effective abolition of child labour and elimination of description in respect of employment and occupation) • Environment (support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development of environmental friendly technology) • Governance (work against corruption in all forms, including bribery and extortion). For The **UN guiding principles** provide assistance to states and businesses to fulfil their existing obligations towards respecting and protecting human rights and fundamental freedoms and comply with the existing laws. These principles act as global standards for addressing the risk of human rights violation related to business activity. In circumstances when these laws are breached or the guidance is not adhered to, suitable remedies have also been recommended. The primary focus is on the protection of human rights by both, the state and the business enterprises, and the principles broadly outline the manner in which the framework can be implemented. This is another voluntary declaration whose adoption by governments, employers and multinational organisations is encouraged, with the intention of further ensuring labour and social standards. This is particularly for organisations that operate across multiple countries. Focus is on core labour standards such as (i) freedom of association and the right to collective bargaining (prohibition of discrimination, bonded and forced labour) (ii) industrial relations (no trade union restrictions, regular discussions between management and labour, and the provision of a forum to lodge complaints in case of labour standard violation) (iii) employment opportunities (creation of job security, improved living and working conditions and ensuring that wages are on par with those of other enterprises in the same country). OECD Guidelines for multinational enterprises elaborate on the principles

and standards for responsible business conduct for multinational corporations. These guidelines were recently updated in 2011. They cover areas such as employment, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation. They contain defined standards for socially and environmentally responsible corporate behaviour, and also

provide procedures for resolving disputes between corporations and communities or individuals adversely impacted by business activities. For more details refer the website of OECD9 This is one of the world's first auditable social certification standard. It is based on ILO, UN and national law conventions, and adopts a management system approach in order to ensure that companies that adopt this approach also comply with it. This standard ensures the protection of basic human rights of workers. The nine basic elements of this standard include (i) child labour (ii) forced and compulsory labour (iii) health and safety (iv) freedom of association and the right to collective bargaining (v) discrimination (vi) disciplinary practices (vii) working hours (viii) remuneration (ix) management systems. According to SAAS, there are 695 facilities in India that have been accredited with this standard. Out of these, Aditya Birla Chemicals (India) Limited, Bhilai Steel Plant Steel Authority of India Limited, Birla tyres, Dr Reddy's Laboratories Limited and Reliance Infrastructure Limited figure prominently in the list of certified facilities within India. For more details refer the website of SAI11

India SME's Situation

The small and medium enterprises (SMEs) contributed lot in the economic and social development of India. Earlier SMEs were known as small-scale industries (SSIs) and latter, named as small and medium enterprises (SMEs). In many countries it identifies as micro, small and medium enterprises (MSMEs) also. Many developing and developed nation have mentioned it in policy documents and pronouncements. The SMEs have developed and influenced the income, job market and export as well as bringing market and innovation in the Indian economy. It has contributed in the reforms and globalization of brand India since independence. According to Pandey and et al., SMEs are considered as a priority in most countries as 50 to 66 percent of businesses all over the world are SMEs. SMEs contribution in manufacturing output is recorded approximately 45%. Its' export also growing and recorded

recently 40%. GDP growth in India has been consistently performed above 7 % per annum in recent time, which is at par with average GDP growth worldwide. The growth rates maintained by SMEs have higher than large scale industries all over the world. The definitions of SMEs are different in various countries. Few countries have defined SMEs based on benchmarks of employment, others have defined it based on assets, many have in terms of sales and few has based on shareholders fund.

The SME sector has registered a continuous growth in terms of total number of units, which was 4 percent. The Units are estimated to increase to 11.853 million from 11.395 million. The production was about 11.5 percent, worth of Rs. 39, 90,200 million up from Rs.35, 77,330 million. The employment generation found 4.2 percent during 2004-05, was 28.282 million increased from 27.136 million. There are new international opportunities emerged to SMEs. The borderless economy confers SMEs to expand their markets. This will help them to improve their economies of scale. The governments of various countries can help SMEs to enjoy the benefits of global economic restructuring. This can be achieved through a flexible approach towards business environment and facing foreign investment and trade. The networking and capabilities of SMEs enables them to participate in international markets.

The limited resource, technological know-how, differences in human skill, different demand and race of development creates scope of globalization. India is on threshold of a new global age. In India globalization changes government policies it adds, the words liberalization, privatization and open economy. Indian government feels the importance of foreign market and export income, which makes the Indian economy progressive, market oriented and competitive. The global markets are encouraging products and service both. The opportunities have drastically influenced on the economic paradigm. The economies of the world in the global era remain dynamic and deliver challenges to the emerging opportunities. These challenges of competition in global economy, force to large medium and small companies towards strategic alliances with big companies. These strategies allowed SMEs to make use of global market opportunities through quality products and services. but there lot of different between the big cities and the rural area.

The growth rates of SMEs in terms of number of units, generation of employment and exports for the years 1980s and 1990s were considerably good. It was accepted that the growth of SMEs in the period of 1990s has come down in terms of not only units and employment but also in terms of exports. This was symptoms of competition in the global market and adverse effect on the growth of Indian SMEs.

The Micro, Small and Medium Enterprises Development (MSMED) Act 2006 facilitates the development of the enterprises and enhance their competitiveness. The act provides legal framework for "enterprise" which includes the manufacturing and service entities. In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act 2006, the Micro, Small & Medium Enterprises (MSME) are classified into manufacturing enterprises and service enterprises: (a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods. The manufacturing Enterprises are defined in terms of investment in Plant & Machinery. (b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

As globalization creates benefits through advanced technologies and expansion of commerce, it also creates challenges for emerging small business enterprises to effectively complete in dynamic environment. Entrepreneurship is the practice of starting new organizations or boosting existing organizations. Many "high value" entrepreneurial ventures seek venture capital or angle funding in order to raise capital to start the business. Credit assistance to SMEs in India is included along with other national priorities.

The Small and Medium Enterprises (SMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 59 million persons in over 26 million units throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6000 products ranging from traditional to high- tech items, which are being manufactured by the MSMEs in India. It is well known that the SME sector provides the maximum opportunities for both self-employment and jobs after agriculture sector.

Opportunities and Challenges of SMEs in India The post liberalization era in the Indian economy has enhanced opportunities and challenges for the small industries sector. The following factors coupled with opportunities work in favour of Indian SMEs.

- High contribution to domestic production
- Significant export earnings
- Low investment requirements

• Operational flexibility • Location- wise mobility

• Low intensive imports

• Capacities to develop appropriate indigenous technology

• Export promotion and Import substitution

As the countries merge into a global village, these SME's will have to respond accordingly and thus deserve special attention. To enable SME's to mitigate problems of technological backwardness and enhance their access to new technologies, it is imperative to give them a conducive environment, which in the present context of globalization, calls for redefining approaches with knowledge (Innovation, Technology, Entrepreneurship, Advancements in ICT) playing a predominant role. Various measures adopted by Government of India, Reserve Bank of India and SIDBI have attempted to alleviate the problems of SMEs. These initiatives coupled with other developments in the economic environment will enhance the prospects of SMEs. . While looking into new approaches to strengthen SME effectively, one has to understand their limitations also, which are:

• Low Capital base.

• Inadequate exposure to international environment.

• Inadequate Research and Development.

• Lack of professionalism.

• Non-availability of technically trained human resources

It will be interesting to observe the ways in which this will translate into action at the ground level, and how the understanding of SRO is set to undergo a change. SRO and sustainability (corporate sustainability) is derived from the concept of sustainable development which is defined by the Brundtland Commission as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" 4. Corporate sustainability essentially refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental stewardship.

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of SRO is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks. An interesting case in point is the NVGs for social, environmental and economic responsibilities of business issued by the Ministry of Corporate Affairs in June 2011. Principle eight relating to inclusive development encompasses most of the aspects covered by the SRO clause of the Companies Act, 2013. However, the remaining eight principles relate to other aspects of the business. The UN Global Compact, a widely used sustainability framework has 10 principles covering social, environmental, human rights and governance issues, and what is described as SRO is implicit rather than explicit in these principle.

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5 Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises - Why is the SRO clause of the new Companies Act, 2013 so critical for SMEs ? By requiring companies, with a minimum net profit of 5 crore INR, to spend on SRO activities, the Companies Act, 2013 is likely to bring in many SMEs into the SRO fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B customers to comply with environmental and social standards, while remaining competitive in terms of price and quality. Thus, SMEs will have to quickly learn to be compliant with these diverse set of requirements and it is hoped that this handbook will facilitate their ability to comply with the SRO clause of the Companies Act, 2013 . Benefit Benefits of a robust SRO programme As the business environment gets increasingly complex and stakeholders become vocal about their expectations, good SRO practices can only bring in greater benefits, some of which

are as follows: • Communities provide the licence to operate: Apart from internal drivers such as values and ethos, some of the key stakeholders that influence corporate behaviour include governments (through laws and regulations), investors and customers. In India, a fourth and increasingly important stakeholder is the community, and many companies have started realising that the 'licence to operate' is no longer given by governments alone, but communities that are impacted by a company's business operations. Thus, a robust SRO programme that meets the aspirations of these communities not only provides them with the licence to operate, but also to maintain the licence, thereby precluding the 'trust deficit'. • Attracting and retaining employees: Several human resource studies have linked a company's ability to attract, retain and motivate employees with their SRO commitments. Interventions that encourage and enable employees to participate are shown to increase employee morale and a sense of belonging to the company. • Communities as suppliers: There are certain innovative SRO initiatives emerging, wherein companies have invested in enhancing community livelihood by incorporating them into their supply chain. This has benefitted communities and increased their income levels, while providing these companies with an additional and secure supply chain. • Enhancing corporate reputation: The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective SRO programmes. This allows companies to position themselves as responsible corporate citizens .

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While developing these processes, no standard set of recommendations exist for all companies and Social Responsibility organizations and NBO's. However, an overview of the required details, the activities required to be completed for each of these processes along with some additional guidance on critical issues has been provided below: Step one: Developing a SRO strategy and policy Purpose The Companies Act, requires every company to put out its SRO policy in the public domain. The guidance provided in the Act and the draft rules on what constitutes a SRO policy are that it should: • exclude normal business activities of the company • contain a list of the Social Responsibility Organization projects or programmes which the company plans to undertake during the implementation year While specifying the annual report requirements, the draft rules go on to say is that the company must provide: • a brief outline of its Social Responsibility Organization policy, including 'the statement of intent reflecting the ethos of the company, broad areas of SRO interest and an overview of activities to be undertaken' • a web link to the SRO policy including 'the full list of projects, activities and programmes proposed to be undertaken by the company' Since most of the development requires long-term commitments and their impact often takes a while to accrue, a good Social Responsibility Organization practice requires that a company that is serious about its SRO should develop a long-term (three to five years) vision and strategy which is reviewed annually and the activities and budgets are planned on an annual basis. The latter will comply with the SRO policy requirements of the Companies Act, 2013. To avoid confusion regarding terms like policy, strategy, project and programme, a brief explanation has been provided here: • Social Responsibility Organization strategy refers to what the company expects to achieve in the next three to five years and incorporates the vision, mission and goals on a broader level. It also entails how it plans to achieve these in terms of organisation and approach . • Social Responsibility Organization policy refers to what the company expects to achieve over the next year. This is aligned with the requirements of the Companies Act, 2013 . • Programme refers to a sector or an issue that the company proposes to address through its Social Responsibility Organization.

Some of the Indian Government's small business loan schemes are listed below:

Small Industries Development Bank of India (SIDBI): Promotion and development are the active roles played by this loan scheme for small business industries. SIDBI provides various schemes like Direct assistance Scheme, Indirect assistance scheme,

Promotional and development activities, National equity fund scheme, Technology development and modernization fund scheme, Mahila Udyam Nidhi (MUN) scheme, Equipment finance scheme, Single window scheme, Food processing industries scheme (FPTUFS) and Integrated development of leather sector scheme (IDLSS). For more information National Bank for Agriculture and Rural Development (NABARD): Promoting agriculture based rural business enterprises is the main objective of this scheme. Mostly NABARD offers financial assistance to small scale industries namely village and cottage industries.

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE): This scheme provides collateral free credit to both existing and new Ministry of Micro, Small and Medium Enterprises (MSMEs). SIDBI and MSMEs launched Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to start the scheme. This scheme provides working capital facility upto Rs 100 lakh per borrowing unit and credit facility in term loan form. The Government and SDBI contributes the amount by the ratio of 4:1 respectively. For more details click here.

National Small Industries Corporation Limited (NSIC): This scheme was established in 1999 and its prime objective is to import machines on hire purchase terms. It works for distributing and supplying both imported and indigenous raw material along with small business unit products export. For more information see here.

Credit Link Capital Subsidy Scheme (CLCSS) for Technology Up gradation: The ministry of Small scale industries runs a scheme for SSI technology upgradations called as CLCSS. It provides capital subsidy of 15 percent (Maximum 15 lakhs limited) for the modernization of plant and machinery of SSI units as a credit availed by them. From the start of this scheme, a subsidy of Rs.1619.32 Cr have been availed from 28,287 units. To know more, go here.

Technology and Quality Upgradation Support to Micro, Small and Medium Enterprises: The main aim of this scheme is to make aware of MSME manufacturing sector to use manufacturing processes and energy efficient technologies to reduce emission of hazardous gases and production cost. This scheme also increases the

product quality of MSMEs to promote them towards global competition. Government of India gives financial support upto 75 percent through this scheme. For more details, click here.

Market Development Assistance Scheme for MSMEs: The MDA Scheme for MSMEs provide funding for exhibitions and international trade fairs under Indian MSME stall to help indian manufacturing SMEs get attention in International Markets. It even offers funding for export promotion councils, FIEO and for industry associations sector specific market study. This scheme provides one time registration fee of 75% as compensation and an annual fee of 75% as recurring amount paid by SMEs to GSI for the bar code for first three years.

Mini Tools Room and Training Centre Scheme: The main goal of this scheme is to develop more tool room facilities to provide technological support and training facility in tool design and manufacturing to create designers, engineers, supervisors and skilled workers. The Indian Government provides financial assistance in one-time grant-in-aid form to assist State Governments to set up Mini Tools Room and Training Centres. For machinery and equipments 90% of the cost (Rs.9 crores maximum) is provided as financial aid and 75% (Rs 7.50 crores maximum) has to be upgraded for the existing room.

SELECT YOUR BUSINESS STRUCTURE:

Israel Situation

As in 2014, Israel continues to have two main **SME definitions**. The first is set forth in Government Decision no. 2190 as follows:

Micro business: a company or practitioner employing up to five employees and a sales turnover of less than ILS 10 million a year (approximately EUR 2.31 million).

Small business: a company or practitioner employing up to 50 employees and a sales turnover of less than ILS 25 million a year (approximately EUR 5.78 million).

Medium business: a company or practitioner employing up to 100 employees and a sales turnover of less than ILS 100 million a year (approximately EUR 23.12 million).

The second definition is that of the Small and Medium Business Agency (SMBA). The SMBA definition, which is shown in Table 8.1, is based on much lower financial (turnover) criteria for micro enterprises than are used in Government Decision no. 2190. The SMBA definition has been revised as a result of research that was part of the strategic plan of the agency

In terms of the wider economic context, Israel's diversified economic structure and vibrant start-up and innovation scene represent important drivers for the development of SMEs and entrepreneurship. Manufacturing activities represent around 20% GDP, of which advanced manufacturing such as machinery, electronics, chemicals and medical instruments account for important shares (about a quarter of manufacturing output). At around 50% of the economy, trade and services (excluding public administration and defence) are also important contributors to GDP, especially IT and other information services. Yet, according to the latest OECD Economic Survey of Israel4, productivity performance is weak since highly dynamic tradable goods industries co-exist with inefficient sheltered sectors. This is derived from deficiencies in product market regulation and competition, particularly in the food chain, banking and electricity sectors. Furthermore, poverty and income inequality are high, especially among specific segments of the population.

Concerning the institutional framework and co-ordination, the Ministry of Economy and Industry is the main authority in charge of economic reform and development. As such, it hosts the Foreign Trade Administration, the Investment Authority, the Industrial Co-operation Authority and the Small and Medium Business Agency. The SMBA operates since 2010 a large network of business support centres (MAOF centres). Over the past few years the SMBA has increased and improved the provision of support services to SMEs by reshuffling and extending its network of business development centres. Yet, as noted in the OECD's review of SME and Entrepreneurship Policy in Israel 2016, although the co-ordination of SME and entrepreneurship policy is one of the functions assigned to the SMBA, there is no formal mechanism in place for this purpose. There is no inter-ministerial SME and entrepreneurship policy committee and there are no focal points in government ministries and agencies. Furthermore, the 2014 SME Bill

that is cited by both the SME Policy Index 2014 and the OECD 2016 review, and which is intended to strengthen the co-ordination role of the SMBA is not yet approved by the Knesset (parliament). In addition, the OECD 2016 report notes, there is no integrated policy document (i.e. SME strategy) setting out a strategic policy framework for SME and entrepreneurship development.

The SME Policy Index 2014 reported that Israel had a well-developed system of public-private dialogue (PPD). The SMBA held quarterly meetings with the SME community. Organizations such as LAHAV (Independent Businesses Association), the Federation of Israeli Chambers of Commerce (FICC), or the Manufacturers Association of Israel and the Enterprise Europe Network Partners were very active in PPD processes. This interim assessment finds that PPD continues to be active, especially in terms of regulatory reform (see section on “Improving business environments for SMEs and entrepreneurs”).

For further action: Israel has in general a well-established framework for SME and entrepreneurship policy, yet policy co-ordination could be improved through the development of an SME strategy, the establishment of a co-ordination mechanism and the adoption of the SME Bill. Indeed, although the SMBA is the main agency in charge of enterprise policy, its role appears as being limited to the co-ordination of business support services through the MAOF centers and providing support to some horizontal initiatives such as the introduction of regulatory impact analysis. As recommended by the OECD’s review of SME and Entrepreneurship Policy in Israel 2016, the government could craft a single strategic policy document which lays out the vision, objectives, target groups, policy measures and budgets dedicated to the support of SMEs and entrepreneurs. This could be particularly important given the already noted dual nature of the economy in which a highly productive and innovative sector co-exists with less productive and dynamic firms.

According to the SME Policy Index 2014, the regulatory environment was one of the weak areas in the Israeli policy framework. To address this issue, Israel established three inter-ministerial committees working on 1) improving the general business climate (the *Doing Business* Committee), 2) the system of business licensing, and 3) the introduction of regulatory impact analysis (RIA) for new legislation and regulations.

Although the *Doing Business* Committee is no longer operational, the two other committees remain active.

In 2005 it launched an inter-ministerial committee (the Haber Committee) to review business licensing and issue recommendations for reform. In 2006 a subcommittee was created to develop a plan to implement the recommendations of the Haber Committee. However, according to the website of the Ministry of Environmental Protection, “it took years for all the parties involved, some of whom had opposing interests, to agree on how best to implement the recommendations.”

The result was the amendment to the Business Licensing Law (2010) and the Government Decision 1007, which unites licensing requirements throughout Israel, “making it difficult” for municipalities to add additional local requirements and reducing delays in obtaining licenses, especially in industries that do not pose environmental risks.

The government continues working on improving licenses and permits. According to the consultations for this interim assessment, the municipal authorities now apply a harmonized licensing system and even act as a one-stop shop for different local institutions (e.g. police, fire department). However, there is no evidence on the effectiveness of the system. Furthermore, according to the OECD’s Indicators of Product Market Regulation – which, among other matters, measure barriers to entrepreneurship including the complexity of the licenses and permit system – Israel is a “less competition friendly” economy. The specific indicators measuring the restrictiveness of the licenses and permits system show that Israel is the third most restrictive country in this regard.

Entrepreneurship as a key competence could be further scaled up at system level into the national curriculum and in teacher training programmes.

The modern services for exporting SMEs could be scaled up to additional key economic sectors. More attention could be given to assessing the impact of the training programmes.

Choice of business entity

Principal forms of doing business

The two usual corporate forms are private and public limited companies. There is little distinction between the two forms; public companies are companies registered on the Tel Aviv Stock Exchange.

Requirements of a limited company in Israel

Capital. There is no official minimum capital requirement for setting up a company, but there is a filing fee for share capital. A company may provide capital in the form of goods or intangibles, valued under generally accepted accounting principles; the Investment Centre (IC) reviews the valuation of non-cash capital contributions to a company seeking investment incentives. There are no legal-reserve or profit set-aside requirements.

Founders, shareholders. Under the Companies Law, there are no minimum requirements for the number of founders or shareholders. There is no limitation on the nationality or residence of shareholders.

Directors. The law distinguishes between companies whose shares are registered for trading on a public stock exchange (public companies) and all others (private companies). For private companies, there is no minimum number of directors. Public companies must have at least two outside directors as well as a chairman, so that in practice there are at least three directors, and usually more to ensure a majority for shareholders. There are no nationality or residence requirements.

Management. There is no minimum number of managers for private companies, but public companies must have at least one, who serves as chief executive officer (CEO). The CEO may not serve as chairman of the board of directors. There are no nationality or residence requirements, but residence must be stated in founding documents and annual reports. Labour need not be represented in management or on the board.

Disclosure. Public companies must present the following to the Registrar of Companies: annual financial statements, inspected and confirmed by a certified auditor; a list of shareholders' names and addresses; and a copy of all decisions adopted at a general shareholders' meeting. Material corporate developments, such as the appointment or replacement of directors, must also be reported to the Registrar.

Companies quoted on the Tel Aviv Stock Exchange must publish detailed quarterly income statements and balance sheets, including purchasing-power effects on profit-and-loss figures. They must issue statements disclosing any material developments in their affairs, as and when these occur. Taxes and fees on incorporation include small registration and publication fees and a capitalisation fee of 1% of registered capital. Stamp duties are 1% on the allotment of shares, 2% on the issue of bearer certificates and 1% on the transfer of registered shares (private companies).

Types of shares. Shares with cumulative voting rights are allowed, but public companies registered on the Israeli stock exchange may not issue non-voting shares. The three most common types of shares issued are ordinary, preferred and deferred. Redeemable shares may be issued but must have preferred status. Companies may acquire their own ordinary shares, with certain conditions.

Control. A minority exceeding 25% may block major decisions. Election of board members usually requires a simple majority (more than 50%) of voters in attendance. It is mandatory for institutional investors (provident and unit trusts/mutual funds) holding more than 5% of a company to attend general assemblies and to vote.

Business Entities

Below are the principal types of business entities in Israel:

A.Company The Israeli Companies Ordinance (ICO) defines a company as a corporation formed and registered in Israel, in accordance with the Israeli law. It is necessary to register the company with the Registrar of Companies. While Hebrew and Arabic are the official languages of Israel, in practice, corporate documents in English will generally be accepted by the Registrar. However the Company Registrar does require that the Articles of Association be translated into Hebrew as well.

Most companies limit the personal liability of their members, usually in the form of shares. In this case, the term "Limited" (or the abbreviation "Ltd.") must appear as part of the full name of the company. A company may be registered as a "Private Company" or a "Public Company", with securities registered on a Stock Exchange. Both types of companies must present annual reports, including audited financial statements to their shareholders. A private company, consisting of 1-50 shareholders, and one director, may not offer or sell debentures or shares to the public and its articles of incorporation must contain restriction on transferability of its shares. A public company, with a minimum of 7 shareholders, may offer stock or debentures to the public, but only after

issuing a prospectus in accordance with the requirements of the ICO and the Securities Law. Also, a public company is obliged to publish an annual report that includes the audited financial statements and directors' report, all to be filed with the Register of Companies, where they are available to the public.

B. **Foreign Company** (e.g. a branch) A company incorporated overseas may establish a branch or local office in Israel as long as it is registered as a foreign company with the Registrar of Companies within a month of its establishment. If the company uses the term "limited" as part of its name, then it must display its name and the name of the country in which it is incorporated in every invoice, letter, announcement, advertisement or other official publication. Starting a Business Communications in Israel 3 In order to register, a foreign company must submit all the necessary documents to the Registrar of Companies. There is no requirement to publish financial statements of a private company.

C. Partnership The Partnership ordinance defines a partnership as an entity that consists of persons who contracted to form a partnership. Personal liability of the partners is not limited unless they are limited partners of limited partnerships. A foreign partnership is also permitted to do business in Israel.

D. Self Employed A self employed person works entirely for himself and is entirely liable for the business. The same rules of registration apply.

E. **Cooperative** This type of business entity is found mainly in agriculture, (cooperatives such as a kibbutz, or moshav), transportation and in certain types of marketing operations associated with agricultural products.

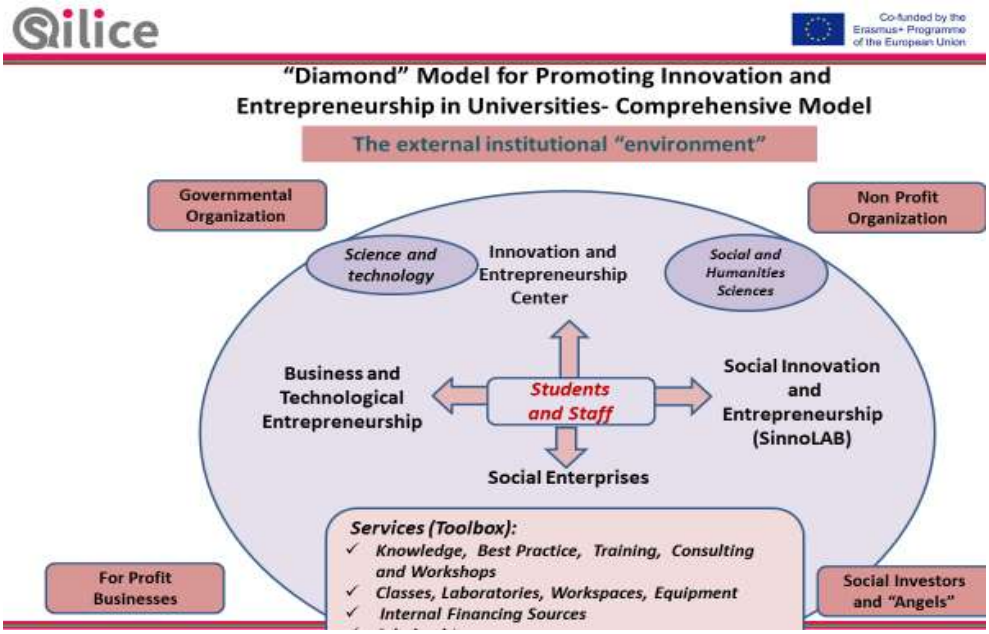
F. Non Profit Organizations These entities operate mainly as academic institutions, hospitals, charitable organizations and municipalities. Non profits are subject to a special law dealing mainly with the formation of such organizations and the way they may operate as such.

Summery and SILICE Projects in India and Israel:

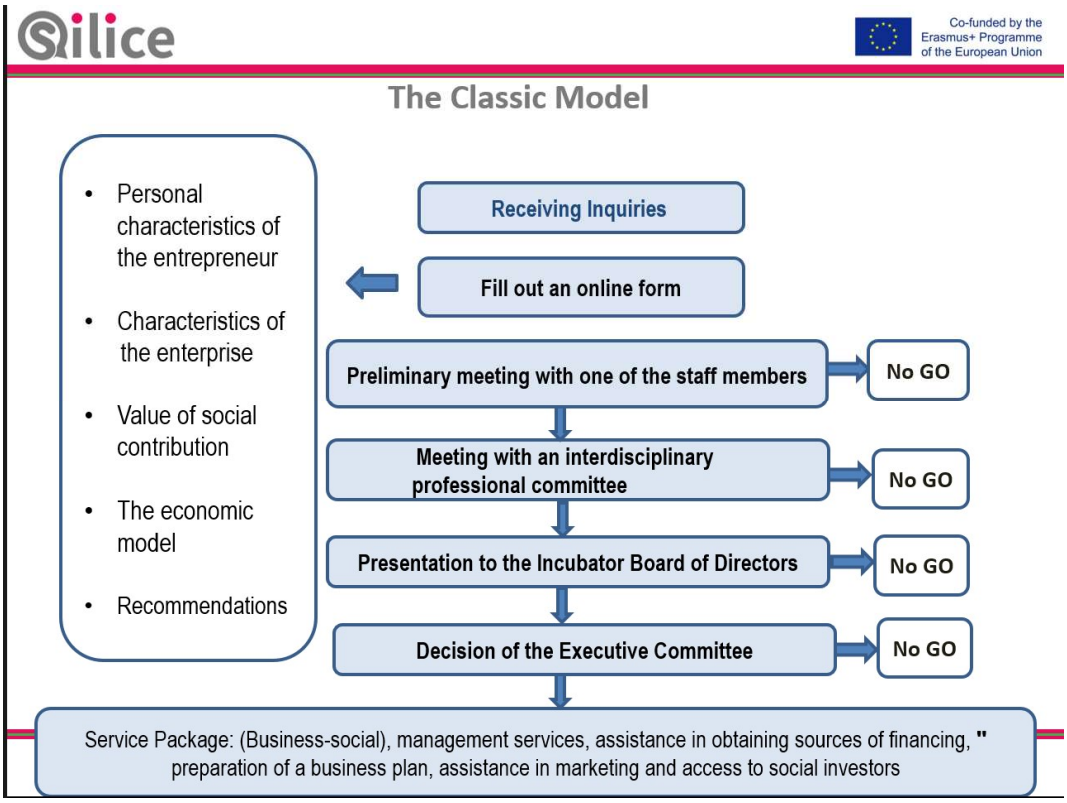
- We understand that in India and Israel theirs some governance authorities responsible to create new SME's. It is very important to connect relationship with the governance authorities like DBR; SRO; NVG in India and 'Maof' and small business authority in Israel. Although you have to find inters organization like third sector organizations, municipality organization they can help to find social actors and interests to the SinnoLAB's activities.

- From the second year SinnoLAB have to build courses, trainings and mentoring with and for the regional business authorities, this contact help to disseminate the ideas and the tools from the project to more people and strongest the connections between the SinnoLAB and the regional authorities.
- The Universities management have to create contract for Collaboration with the regional and governance authorities. These contracts promote long term sustainability to the student project and to the SinnoLAB's impact in their area.
- We recommend that the external stakeholders from these authorities will be part of the steering group of the SinnaLAB. It help to connect between theses authorities and the SinnoLAB's year plan and activities like Hackathons, competition courses and trainings.
- Students and project with big potential to build an SME have to get personal consultation meetings with professional mentor how to build they business, the business definition for taxes and other vat it can help to the long erm successful for the students projects and business.
- Part of the connection with the area organization is to find financial options like governance and national foundation and investments.
- One of the SinnoLAB manager have to build and to maintenance the connection with the regional, governance and business authorities and stakeholders.
- The SinnoLAB have to build for the good project's trainings for: financial management, financial plan, risk management, corporate with foundations, our recommendation that theses trainings will be to the advance stage of the projects.
- The SinnoLABs will be the incubator for the project. Any financial content between the project and the sinnoLAB, as part of the University and special privet universities, can be make bad impact of vat and taxes of the small business it can be bad impact to the project sustainability.
- SME's authorities establish some models of Hubs. Part of them working some years and looks are successful model for the new hubs we will build in the next steps of the project. We recommend using this model as organization structure to your new SinnoLAB's.

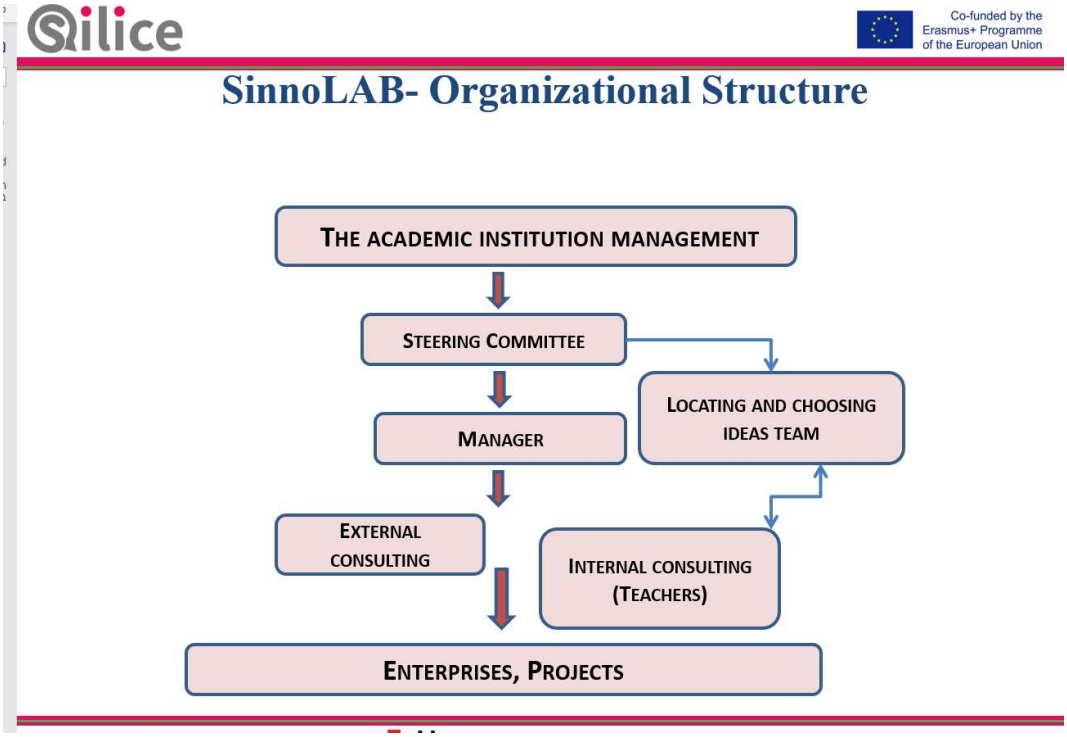
Four Hub Structure Model



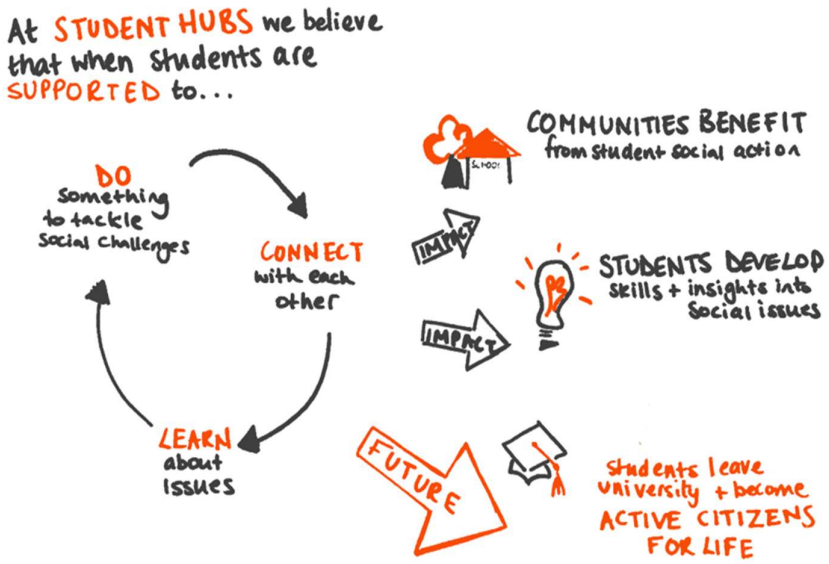
2.


Co-funded by the Erasmus+ Programme of the European Union
The Classic Model
Personal characteristics of the entrepreneur
Characteristics of the enterprise
Value of social contribution
The economic model
Recommendations
Receiving Inquiries
Fill out an online form
Preliminary meeting with one of the staff members
No GO
Meeting with an interdisciplinary professional committee
No GO
Presentation to the Incubator Board of Directors
No GO
Decision of the Executive Committee
No GO
Service Package: (Business-social), management services, assistance in obtaining sources of financing, preparation of a business plan, assistance in marketing and access to social investors

3.


Co-funded by the Erasmus+ Programme of the European Union
SinnoLAB- Organizational Structure
THE ACADEMIC INSTITUTION MANAGEMENT
STEERING COMMITTEE
MANAGER
LOCATING AND CHOOSING IDEAS TEAM
EXTERNAL CONSULTING
INTERNAL CONSULTING (TEACHERS)
ENTERPRISES, PROJECTS

4.



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