



Economic Development and the Integration Plan for the Israeli Arab Population

Conclusions after Three Years of Implementation

December 2018

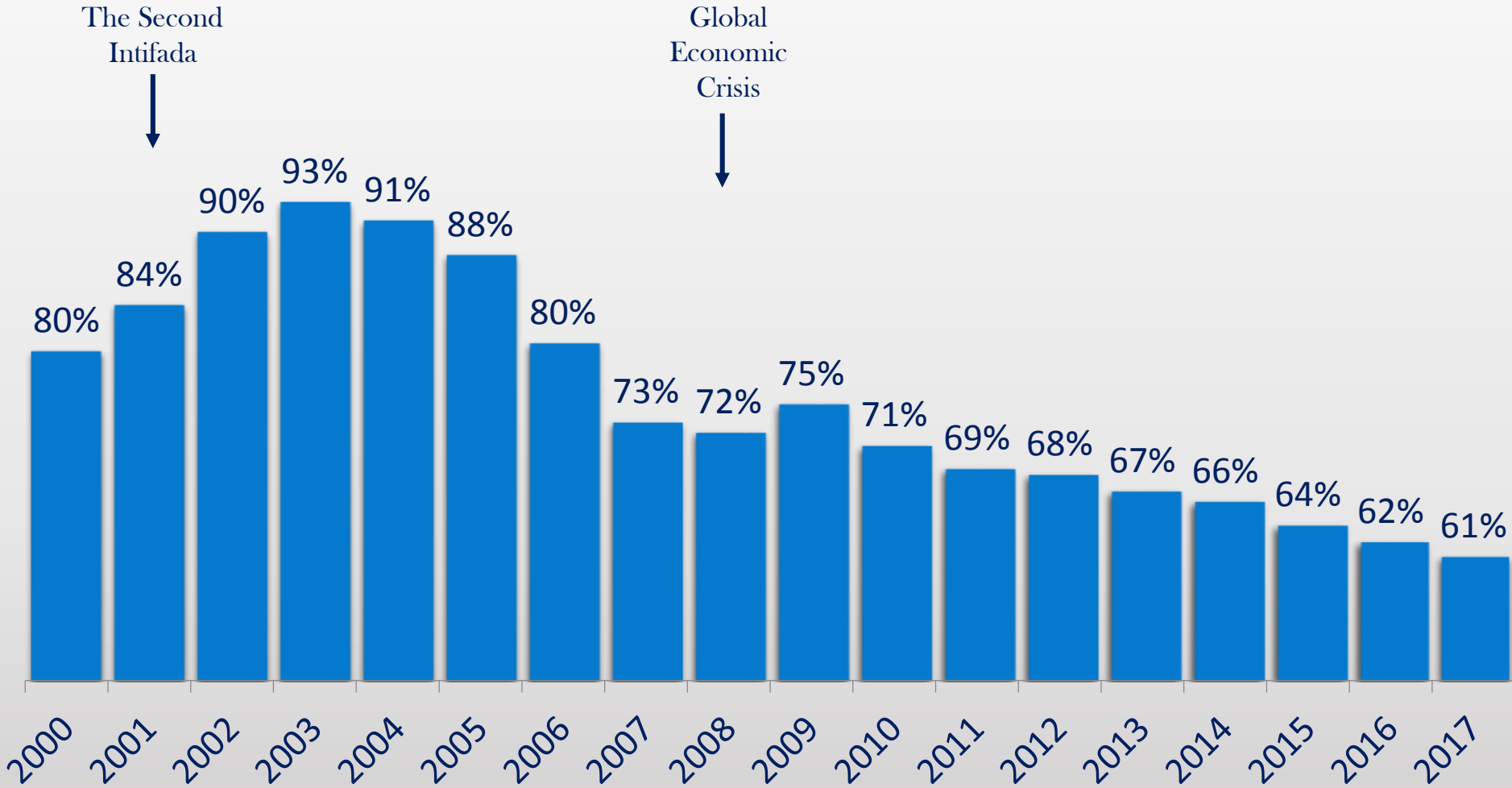


Israel's Macro Review



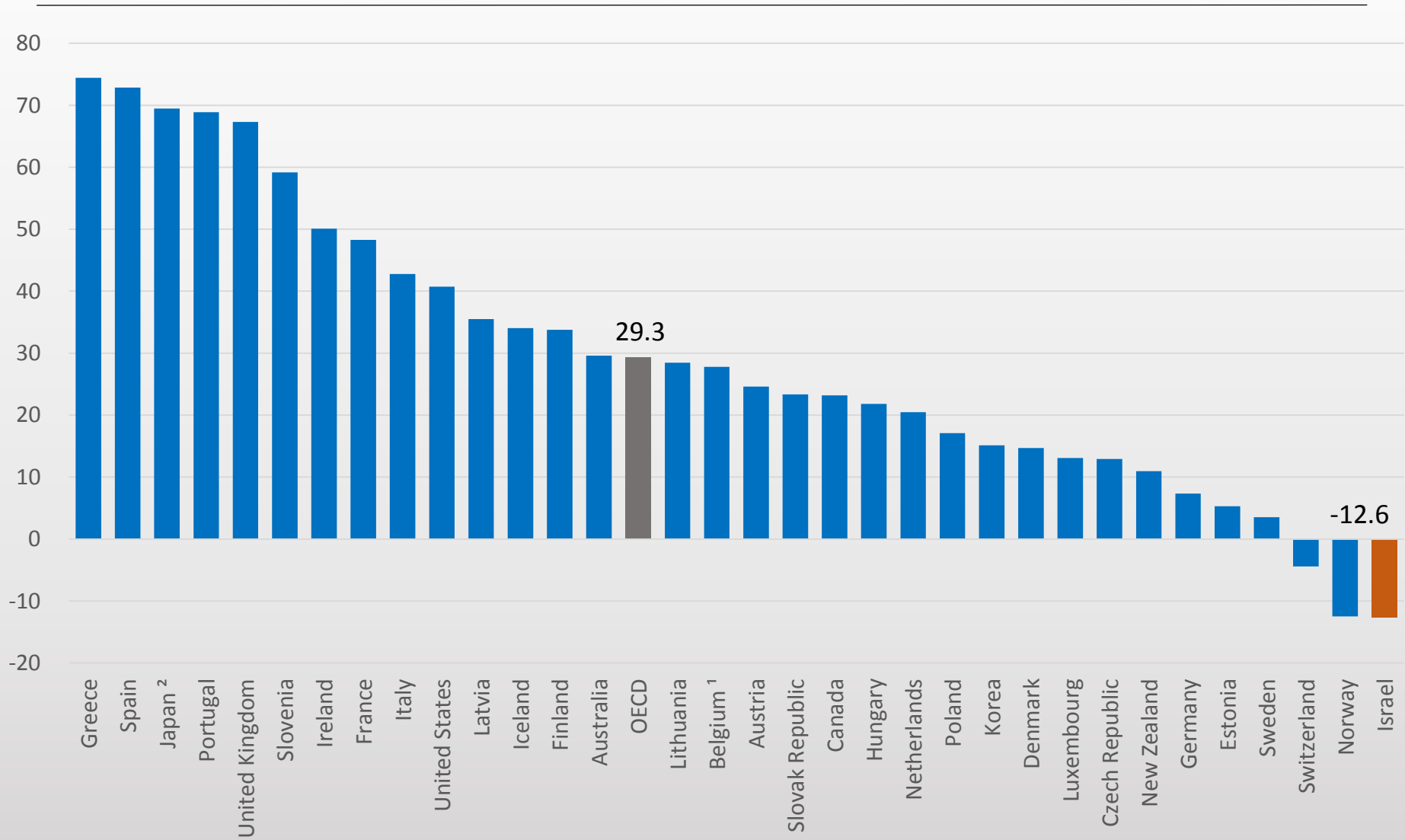
Public Debt

(as Percentage of GDP, 2000-2017)



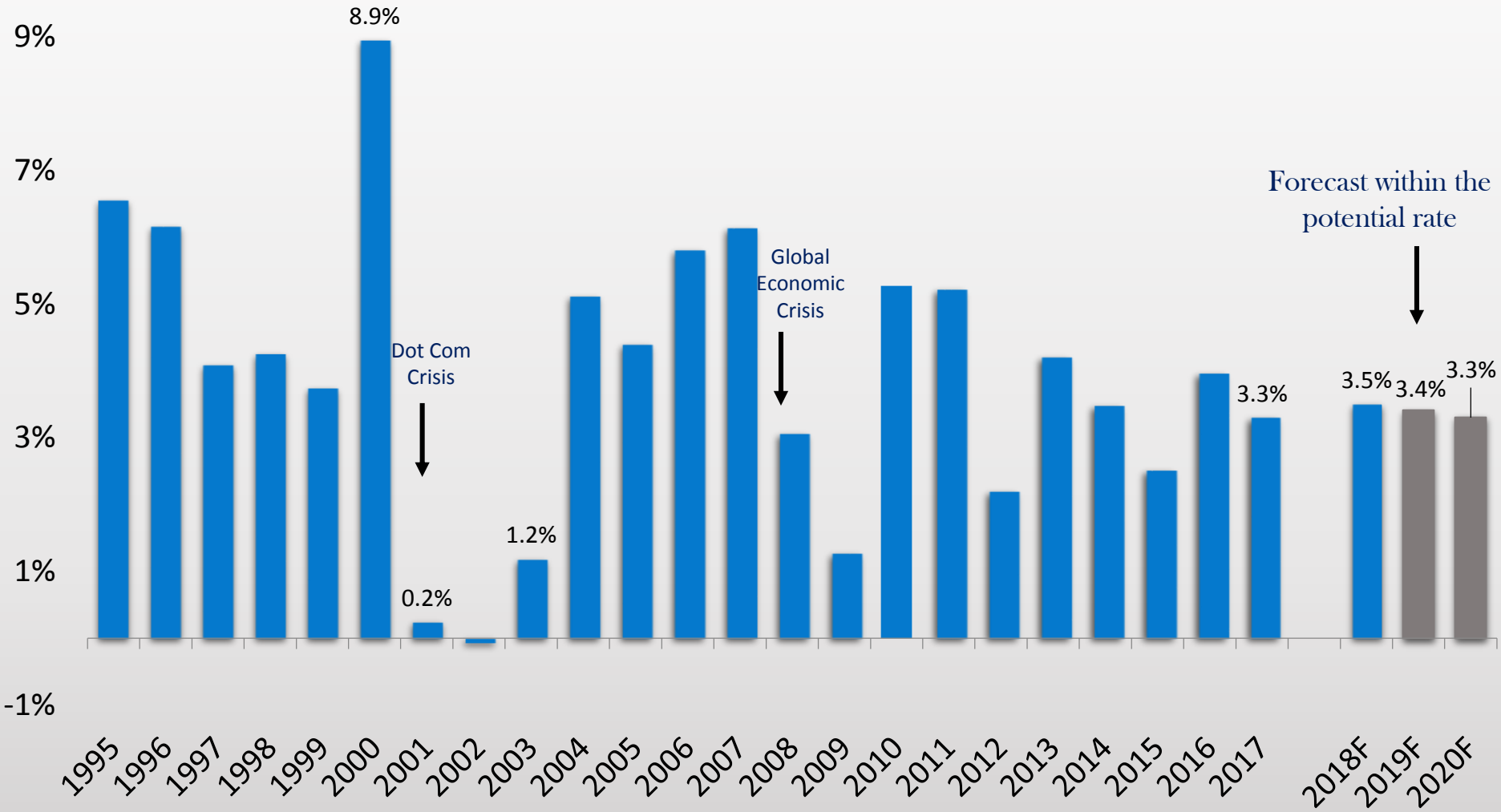


Public Debt Change Between 2007-2017





The Israeli Economy is Growing Within its Potential Growth Rate

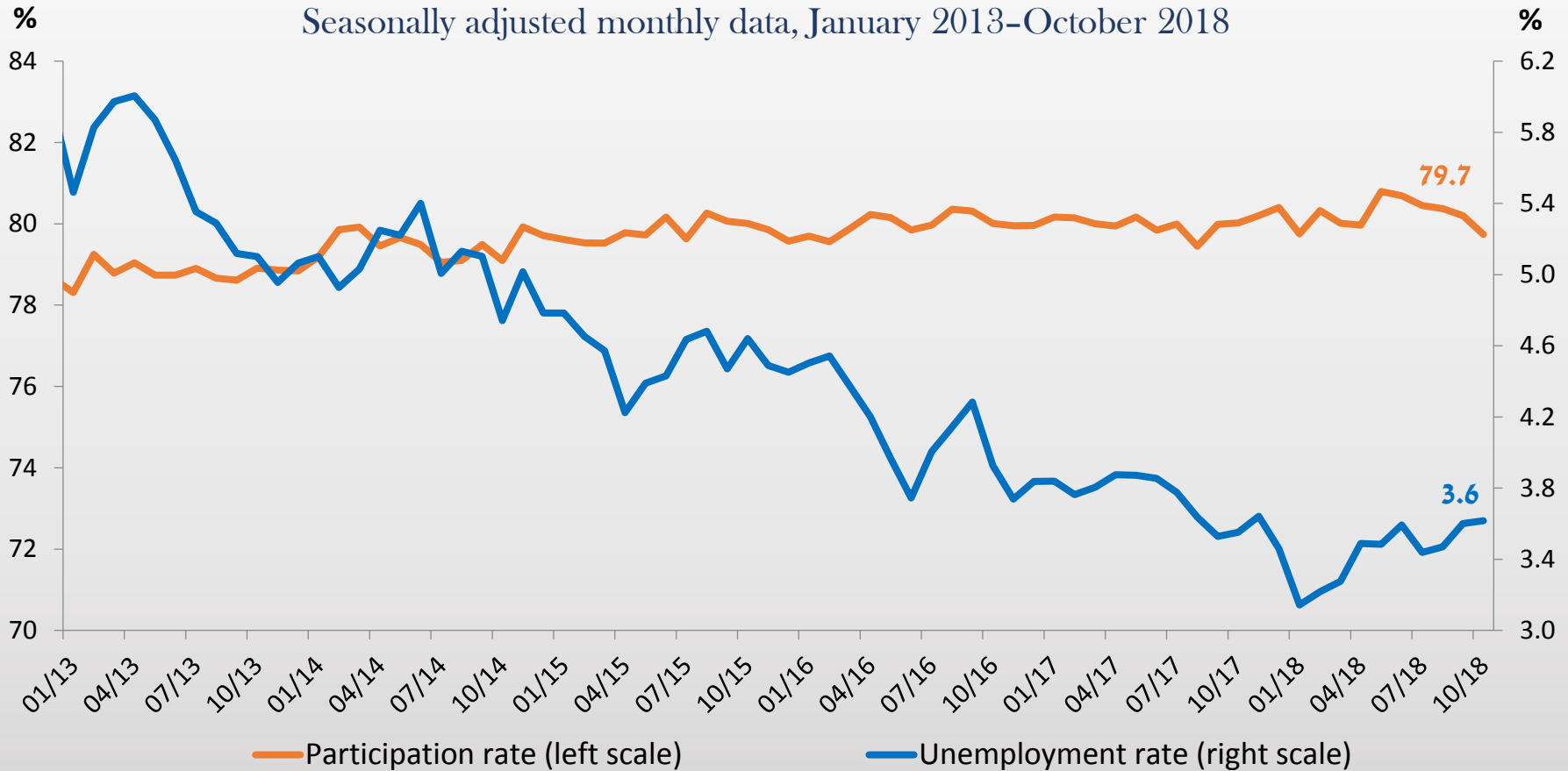




Labor Market Indicators Reflect Full Employment

The Unemployment, Employment and Participation Rates Among the Primary Working Ages (25-64)

Seasonally adjusted monthly data, January 2013–October 2018





Israeli Innovation at a Glance



#1 in R&D
investments



>6,500
innovative companies

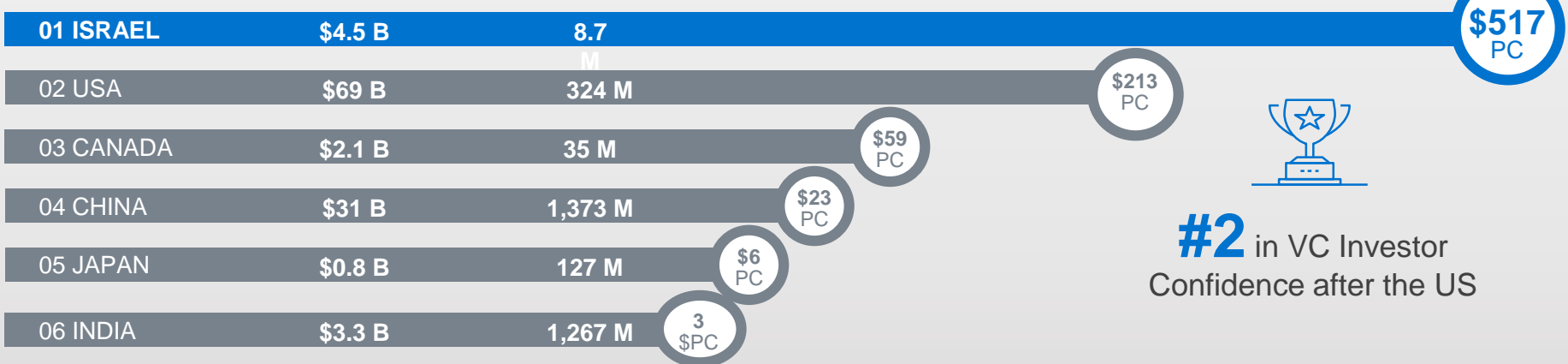


One startup per
1,400 people



#3 in WEF's
innovation ranking

2016 VC Investments Population



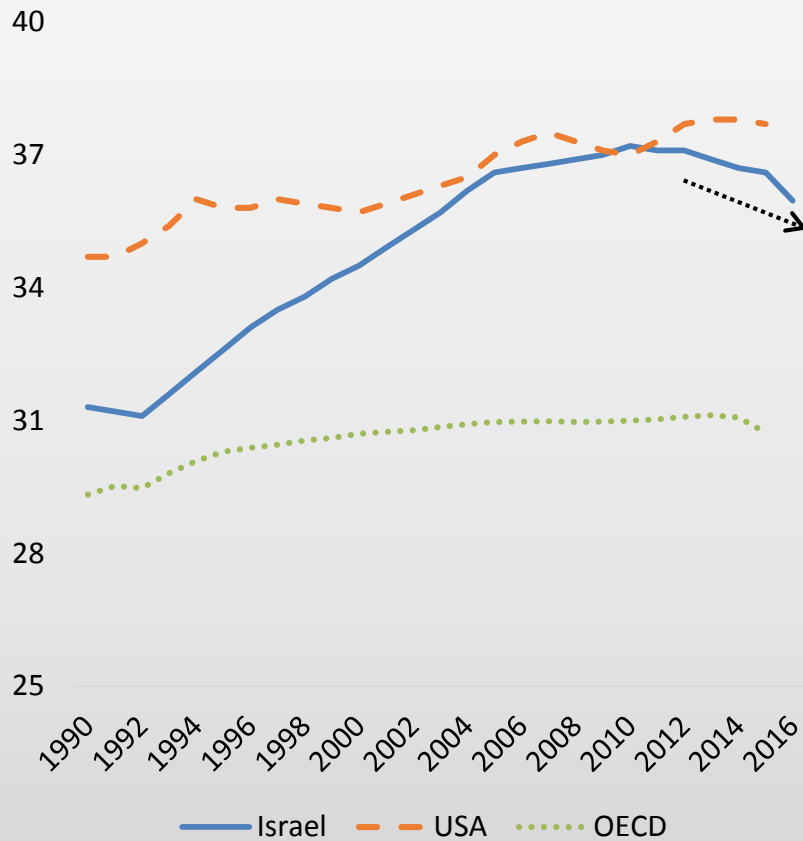
#2 in VC Investor
Confidence after the US



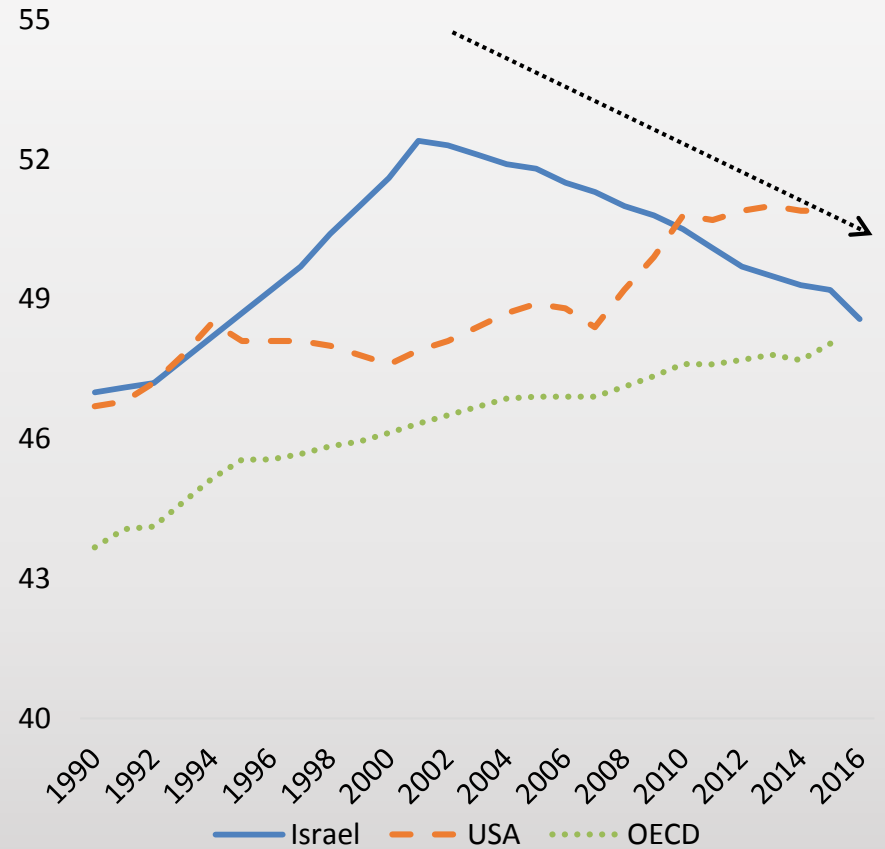
Economic Inequality is Declining

Gini-coefficients

Net Income



Gross Income



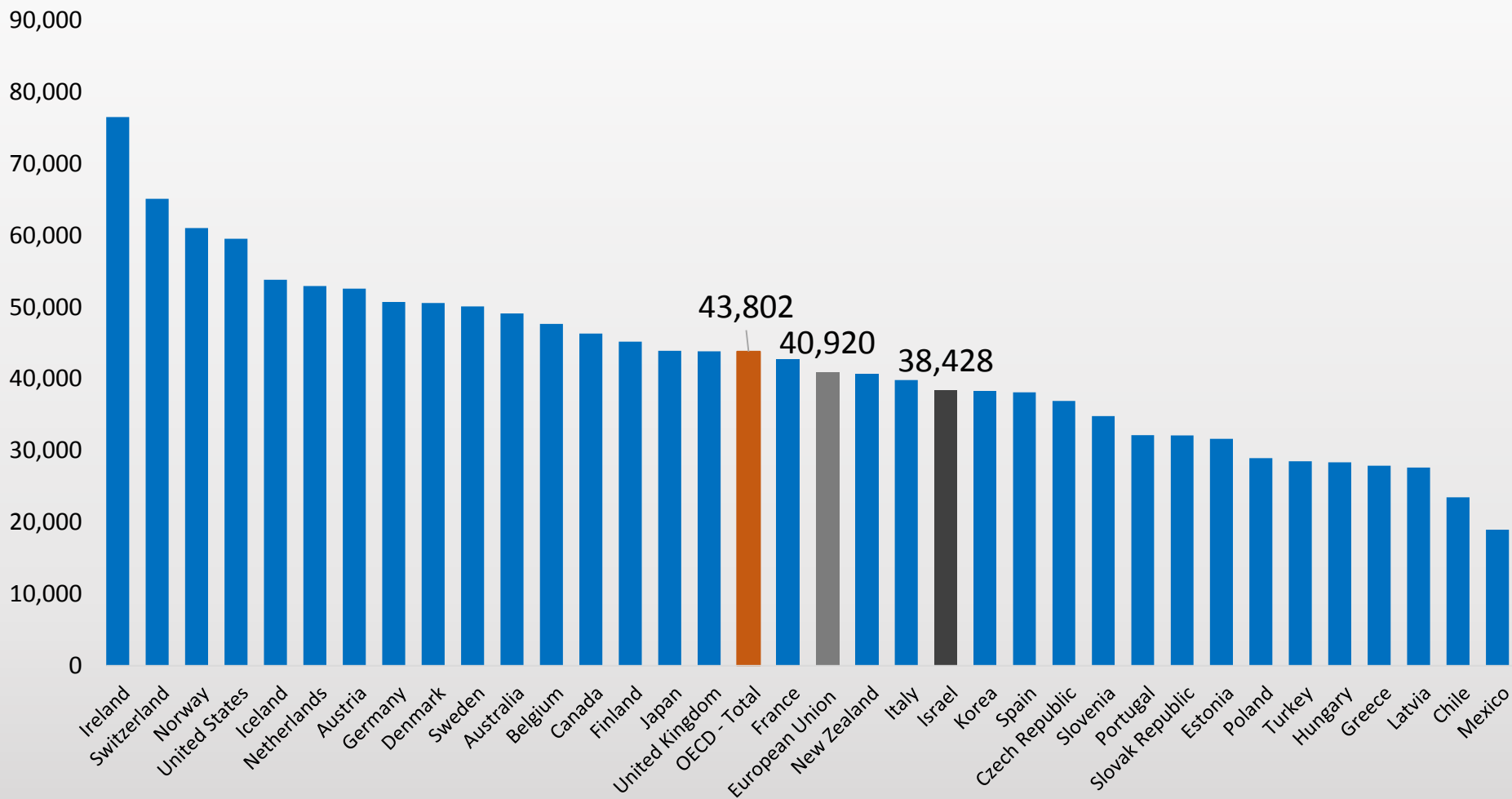


GDP Per Capita

Thousand USD, Current Prices, Current PPPs, Latest data available



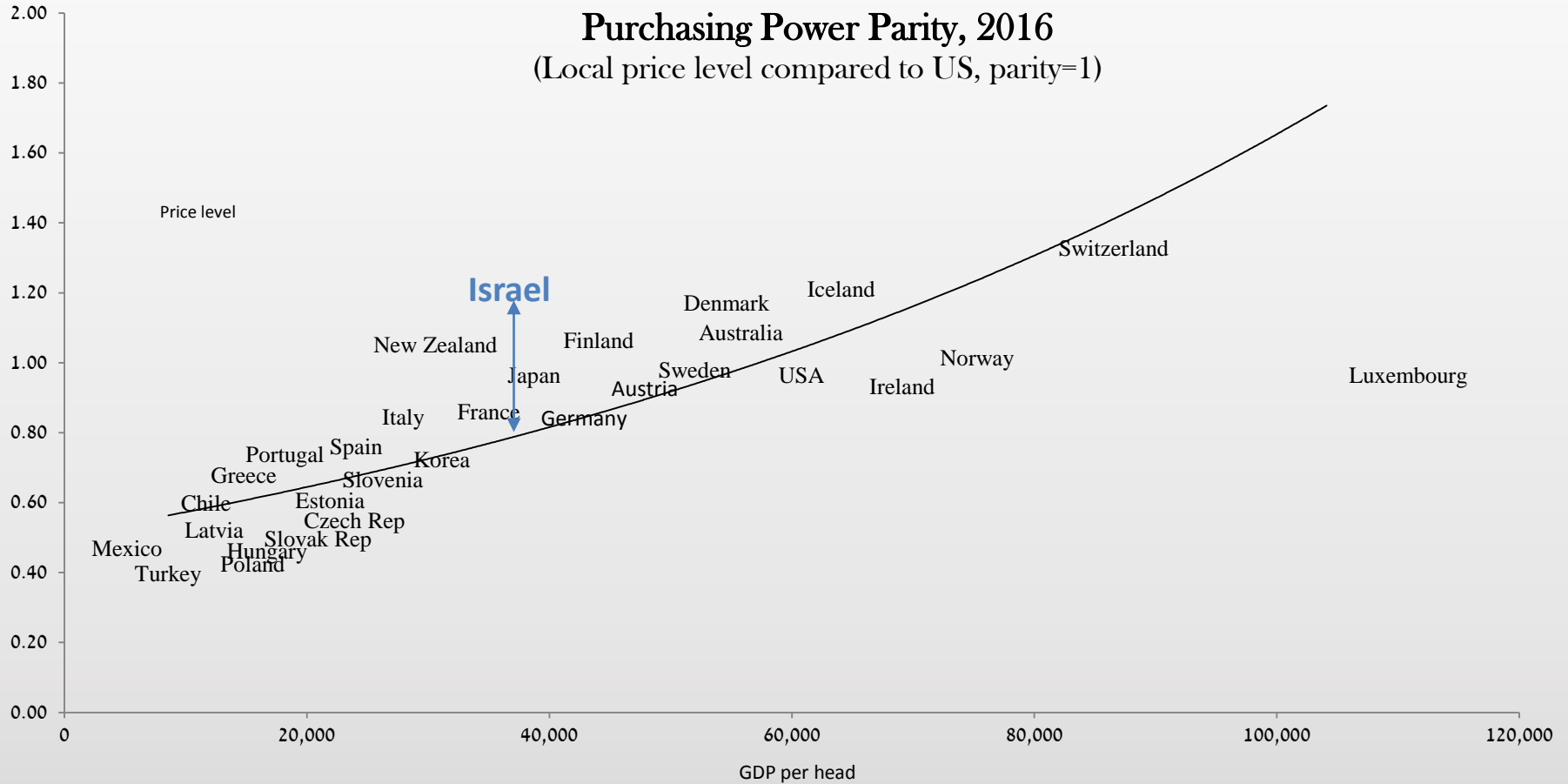
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Lack of Competition in the Israeli Market leads to High Cost of Living

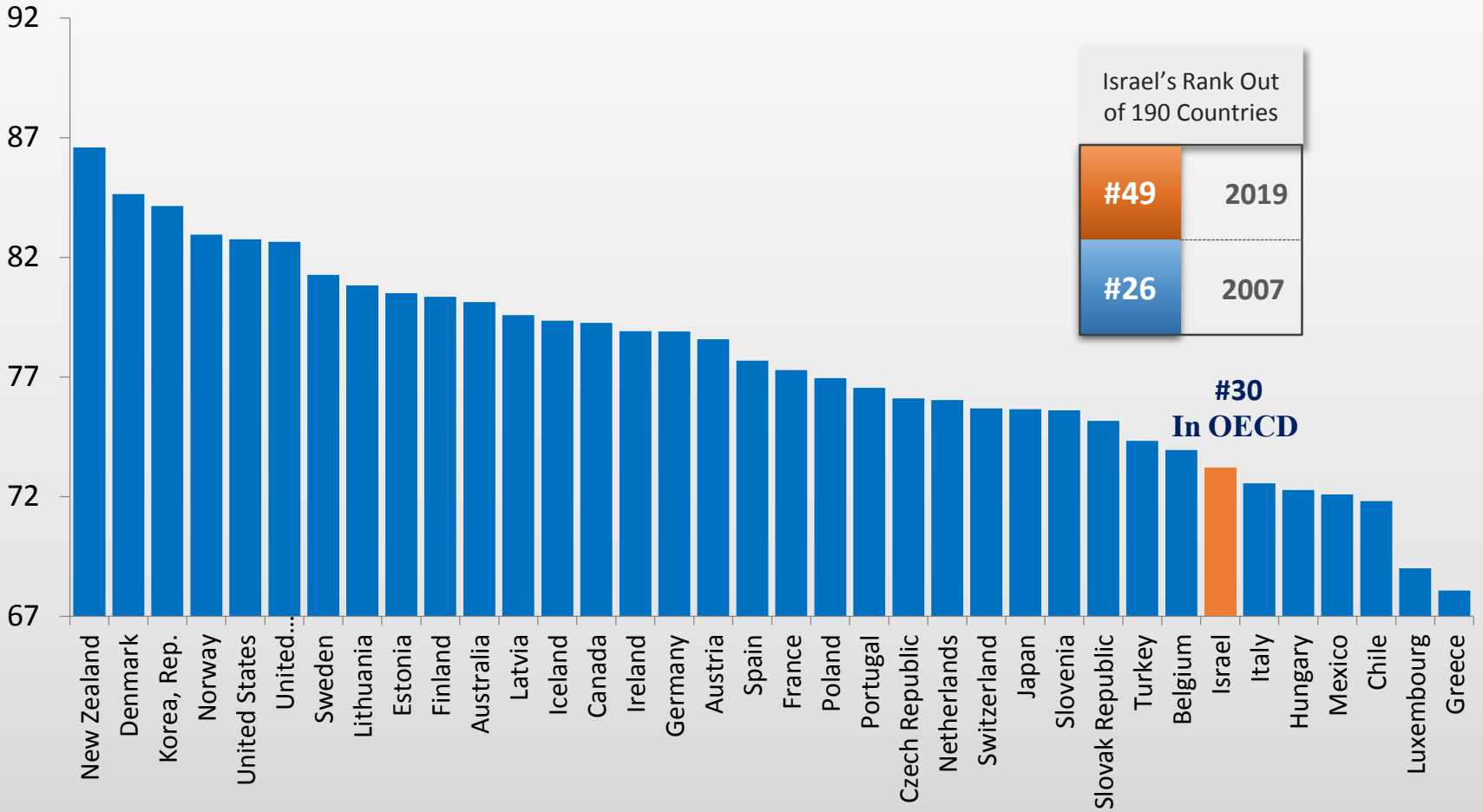
Private consumption prices in Israel are higher than most of OECD countries





Regulatory Burden is High

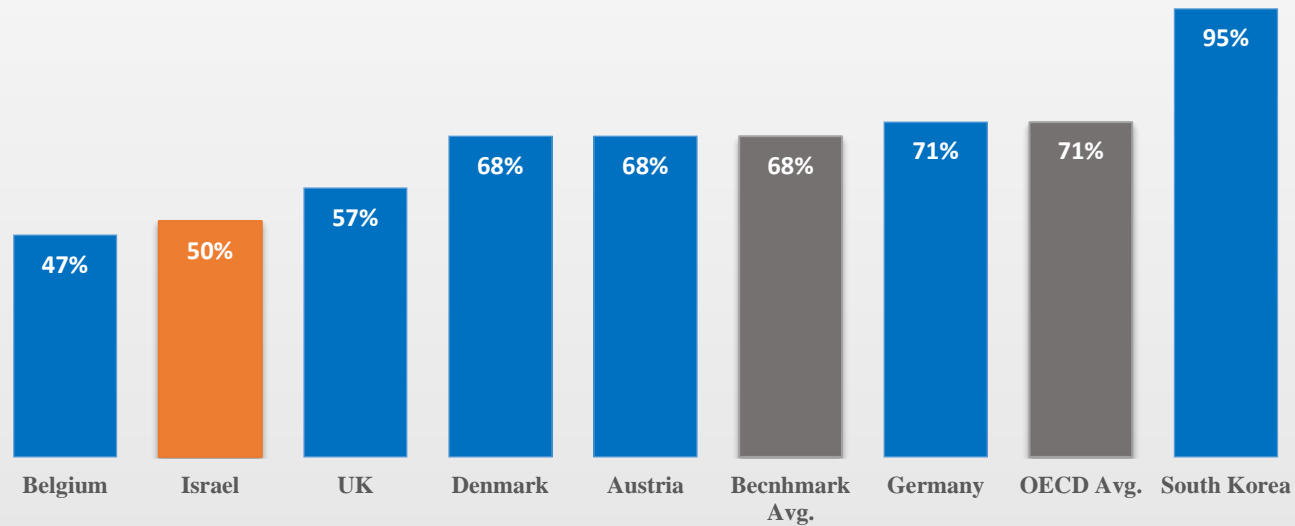
Total Doing Business Score in OECD Countries, 2019





Israel's infrastructure gap: Low stock levels and performance of key indicators

current core infrastructure stock level is
~20% below benchmarks
(% of GDP, 2015)

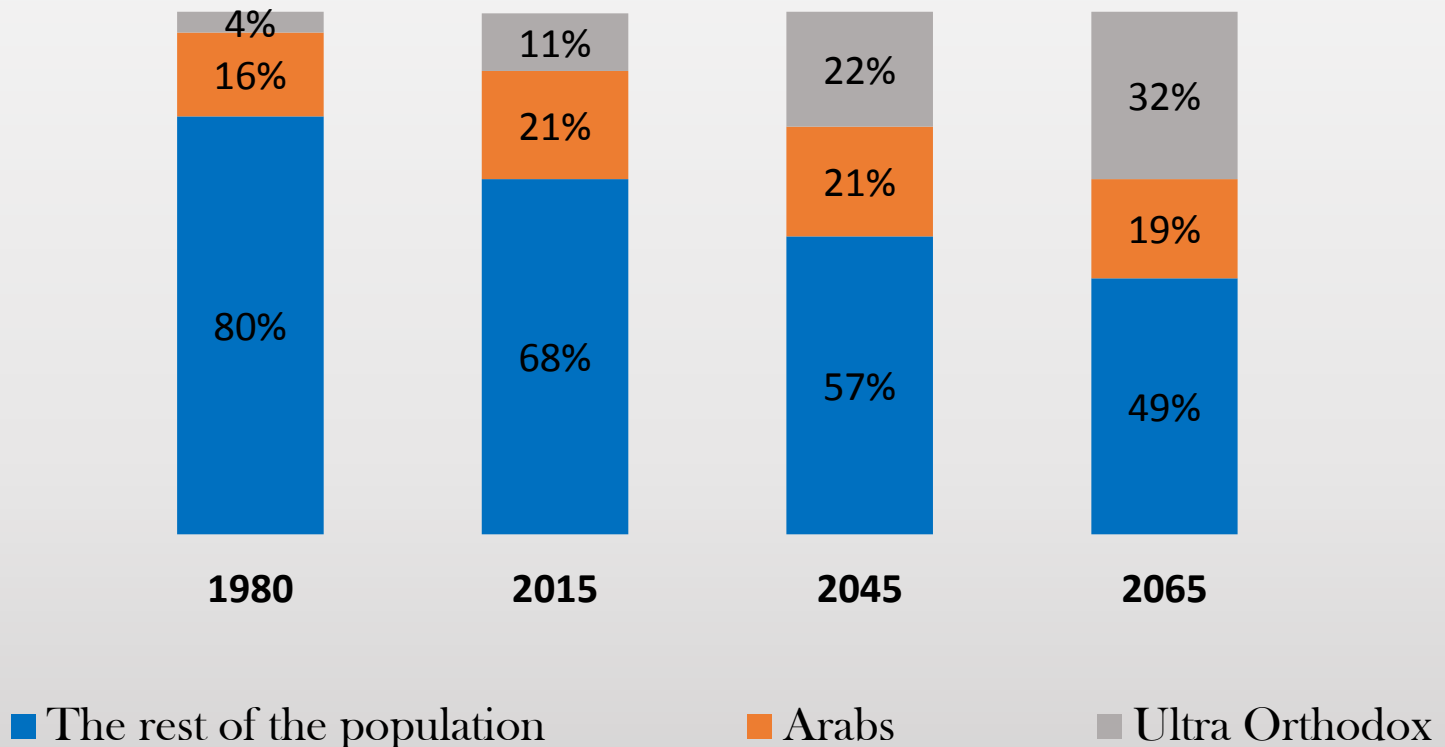


Source: IHS Global Insight, GWI, IEA, ITF, McKinsey Global Institute, Israel Railways, Israel Airports Authority



The Importance of Economic Integration

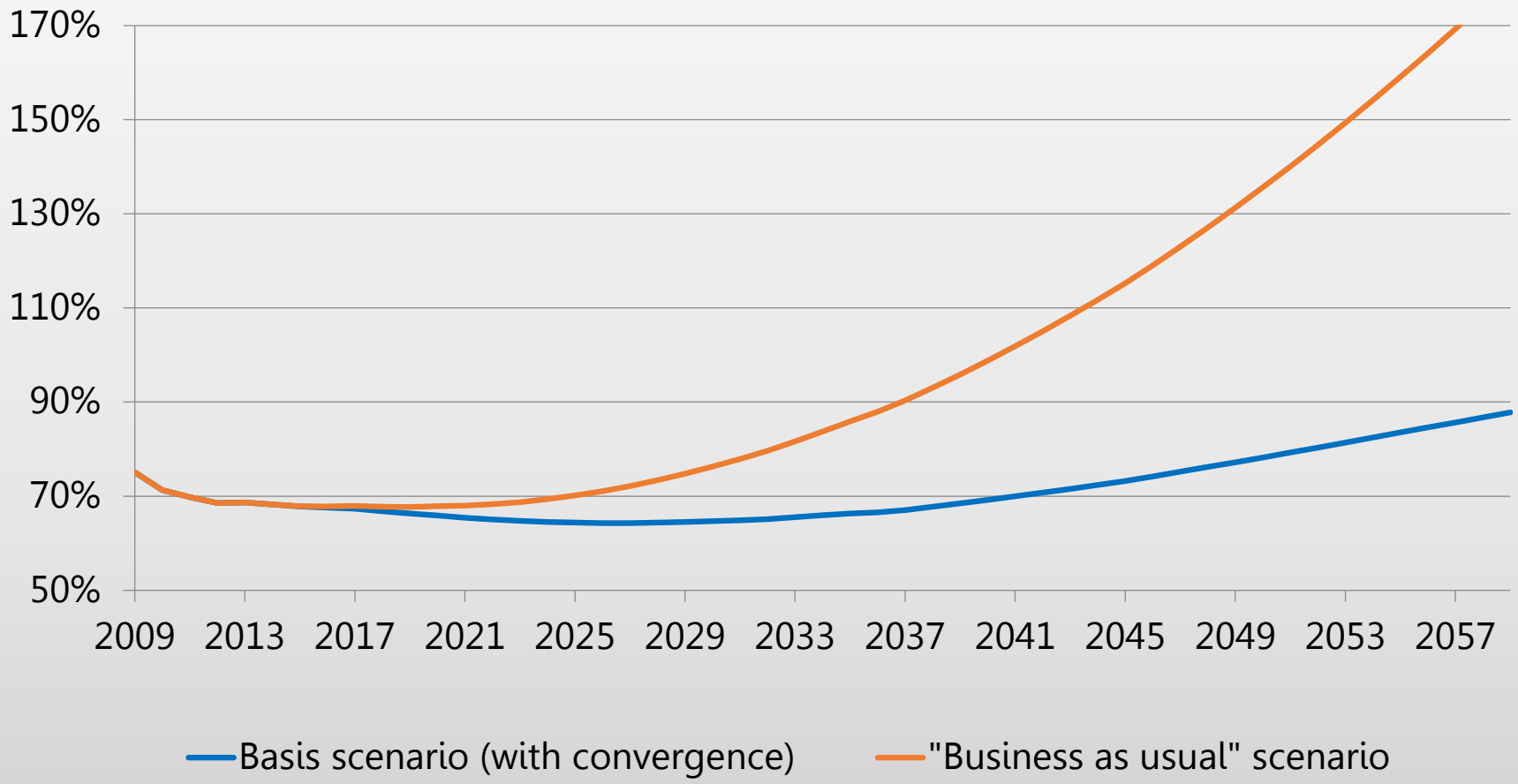
A Glance into the future:
Percentage of total population





The Importance of Economic Integration

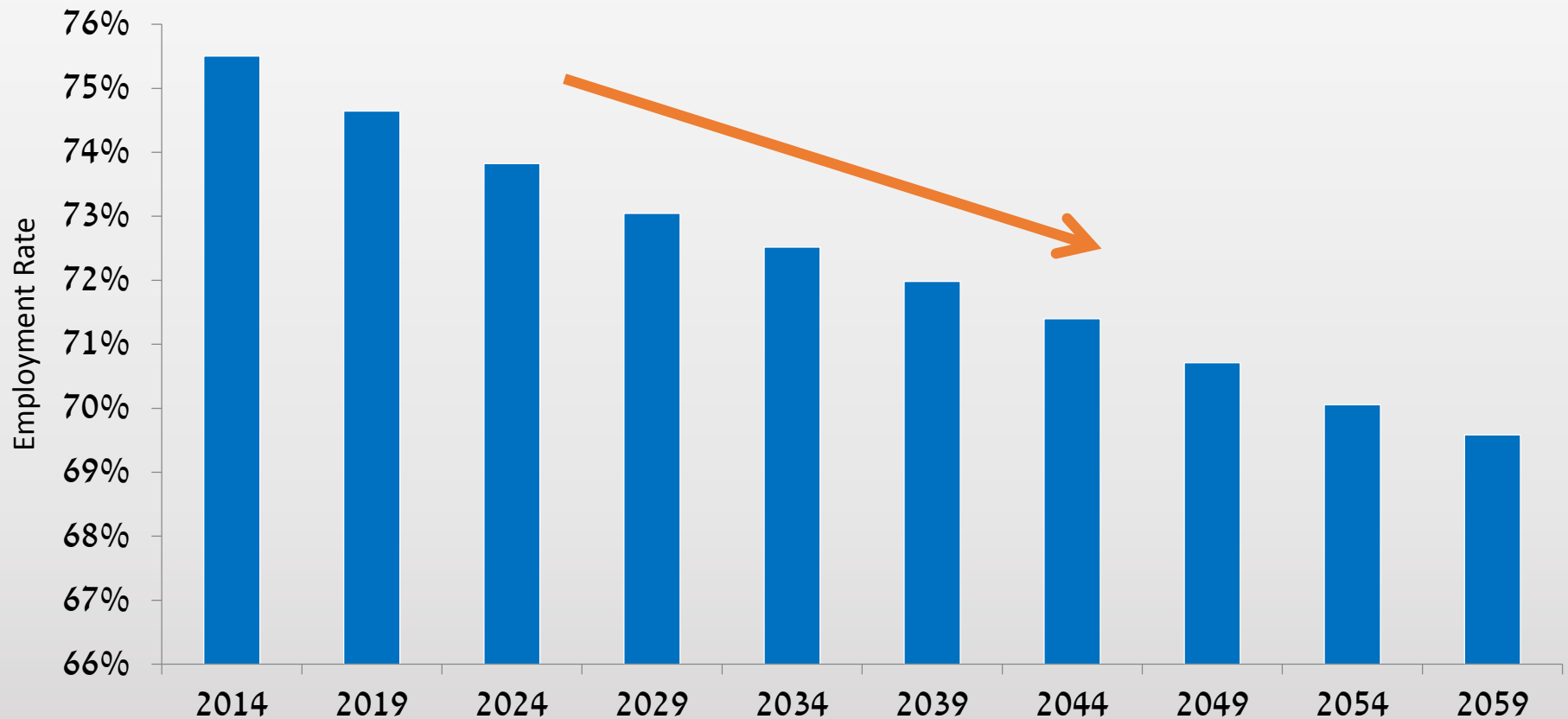
Debt to GDP ratio





The Importance of Economic Integration

Without convergence employment rates will drop by 6%



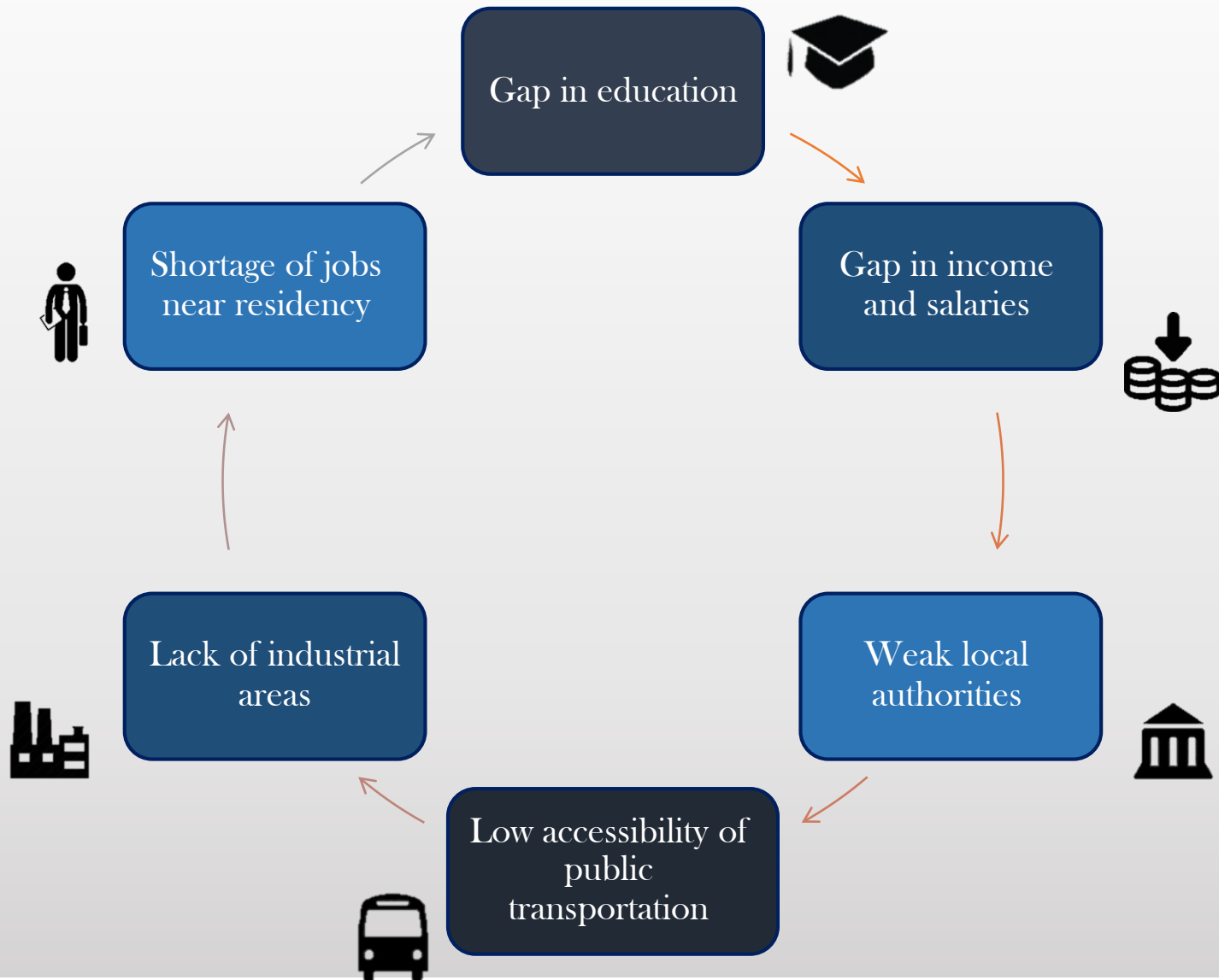
Source: CBS and the processing of the Bank of Israel. Based on the assumption that the employment rates and fertility rates remain constant



Economic Development and the Integration Plan for the Arab Population - Recap



The Vicious Cycle





The Main Components of the Program



Differential budgeting, Long term goals, Informal education



Human capital, Government grants, Incentivize leading local authorities



Ensuring 40% of the national subsidy budget and the construction budget for urban roads



Ensuring 25% of the new daycare budgets, Operating centers for employment



Reducing crime and violence through implementation of new programs in Arab authorities



Strategic agreements, High-rise buildings, Public institutions



East Jerusalem and the Negev Bedouins

	East Jerusalem	Bedouin-Negev	Arab Society	Average
High School Diploma	1.8%**	30%	48%	53%
Average Income per Capita	1,499 nis	1,180 nis	2,360 nis	5,255 nis
Municipality Expenditure per Resident	*	1,074 nis	2,010 nis	3,194 nis

*No data shows the portion of municipality expenditure allocated to east Jerusalem

** Most students in east Jerusalem are studying the Jordanian program, the figure excludes those students



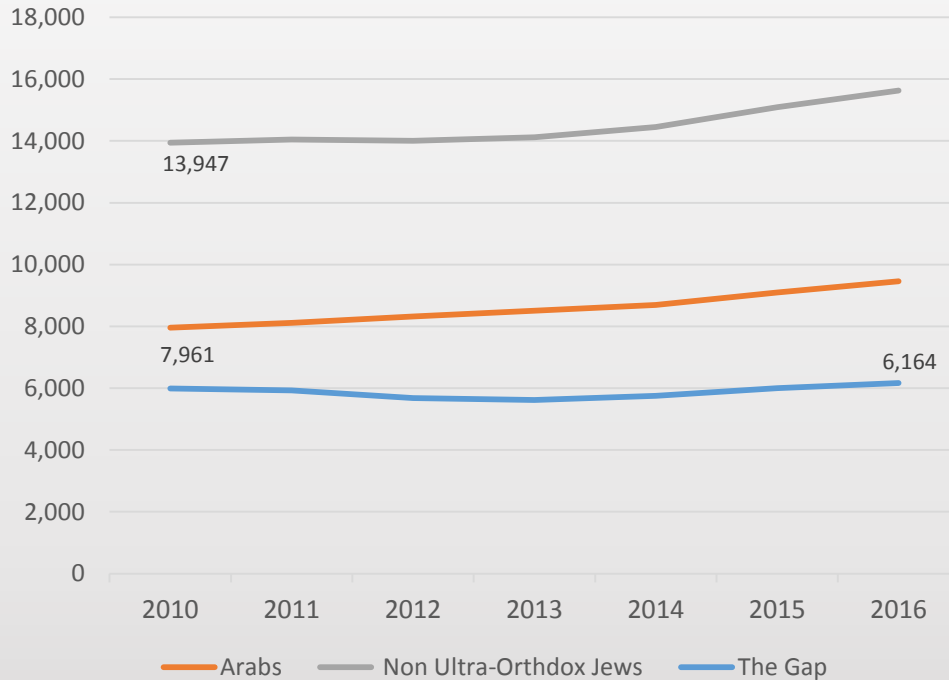
Current Trends



Large Gaps Between Population Groups

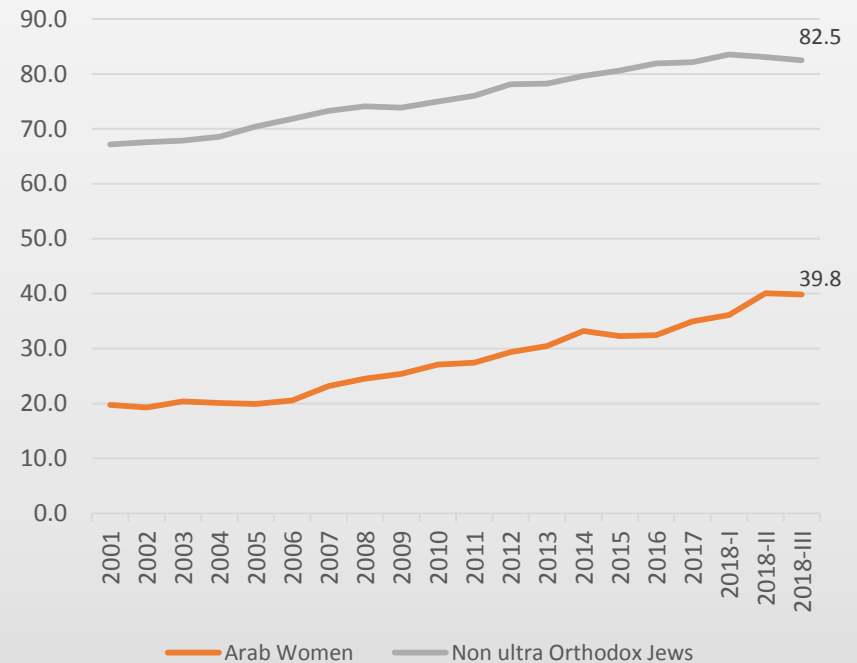
Low wages for men

Wage for Men



Low employment rates for women

Employment rate for women

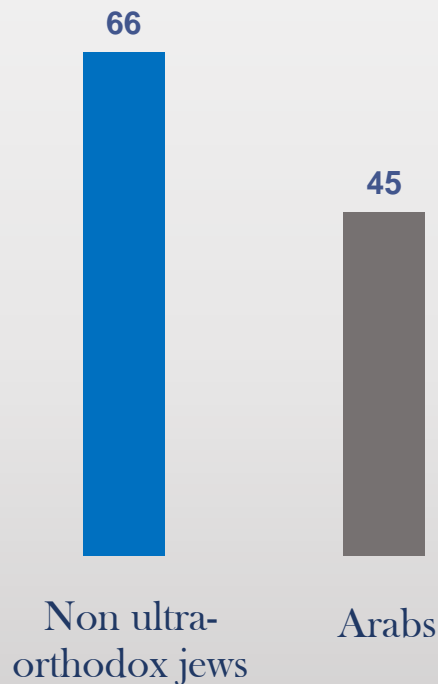




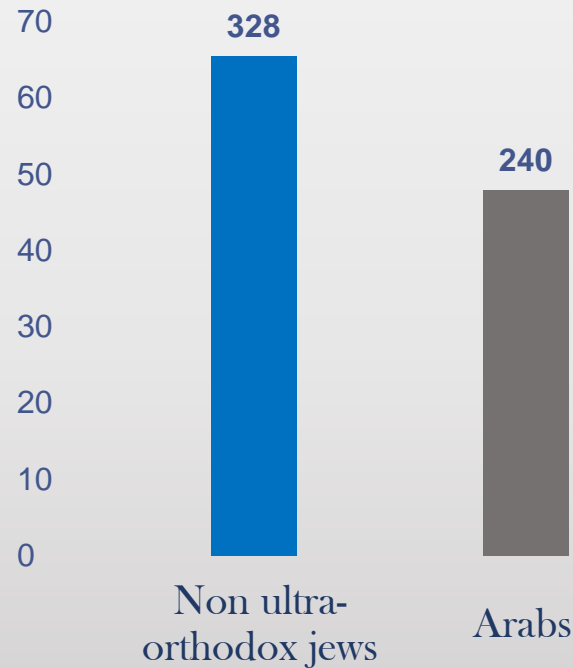
Large Gaps Between Different Populations

The reason for the gap 2016 expenditure survey

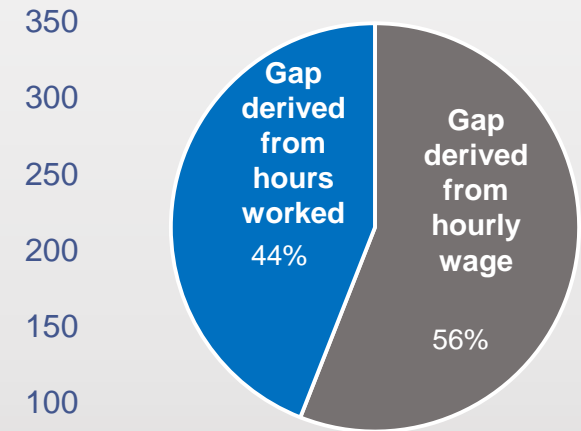
Hourly wage



Number of work hours in households



Breakdown of the gap



Large Gaps Between Population Groups



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Main reasons for these Gaps

Low wage for men

- Low income professions
- Skill gap
- High school drop out rates

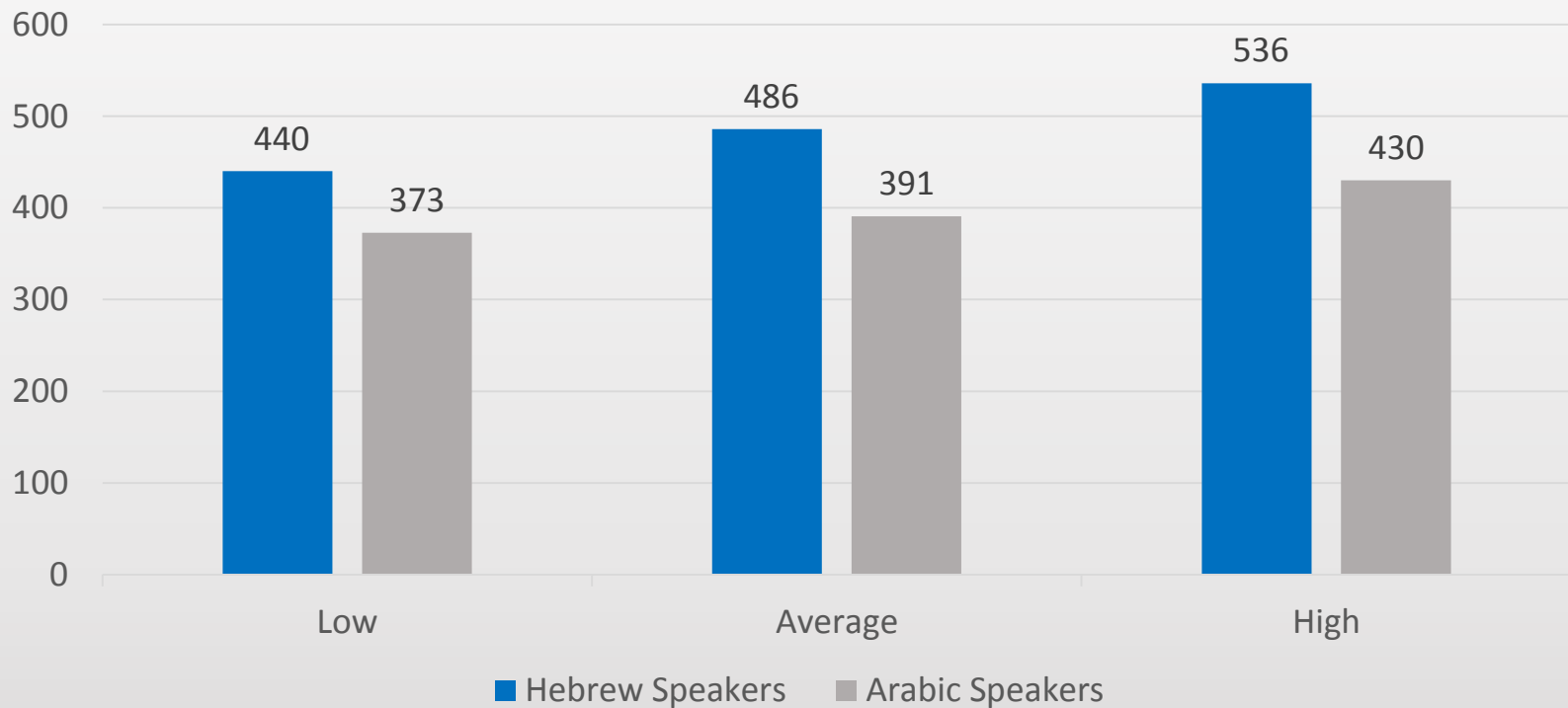
Low employment for women

- Lack of jobs close to place of residence
- Lack of daycare solutions



Large Gaps Between Population Groups

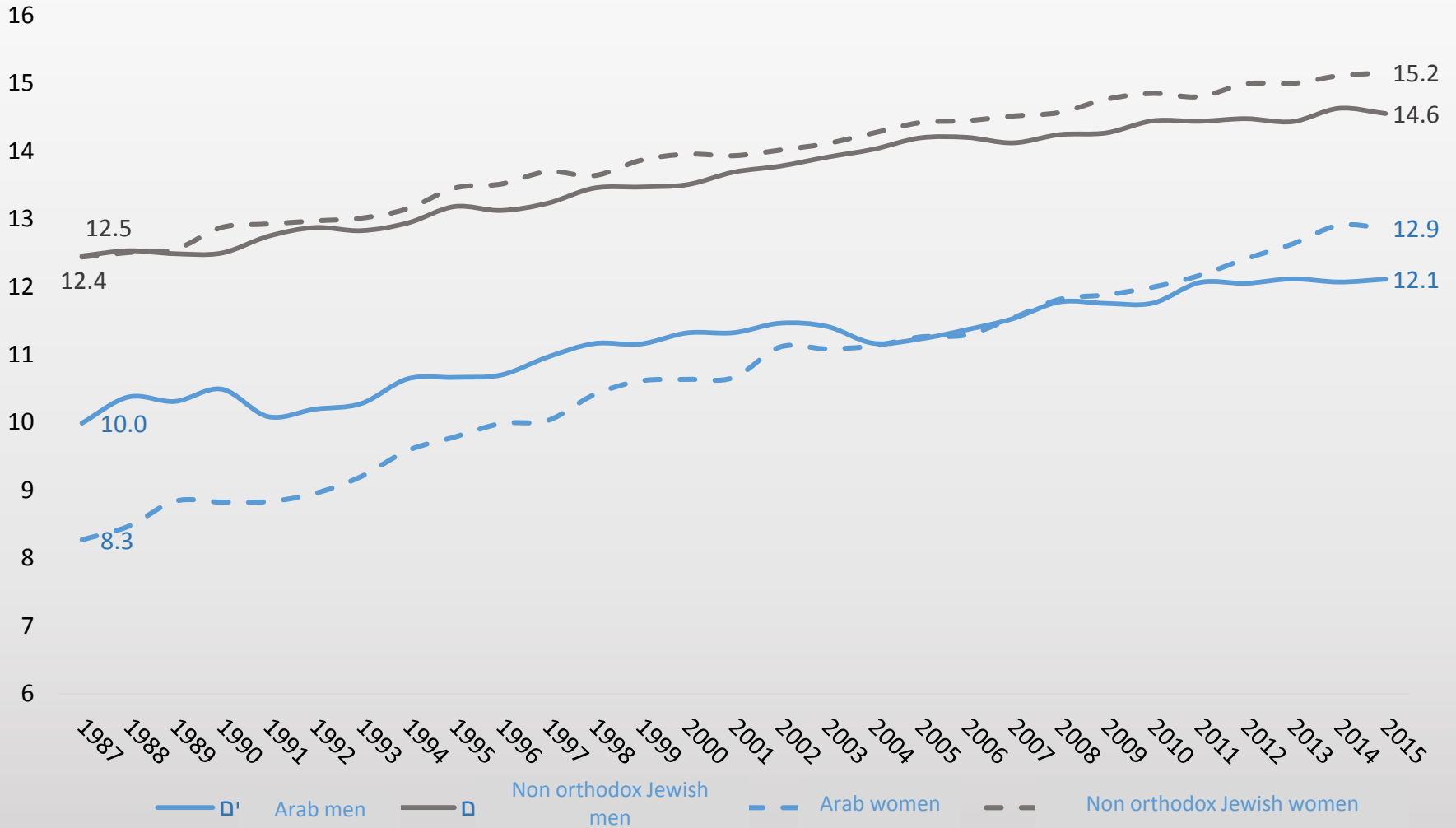
Examples – skills gap
Average Mathematics Score - PISA





Large Gaps Between Population Groups

Examples - years of education gap





Large Gaps Between Population Groups

Two groups of barriers were Identified

Fulfilling human capital potential

- Access to high productivity employment
- Hebrew and English language level
- Weakness of local authorities
- Problematic business environment

Acquiring human capital

- Low household income
- Gaps in budgeting
- Low quality in the education system
- Difficulty to integrate into the higher education system
- Lack of information and role models





Conclusions

We are examining the implementation of the 922 government resolution through lenses of deeper understanding of the economic gap and its drivers

Acquiring human capital

- Improving elementary education
- Integration into higher education

Fulfilling human capital potential

- Creating housing market and commercial zones
- Improving transportation infrastructure
- Services provided by local authorities



Implementation Success



Acquiring Human Capital

Improving elementary education

- Significant investment in informal education (25% of budget)
- Increased budget through differential budgeting (10% increase)

Integration into higher education

- Achieving the planning and budgeting committee's objectives:
 - B.A students - 17%
 - M.A students - 14%
 - Doctoral students - 6.7%



Fulfilling Human Capital Potential

Improving transportation infrastructure

- Significant increase in service and investment in public transportation
- 40% of the budget for transportation inside cities allocated specifically to the Arab municipalities

Creating housing market and commercial zones

- 27% of housing units planned in the national housing planning committee are for Arab cities
- 15% increase in approved housing units

Services provided by local authorities

- 10% Increase in national funds allocated to Arab municipalities
- Cadets program aimed at improving the quality of municipal services



Implementation Challenges



Acquiring Human Capital

Improving elementary education

- Improving the level of teaching appears to be a challenge

Integration into higher education

- High productivity professions
- Drop out prevention



Fulfilling Human Capital Potential

Improving transportation infrastructure

- Infrastructure gaps prevent high quality bus services
- Local instead of regional thinking

Creating housing market and commercial zones

- Funding difficulties – for projects and mortgages
- Cooperation with local municipalities and the population

Services provided by local authorities

- Municipalities are unable to use development funds allocated due to lack of trust and capability



Main Reasons for Implementation Challenges

**Lack of regional
cooperation**

**Trust challenges with the
government, the private
sector and with non Arab
local authorities**

**Lack of experience with
working with the
Government**



2019-2020's Main Challenges

Acquiring Human Capital

- Improving the quality of teaching
- Reducing education system drop out rate among men
- Increasing participation in high productivity academic degrees
- Reducing academic education drop out rates

Fulfilling Human Capital Potential

- Enabling housing market
- Implementing regional thinking of development
- Improving local authorities services and development capacity



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Thank you