



State Comptroller
of Israel

Economic Assistance to Small Businesses in the Initial Months of the Swords of Iron War

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Background

On the Jewish holiday of Simchat Torah, October 7, 2023, the terrorist organization Hamas attacked the State of Israel by launching thousands of rockets and infiltrating thousands of terrorists into IDF bases, cities, and communities in the western Negev (the Gaza Envelope communities¹). The ensuing war, known as the Swords of Iron War (hereinafter also - "the war"), has been characterized by the firing of thousands of rockets toward Israeli communities, concerns over a multi-front conflict, and a longer duration compared to recent Israeli wars. The events of October 7, which occurred on Simchat Torah, had a profound impact on Israel's economy, especially in the initial months. According to a review by the Chief Economist in November 2023², the capital market reacted sharply to the events: the Tel Aviv 125 Index lost up to 13% of its value, and the exchange rate against the US dollar crossed the 4 NIS per dollar threshold. The GDP growth forecast for 2023 was revised downward to 2% (compared to 2.7% in the Fiscal Framework publication of June 2023). The war also had a significant impact on the labor market³. In October 2023, approximately 765,000 employed persons (approximately 18% of the workforce) were absent from work due to reasons related to the war; in November, approximately 400,000 (9%) were absent; by December 2023, the number had dropped to approximately 285,000 (7%).

Small and medium-sized enterprises (SMEs) play an important role in the economic development of countries, as they are perceived as dynamic and innovative units, capable of responding quickly and adapting to the changing demands of the markets. They are also a source of new job creation. Recognition of their contribution to the economy has led many advanced countries to formulate policies that support small and medium-sized businesses.

In Israel, the number of self-employed individuals, micro-enterprises, and small businesses (collectively referred to as small businesses) in 2022 was approximately 610,000, accounting for approximately 97% of all businesses. The business sector GDP contributed by small businesses amounted to approximately NIS 305 billion (approximately 37% of the total business sector GDP). Approximately 1,260,000 people (approximately 49% of all employed persons in the business sector) were either self-employed or employed by small businesses. In 2022, approximately 300,000 businesses (approximately half of all small businesses) operated in the following sectors:

- 1 Communities located within up to 7 kilometers from the security fence surrounding the Gaza Strip, as well as additional communities in the area designated as confrontation-line communities in Government Decision No. 950 of October 12, 2023, and Government Decision No. 988 of October 23, 2023 (the list is available on the website of the Israel Tax Authority).
- 2 Chief Economist Division, Ministry of Finance, "Review of Macroeconomic Trends and Updated Growth Forecasts for 2023–2024" (November 2023).
- 3 Chief Economist Division, Ministry of Finance, "The Impact of Operation Iron Swords on the Labor Market in December 2023" (January 17, 2024).

Approximately 129,000 businesses in professional, scientific, and technical services (21%); 94,000 in wholesale and retail trade and repair of motor vehicles (15%); and 76,000 in the construction sector (12%).

The Agency for Small and Medium Businesses (hereinafter – the Small Business Agency) within the Ministry of Economy and Industry (hereinafter - the Ministry of Economy) is responsible for addressing the needs of the small and medium-sized business sector in Israel. The agency is charged with addressing cross-sectoral matters that affect the SME sector, including monitoring, evaluation, legislation, information generation, and the development of opportunities, by maintaining communication channels with government ministries and the legislature. The agency coordinates research activity aimed at expanding professional knowledge about the SME sector. It also maintains relationships with international organizations involved in small business development, operates support tools for small businesses, and offers business guidance and expertise to entrepreneurs and enterprises.

According to data gathered following previous emergency situations (such as rounds of conflict and the COVID-19 period), micro and small businesses sustain significant economic harm, which impacts the sustainability of their businesses.

Following the events of October 7, the Central Bureau of Statistics conducted a rapid survey to examine the situation of businesses with five or more employees⁴ during the month of October⁵. The survey found that the expected decline in business income is more severe the smaller the business.

For example, approximately 57% of businesses employing 5–10 workers estimated that their expected revenue loss would exceed 50% (compared to only 14% of businesses with over 250 employees). Meanwhile, only 11% of businesses with 5–10 employees estimated their loss would be up to 10% (compared to 44% of the larger businesses). Although the survey did not focus specifically on micro and small businesses, it can be assumed that their revenue losses were even greater. This finding stems from various factors, including liquidity, communication systems, and access to international markets, all of which provide larger businesses with greater resilience compared to smaller ones.

4 Central Bureau of Statistics, Press Release: Business Situation Survey during the Iron Swords War – Data from a Flash Survey for October 2023, November 1, 2023.

5 That is, the survey does not include micro-enterprises as defined by the Small Business Agency (1–4 employees).

Key Figures

610,000

Number of small businesses in Israel in 2022 (representing 97% of all businesses in Israel)

NIS 305 billion

Business GDP of small businesses in Israel in 2022 (accounting for 37% of the total business sector GDP in 2022)

Losses exceeding 50%

Scope of revenue losses in October 2023 for 57% of small businesses employing 5–10 workers (according to a survey by the Central Bureau of Statistics)

83%

Of 2,470 reservist business owners and their spouses, surveyed in April–May 2024, reported that their income was negatively affected due to reserve military service⁶

1.5 months

Elapsed from the events of October 7 until the opening of the system for filing compensation claims under all Israel Tax Authority compensation tracks (19.11.23); this delay was due to a lack of prior preparedness by the Budget Department of the Ministry of Finance and the National Insurance Institute

10,000 Compensation claims

of VAT-exempt businesses and licensed businesses with an annual turnover of up to NIS 300,000 were only cleared for payment by the Tax Authority during the audit process in April 2024

Only 9%

(NIS 0.9 billion out of NIS 10 billion) of the Bank of Israel's monetary program for providing micro-businesses with favorable loan terms, was utilized as of February 2024.

0%


(NIS 0 out of NIS 1 billion) utilized of the Bank of Israel's repo⁷ program for non-bank credit institutions, intended to provide credit to small businesses.

6 According to data presented by the Forum of Reservists' Wives – "Fighting for the Home" – in December 2023 to the Knesset's Economic Affairs Committee, based on a survey of approximately 350 wives of reservists who are business owners and members of the forum.

7 A Repo transaction (Repurchase Agreement) is a sale and repurchase agreement. It is a type of short-term funding for liquidity purposes, secured against high-quality collateral, primarily government securities. In a repo transaction, the seller sells securities to investors and agrees to repurchase them shortly afterward (typically the next day) at a slightly higher price, which reflects the interest on the transaction.

Approx. 10% of the compensation amount	A blanket 25% withholding tax	Only 12%	Only 1%
The commission charged by representatives for filing compensation claims on behalf of businesses to the Tax Authority. As a result, by December 2023, businesses had paid representatives NIS 400 million, and by June 2024, that amount had reached NIS 1.27 billion – deducted from the compensation funds	Withholding tax applied uniformly by the IDF Assistance Fund to spouses of reservists who are business owners, regardless of their individual marginal tax rate	Of the IDF Assistance Fund budget for reservists and their spouses (NIS 33 million) was paid out through the compensation track for self-employed individuals and their spouses as of February 2024	Of business owners who submitted loan applications to the loan fund received assistance from the Small Business Agency in preparing their applications. Furthermore, only 0.2% of applicants made use of business consulting services offered by the agency

Audit Actions

 Between August 2023 and May 2024 (the conclusion of the audit), the State Comptroller’s Office conducted an audit of government assistance to small businesses. Following the outbreak of the Swords of Iron War on October 7, 2023, the scope of the audit was revised in order to examine the implementation of economic aid to small businesses during the initial months of the war. The audit assessed the existence of contingency economic plans for emergency support to micro and small businesses, as well as the actual assistance programs provided to them during the Swords of Iron War. The audit was conducted in the Ministry of Economy (including the Small Business Agency), the Ministry of Finance – in both the Accountant General’s Division and the Budget Department, the Israel Tax Authority, the Bank of Israel, and the IDF Assistance Fund for reservists and their spouses who are business owners. Supplementary examinations were carried out at the Central Bureau of Statistics.

Key Findings



Part I – National Preparedness for Assisting Small Businesses in Emergency Situations

A 2016 government decision⁸ determined that, in order to ensure preparedness for emergencies and the continued operation of government authorities and the economy during such times, government ministries must take the necessary steps in advance to ensure that essential goods and services they provide in peacetime will also be available during emergencies. The audit identified the following deficiencies in the activities of the relevant entities concerning their emergency preparedness:

Preparedness of the Ministry of Economy

- Although the Ministry of Economy and the Small Business Agency began preparing for emergency situations prior to the outbreak of the Iron Swords of Iron War – and even conducted a war scenario drill in September 2023 – they had not prepared, before the events of October 7, an economic contingency plan coordinated with the Ministry of Finance for assistance to micro and small businesses in an emergency. According to the Ministry of Economy, the Budget Department at the Ministry of Finance (hereinafter = "the Budget Department") did not approve the assistance plan for small businesses that the ministry submitted shortly after the events of October 7.
- The State Comptroller's Office notes that the lack of coordination between the Ministry of Economy, the Ministry of Finance, and the business sector regarding assistance programs likely prolonged the approval process for the aid framework (as detailed below), and created uncertainty regarding the scope of assistance for businesses during the first weeks following the events of October 7.

Preparedness of the Ministry of Finance

Upon the outbreak of the Swords of Iron War, the Budget Department failed to conduct a structured lessons-learned process, including the preparation of a document outlining insights and conclusions from previous emergency events, such as the COVID-19 pandemic. Likewise, the department did not formulate, in cooperation with other government ministries, an economic contingency plan (including a small business assistance plan) for future emergencies with significant fiscal implications, which would allow for a swift response.

8 Government Decision 2017, "Improving Emergency Preparedness" (October 30, 2016).

- On October 19, 2023, shortly after the war broke out, the Ministry of Finance published a compensation framework for businesses. This framework had been drafted in the first week of the war but was not coordinated with the Ministry of Economy or with the business sector. On October 29, 2023, following discussions held by the Knesset's Economic Affairs Committee, the Ministry of Finance published an improved compensation framework that incorporated requests from the Ministry of Economy and the business sector.
- The State Comptroller's Office notes that the framework was only approved by the government on November 2, 2023, and by the Knesset on November 9, 2023. It was only on November 19, 2023, that the Israel Tax Authority announced the opening of its online system for submitting compensation claims under all compensation tracks. Earlier coordination between the Ministries of Economy and Finance and the business sector could likely have shortened the time needed to approve the framework and helped mitigate the uncertainty surrounding the scope of business support in the weeks following the events of October 7.

Preparedness of The Bank of Israel

- In October and November 2023, the Bank of Israel issued general guidelines and policy frameworks to banks, primarily aimed at providing relief to businesses in several areas, in response to the needs that arose following the events of October 7.
- However, the State Comptroller's Office notes that, as part of its emergency preparedness plan, the Bank of Israel did not have a structured economic contingency plan focused on assisting micro and small businesses during emergencies. Decisions regarding the specific details of the economic program and other relief measures were made reactively, only after the events of October 7.

Part II – Economic Aid and Compensation Programs for Businesses

In the months following the events of October 7, the Israel Tax Authority, the IDF Assistance Fund for reservists and their spouses who are business owners, the Bank of Israel, the Accountant General at the Ministry of Finance, and the Small Business Agency at the Ministry of Economy launched various economic aid and compensation programs for businesses.


Business Compensation Programs Administered by the Israel Tax Authority


Processing of Compensation Claims Administered by the Israel Tax Authority

- On November 19, 2023, approximately six weeks after the events of October 7, the Israel Tax Authority announced the opening of its online system for submitting compensation claims for October 2023 under

all available compensation tracks. As of December 2023, the Tax Authority had paid approximately NIS 4 billion to businesses for claims related to October 2023, and by June 2024, it had paid an additional NIS 8.7 billion for the months of October through December 2023. This indicates that a significant portion of compensation payments were only made at least two and a half months after the outbreak of the war, meaning that during this time businesses had to cover their losses from their own resources, without support from the compensation fund.

- In addition, the Israel Tax Authority does not employ a special distinction for claims submitted by micro-businesses (those with an annual turnover of up to NIS 2 million), nor does it perform dedicated oversight of compensation claims filed by such businesses.
- Only in April 2024, during the course of the audit, did the Tax Authority expedite the processing of approximately 10,000 claims from VAT-exempt businesses and small businesses with annual turnover of up to NIS 300,000. Furthermore, as of the conclusion of the audit, approximately 60,000 claims (12% of all claims) had yet to be processed.
- For small businesses, self-financing over an extended period of four to seven months can severely impact their operations, potentially to the point of closure. This raises doubts regarding the suitability and timing of the aid program for small businesses.

 **Use of Representatives in Filing Compensation Claims with the Israel Tax Authority** – According to data provided by the Tax Authority to the State Comptroller's Office, approximately 63% of compensation claims across all tracks were submitted through representatives, as follows: 76% of the Green Track claims⁹; 61% of the Nationwide (General) Track claims¹⁰; and 54% of the Red Track claims¹¹. The widespread use of representatives and payment of commissions – typically approximately 10% of the compensation amount (an estimated NIS 1.27 billion paid by businesses by June 2024) – may indicate that the claims process, even in the Nationwide Track (which is ostensibly simpler), is perceived as complex or difficult to navigate. Such commission costs impose a heavy burden on small businesses.


 **Transfer of Information from the IDF to the Israel Tax Authority** – Only in January 2024, approximately 3 months after the war began, did the IDF transfer a file to the Israel Tax Authority containing the names of reservists who had been called up since the events of October 7. This delay prevented the Tax Authority from properly implementing the Postponement of Deadlines Law, and from prioritizing claims filed by business owners serving in the reserves. Furthermore, as of the conclusion of the audit, the Tax Authority

9 Compensation for businesses in localities and areas explicitly listed in the emergency regulation, where the defense establishment imposed strict restrictions ("special zone").


10 Compensation for businesses nationwide, provided that their turnover decreased by more than 25% for those reporting VAT monthly, or by more than 12.5% for those reporting bi-monthly, and only if the decline was caused by the Iron Swords War.


11 Compensation for businesses in border communities, for any loss or loss of profit due to war-related damage within the area, or due to inability to use assets located there as a result of military activity, including business closure, with no compensation cap.

had not yet activated a system it developed to identify reservist business owners who had not yet filed compensation claims, and thus ensure eligible individuals receive the support they are entitled to.

 **Compensation Estimation Tool (Simulator) for Business Owners** – The Tax Authority's website does not offer a tool (simulator) that allows business owners to determine which compensation track is most suitable for them. A suitable tool (simulator) could ease the process for business owners, reduce their dependence on professional representatives, and even strengthen their trust in the Tax Authority. This is especially important for small business owners who lack substantial resources.

Operation of the IDF Assistance Fund for Reservists and Their Spouses Who Are Business Owners

 The Assistance Fund transferred compensation to spouses of reservists for loss of income, applying a blanket 25% withholding tax, without allowing recipients to present a tax exemption certificate or coordination approval to reduce or eliminate the withholding tax. The State Comptroller's Office notes that such a flat 25% withholding tax could result in taxation at a higher rate than required by law, potentially impacting the entitlement of the reservist and their spouse to benefits and reducing the overall income of the reservist's household. Additionally, a refund for excessive deduction (not aligned with an official certificate) can only be obtained after submitting an annual tax return, meaning the refund may be issued only after the end of the tax year, and in some cases more than a year after the actual deduction. Moreover, if the withholding applies to compensation for a reservist's salaried spouse, that spouse may be required to prepare and submit an annual tax return, possibly incurring additional financial costs, even though they are not legally obligated to do so under normal circumstances.


 The Assistance Fund issued annual certificates confirming tax withheld at source for compensation due to the loss of income of a reservist's spouse, but listed the certificates under the reservist's name rather than the spouse's, and did so without coordination with the Israel Tax Authority. Issuing the certificate under the reservist's name (and not that of the spouse) may prevent the spouse from obtaining a tax refund through their annual return for the excess tax withheld by the Assistance Fund, since the certificate is not issued in their name and thus may not reflect their personal tax circumstances.

Bank of Israel Programs to Ease Conditions for Small Businesses


Utilization of the Bank of Israel's Monetary Program by Small Businesses


- As of February 2024, utilization of the program by small businesses (as defined by the Small Business Agency) amounted to approximately NIS 4.4 billion, representing only 44% of the total NIS 10 billion allocated for the program, which offers loans on favorable terms.

- Utilization by micro-businesses (as defined by the agency) stood at just NIS 0.9 billion, or 9% of the total program. Of all loans provided: 4,974 loans were granted to small businesses (56% of total loans) and 1,998 loans were granted to micro-businesses (approximately 37% of total loans).
- This indicates that the Bank of Israel did not map or differentiate between micro and small business segments, nor did it assess their distinct needs or tailor individual responses accordingly.


 **Duration of the Bank of Israel's Assistance Program** – The Bank of Israel's monetary program began in November 2023 and ended in February 2024, at the height of the war. Many business owners who were evacuated from their homes or serving in reserve duty had neither the mental capacity nor the physical availability to apply for loans during this period, even though the program offered favorable loan terms in the critical first months following the events of October 7. As of the conclusion of the audit, no provisions had been made in the program to specifically address the needs of reservist business owners or those who had been displaced from their homes.


Operation of the State-Guaranteed Loan Fund Administered by the Accountant General at the Ministry of Finance

 **Utilization of the "Swords of Iron" Tracks in the State-Guaranteed Loan Fund** – As of January 18, 2024, the Accountant General's Division at the Ministry of Finance had extended loans totaling NIS 4.7 billion through the Swords of Iron tracks of the fund, out of NIS 8 billion allocated for small and medium-sized businesses. This represents a utilization rate of only approximately 59% of the loan fund's available budget.


 **Reservist Track Timeline in the State-Guaranteed Loan Fund** – The Reservist Track of the loan fund was launched only in January 2024, approximately three months after the events of October 7, and ended in June 2024. Many business owners who were either evacuated from their homes or serving in reserve duty, lacked the mental capacity or physical availability to apply for loans during the critical initial months following the outbreak of the war, despite the favorable terms offered. As of the conclusion of the audit, the program still lacked an effective solution within this track for business owners who had served in the reserves.

Operation of the Small Business Agency


 **Support Tools Provided by the Small Business Agency** – Since the events of October 7, the Small Business Agency implemented certain actions that supported small businesses in specific areas, such as assistance in securing financing, but did not address other pressing needs, particularly those of business owners who had been evacuated from their homes and whose businesses were harmed, such as: assistance in setting up e-commerce websites, support for freelancers and professionals in renting shared office spaces (e.g., coworking hubs), help in attracting new customers, and organizing fairs and markets for selling agricultural produce.


 **Business Financing Support** – Only a very small share (approximately 1%) of business owners used the agency's assistance in submitting loan applications to the state-guaranteed loan fund. An even smaller share (approximately 0.2%) received business consulting services from the agency in conjunction with assistance in submitting a loan application. These low participation rates may indicate a lack of awareness among small businesses regarding the agency's available tools, and raise questions about the agency's effectiveness and relevance in addressing the needs of small businesses.

Property Tax (Arnona) Discounts for Businesses in Evacuated Communities

 Businesses whose owners were evacuated by the state – in the south or north – and which are not operating continuously, remain vacant, or have resumed operations in another location or online, are still required to pay property tax (Arnona) to the local authority. These businesses may choose between filing a compensation claim under the turnover-based track (green track) or the red track. The formula in the turnover-based track (green track) reflects compensation for loss of profit, including fixed expenses that cannot be avoided, such as property tax (Arnona). The red track allows for the submission of an advance payment request, which is reviewed and paid in accordance with the turnover-based track. This approach differs from the COVID-19 period, during which the state granted full Arnona exemptions to affected businesses.


Part III – Management of Economic Assistance to Small Businesses


 **Oversight and Monitoring by the Prime Minister and Other Ministers of Programs for Economic Aid and Compensation to Small Businesses** – The Socio-Economic Cabinet, chaired by the Prime Minister and including several government ministers – among them the Minister of Finance (alternate Chairperson) and the Minister of Economy and Industry¹² – met five times between October 7 and the end of 2023. However, during these meetings, the Cabinet did not hold any oversight or monitoring discussions regarding the implementation of the economic aid and compensation programs for small businesses. In 2024, up to the conclusion of the audit, the cabinet did not convene at all, and no discussions were held on the subject.

 **Lack of a Uniform Definition for Business Size** – It was found that there is no uniform definition among government authorities related to business size, including definitions for micro and small businesses. Some entities define business size based on annual turnover; for example, the Accountant General at the Ministry of Finance defines a "small business" as one with an annual turnover of up to NIS 25 million. Others define

12 Also serving as members of the Cabinet are the following ministers: the Minister of Interior; Minister of Construction and Housing; Minister of Labor; Minister of Transport and Road Safety; Minister of Energy and Infrastructure; Minister for the Negev, the Galilee, and National Resilience; Minister of Tourism; Minister of Innovation, Science and Technology; Minister of Environmental Protection; Minister of Agriculture and Rural Development; Minister of Culture and Sport; Minister of Communications; Minister of Education; Minister of Health; and the Minister of Welfare and Social Affairs.

business size using both turnover and number of employees; for example, the Small Business Agency defines a "micro-business" as one with a turnover of up to NIS 2 million or 1–4 employees, and a "small business" as one with a turnover between NIS 2–10 million or 5–10 employees. Other entities, such as the Tax Authority and the IDF Assistance Fund, do not define micro or small businesses at all. The Central Bureau of Statistics (CBS) produces data based on size categories (e.g., number of salaried positions in a business) and upon request (e.g., CBS publishes data by various size segments depending on the requesting entity), but it does not maintain definitions for micro or small businesses. This lack of uniform terminology complicates the creation of a comprehensive, up-to-date, and relevant database on small businesses, makes it difficult to define their needs, and hinders the development of tailored support programs.

 **Ongoing Transfer of Essential Information Between the Tax Authority and the Small Business Agency** – It was found that there is no ongoing transfer of essential data from the Tax Authority to the Small Business Agency that would enable the agency to develop assistance programs based on accurate and up-to-date information. For example, data such as VAT filings and annual turnover figures of businesses are not shared at all. Although some information is transferred from the Central Bureau of Statistics (CBS) to the agency, the agency noted that additional data processing is needed, and that the data must be delivered on shorter timelines. As a result, the agency does not have access to a comprehensive and up-to-date database on small businesses. This lack of data undermines the agency's ability to formulate effective policy measures for small businesses, especially during emergency situations, as was the case during the Swords of Iron War.







 **Coordinating Body for Small Business Support** – Contrary to the August 2007 government resolution on improving and streamlining assistance to businesses – which assigned the Minister of Economy and the Minister of Finance responsibility for consolidating small business support under the umbrella of the Small Business Agency – as of the conclusion of the audit, the two ministries had not established a coordinated policy on small business affairs. The Ministry of Economy and the Ministry of Finance do not consolidate all government aid programs under a single framework, do not oversee their implementation, do not receive regular reporting on these programs, and do not actively coordinate between relevant bodies to ensure collaboration and effective delivery.



Establishment of the Assistance and Compensation Fund for Reservists and Their Spouses

– The establishment of the government's Assistance and Compensation Fund for Reservists and Their Spouses, and the launch of a dedicated compensation track for self-employed reservists and their spouses, provide a targeted solution to the unique challenges faced by this population. These measures help reduce the financial uncertainty they face and support them in coping with the economic difficulties resulting from their military service. As of March 2024, the Assistance Fund had paid approximately NIS 62 million in compensation for loss of income of self-employed reservists, and approximately NIS 30 million for loss of income of their spouses, whether self-employed or salaried.

Key Recommendations

-  It is recommended that the Prime Minister, as chair of the Socio-Economic Cabinet, and the Minister of Finance, in his capacity as alternate chair, convene the Cabinet to conduct ongoing oversight of the effectiveness of economic aid programs for businesses, including small businesses. They should act accordingly to ensure these businesses receive adequate support – particularly in light of the prolonged nature of the war and its economic impact on businesses, especially in frontline areas.
-  The Ministry of Finance, in full cooperation with the Ministry of Economy and the Tax Authority, should prepare a structured operational plan for emergency situations, based on the lessons learned from the COVID-19 pandemic and the events of October 7, aligned with the changing economic environment. Accordingly, the plan should include the necessary response for micro and small businesses.
-  It is recommended that the Tax Authority complete the processing of all compensation claims, with particular emphasis on claims submitted by small businesses, claims submitted in 2023, and claims filed under the turnover-based track and the nationwide track, which require shorter processing times than claims under the red track. It is recommended that the Authority examine the reasons for the high rate of claims submitted through representatives, particularly in the turnover-based track and the nationwide track. It is further recommended that the authority consider simplifying the claims submission process in these tracks and evaluate the possibility of assigning Tax Authority staff to assist claimants in filing their claims.
-  It is recommended that the Bank of Israel encourage commercial banks to establish different loan tracks based on business size, in order to improve access to credit for micro and small businesses and potentially increase the utilization of the monetary program. It is also recommended that the Bank of Israel consider extending the monetary program, at least for business owners who were evacuated from their homes or for businesses owned by reservists, given that the war is ongoing and small businesses continue to face economic difficulties.
-  The Small Business Agency should identify the needs of small businesses in times of emergency and, based on those needs, develop new support tools in addition to existing ones. These should be adapted to emergency conditions and may include the provision of mobile or alternative offices to replace offices previously used by evacuated business owners, as well as guidance and support in creating and developing websites to enable continued service delivery.
-  It is recommended that the Tax Authority issue a directive to the Assistance Fund in order to regulate the tax aspects applicable to compensation payments for loss of income by spouses of reservists, including with regard to compensation already paid to eligible recipients. This directive should include, inter alia, instructions regarding the attribution of income from the compensation between spouses, the calculation of tax liability, and the applicable withholding tax rules, all in accordance with the provisions of the Income Tax Ordinance and its regulations.



In light of the need to support a large number of small businesses – which make up the majority of businesses in Israel and have characteristics that differ significantly from medium and large businesses – it is recommended that the Ministry of Economy, which is responsible for the Small Business Agency, take the lead in all matters related to small businesses, both in routine times and during emergencies. The ministry should coordinate among the various entities involved in small business support and oversee their activity. Additionally, the ministry should make use of the tools at its disposal in order to map out the needs of micro and small businesses and work with all relevant government ministries, in coordination with the Bank of Israel, in order to formulate economic assistance programs while setting out the level of resources required for their implementation. Coordinating and consolidating small business support activities under one authority would help prevent duplication, inefficiencies, and waste of resources.



It is recommended that the Small Business Agency within the Ministry of Economy, the Ministry of Finance, and the Bank of Israel establish uniform definitions for the terms "micro-business" and "small business" that reflect the realities of the Israeli business environment. This would enable the creation of a shared database across all relevant bodies and support the development of tailored assistance programs for small businesses.



It is proposed that the Ministries of Finance and Interior examine the possibility of granting property tax (Arnona) discounts to business owners in evacuated local authorities whose businesses are not operating continuously, are vacant, or have resumed operations elsewhere or online. Until a decision on this matter is made, it is proposed that local authorities consider offering payment arrangements for businesses with respect to Arnona payments, in accordance with the provisions of the law.

The Extent the Key Deficiencies Noted in the Previous Report were Rectified

Entity Responsible for The Track	Track Name	Summary of The Track's Objective	Public Launch Date	Allocated Budget per Track	Actual Executed Amount Per Track
Israel Tax Authority	Red Track	Compensation to businesses in border communities, for any loss (or loss of profit) due to war-related damage within the area, or due to inability to use assets located there because of military activity, including business closure, with no compensation cap.	22.10.23 - Option to submit an advance payment request	Estimated budget to be used: NIS 17 billion	As of Dec. 2023 – NIS 0.761 billion
	Green Track	Compensation for businesses in localities and areas explicitly listed in the emergency regulation, where the defense establishment imposed strict restrictions. Compensation provided to businesses under one of four tracks, based on the business owner's choice (agriculture track, wage track, revenue track, or contractor track).	19.11.23		As of Dec. 2023 – NIS 0.629 billion
	Nationwide track	Compensation for businesses due to revenue decline in the months of October–December.	19.11.23		As of Dec. 2023 – NIS 2.67 billion
IDF	IDF Assistance Fund for Reservists	Assistance and compensation for reservists who served during the war, including for financial damages incurred by them or their family members because of their participation in the fighting or being called up for reserve duty on short notice.	7.12.23	NIS 270 million	By the end of February 2024 – NIS 33 million in the compensation track for the self-employed (12% of the fund's budget)

Entity Responsible for The Track	Track Name	Summary of The Track's Objective	Public Launch Date	Allocated Budget per Track	Actual Executed Amount Per Track
Bank of Israel	Framework for deferring loans for households and businesses	Deferral of payments for three months from the date of request approval, under terms dependent on proximity to the Gaza Strip or the northern border.	15.10.23	N/A	The total deferred payments on small business loans amount to NIS 2.9 billion
	Monetary program for small businesses	The Bank of Israel provided the banking system with two-year loans at a variable interest rate equal to the Bank of Israel rate minus 1.5%, against loans that the banks will extend to small businesses whose revenues declined by at least 25% in any month since October 2023, on the condition that the average interest rate charged to businesses does not exceed the prime rate.	6.11.23	NIS 10 billion	Implementation of the program for small businesses, as defined by the Small Business Agency –NIS 4.4 billion
	Repo transactions for non-bank credit institutions	An additional and complementary tool to the monetary program for small businesses, intended for non-bank credit institutions supervised by the Bank of Israel (credit card companies) or by the Capital Market Authority.	21.11.23	NIS billion	0
Accountant General at Ministry of Finance	State-Guaranteed Loan Fund	To increase the supply, availability, and diversity of credit sources for small and medium-sized businesses with an annual turnover of up to NIS 100 million, by offering loans through various tracks for working capital, business establishment, and investment purposes.	November 2023	NIS 8 billion	As of 18.1.24 – Loans totaling NIS 3.2 billion have been issued through the fund, with approximately 68% granted to small businesses, as defined by the Accountant General

According to the table, in general, during the first months following the outbreak of the war, there was high utilization of the assistance programs offered by the Bank of Israel and the Accountant General, which provide loans on favorable terms. In contrast, there was low utilization of the assistance programs offered by the Israel Tax Authority's compensation fund and the IDF assistance fund, which provide compensation to businesses.

Claims Raised in Meetings with Small Business Owners Regarding Lack of Response and Economic Assistance

The audit team held several meetings in March and April 2024 with business owners evacuated from their homes in the south and north, with business owners called up for reserve duty, and with business owners from central Israel. Below are examples of claims raised regarding the responses they received after submitting claims to the Israel Tax Authority:

1. A business owner in the real estate sector with an annual turnover exceeding NIS 2.1 million, who experienced a revenue drop of over 25% during October, November, and December, submitted a claim to the Tax Authority under the nationwide track via a representative in November 2023. As of the meeting date in April 2024, he had not received any compensation and was forced to take out non-bank loans and bridge loans from the banks.
2. A restaurant owner from the south filed a claim through a representative under the "green track" (according to the representative, this track offered a better chance of receiving funds more quickly). According to the business owner, she did not receive any compensation for five months. As a result, she filed a new claim under the "red track" and stated that she received advance payments that helped cover payments to suppliers but were insufficient for basic living expenses.
3. The owner of a therapy clinic that closed due to the war filed a claim under the red track in November 2023. According to her, as of the meeting with the audit team in March 2024, she had not yet received an advance payment. Her inquiries to the Tax Authority regarding the status of the claim went unanswered. The business owner also noted that the state did not offer her any loan or support program for business owners.
4. An early childhood entertainment business owner ceased operations following the events of October 7. According to her, the compensation she received was minimal, approximately 30% of the previous year's income, and did not reflect the revenue she would normally expect during Hanukkah, which is the business's peak season.

5. A food business owner filed a claim through a representative under the red track. He claimed he received a 60% advance payment for October 2023. A separate claim he filed for November–December had not been addressed as of the meeting with the audit team in April 2024. Additionally, the business owner employed workers from non-evacuated areas, and he claimed that he was told that if those employees did not report to work, he would not be compensated for their wage expenses.

Summary

The Swords of Iron War caused substantial harm to many small businesses, which had to contend with the mobilization of their owners to reserve duty, reduced worker availability, a significant slowdown in overall economic activity, and even prolonged business closures due to security directives – particularly in areas from which the population was evacuated.

In order to provide effective support to small businesses during both routine times and emergencies, and especially to microbusinesses, it is essential to plan ahead through contingency economic programs based on plausible reference scenarios derived from various types of emergency events. These plans should enable the fastest possible response – ideally at the push of a button. The development of such programs should be grounded in lessons learned from past emergencies. Planning should include mapping the economic sectors most vulnerable in each type of emergency, identifying their specific needs, estimating the cost of assistance measures, determining the sources of funding, and assessing the overall economic impact of the support provided. It is also critical to identify population groups requiring tailored assistance, such as business owners serving in the reserves. These programs should be prepared through full cooperation among the relevant government ministries.

Appropriate solutions must be provided for the reality in which small business owners are called up for reserve duty and must abruptly suspend their routine and business operations for an extended period. Support must also be provided to business owners who have been evacuated from their homes and are coping with both displacement from their social environment and with uncertainty and economic hardship. Support for these populations should include dedicated assistance programs, extensions of the deadlines for submitting applications to existing aid programs, and prioritization of their requests. Given the need to assist a large number of small businesses, it is important to establish a single coordinating body with broad authority and a significant budget, capable of overseeing and coordinating the efforts of the various government ministries involved in supporting small businesses. It is recommended that the Ministry of Economy, which oversees the activity of the Small Business Agency, take the lead in managing efforts related to small businesses both in routine times and in times of emergency, coordinate among the various bodies involved in providing assistance, and oversee their operations. Coordinating and consolidating small business support activities under one authority would help prevent duplication, inefficiencies, and waste of resources.

As of the conclusion of the audit, in May 2024, the Swords of Iron War is ongoing, and accordingly, the state of emergency remains in effect. The Ministers of Economy and Finance must instruct their respective ministries to draw lessons from the existing aid programs for small businesses and examine what type of support is required, particularly for businesses located in evacuated areas and in regions adjacent to active combat zones.

It is recommended that the Prime Minister, as chair of the Socio-Economic Cabinet, and the Minister of Finance, in his capacity as alternate chair, convene the Cabinet to conduct ongoing oversight of the effectiveness of economic aid programs for businesses, including small businesses. They should act accordingly to ensure these businesses receive adequate support – particularly in light of the prolonged nature of the war and its economic impact on businesses, especially in frontline areas.