



**The Causes and Consequences of
Israeli Government Resolution 922: A roadmap to
accelerate economic inclusion of Arab communities
in Israel**

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1. EXECUTIVE SUMMARY

This working paper examines the Israeli government's plan for inclusion of its Arab minority into Israel's economy and society. This plan, Resolution 922, passed on December 30, 2015, stands out because of its potential impact on Israel's economy, its budgetary scope, and the seeds of success in the first two years of its implementation. By analyzing a successful government resolution, this article draws key recommendations that could help in leading public policy reforms elsewhere.

a. Key Factors to Success

- **Present the full scope** – full information creates a dynamic of change and ensures that asymmetries in various economic aspects can no longer be sustained. The better-known the entity creating the information, and the more data-driven their approach, the harder it will be to ignore the asymmetries.
- **Bundle strategies** – creating a systemic change that deals with all sub-sectors with similar characteristics is more likely to help all parts of the population and assist the overall national economy. Creating an appealing “package” that includes all population sub-groups suffering from the same symptoms will incentivize key players to support the plan, while also reducing the risk of it devolving into disparate personal interests.
- **Create a win-win mentality** – the “circles strategy” starting with key, influential stakeholders who share similar values and hold the top posts to create an initial coalition; it continues by adding partners who have been positively influenced by the initial coalition; next, the coalition gains support from external players such as NGOs, academia, and other external supporters; last, the coalition confronts the outer circle of those hardest to convince.
- **Keep a low-profile** - achieving profound change requires tremendous behind-the-scenes effort, not least to ensure that things get done.
- **Reframe the setting** - changing previous ways of thinking and arguments that previously held little appeal so as to take discussions onto the “home field,” helping those who opposed the plan see it from a different perspective.

b. Introduction

“We are looking for justice, for respect, and our dignity back” said Edgar Dakwar, head of the Fassuta Local Authority,¹ at the end of the meeting. It was mid-2015, and the negotiations between government representatives and Israeli Arab leadership had encountered both advancements and setbacks along the one-year journey that was to reach a satisfactory conclusion at the third cabinet meeting.

In Israel, a relatively small country of only 8 million people, there are several distinct sub-societies: secular Jews, religious Jews (together “the general population”), Ultra-Orthodox Jews, and Israeli Arabs. From an economic perspective, the latter two have always lagged economically. At the same time, their share of the population is growing rapidly and is expected to continue growing over the next 30 years.

¹ Fassouta or Fassuta, is an Arab-Christian local authority in the Upper Galilee in the north of Israel.



Ultra-Orthodox Jews and Israeli Arabs lag behind the general population in almost every economic indicator, as most evidenced in employment and matriculation entitlement rates:² In the labor force, the employment rate is only 48% for Ultra-Orthodox men and only 33% for Israeli Arab women, while the general population employment rates are above 80%. In a similar manner, the matriculation entitlement rates are 9% and 48% among Ultra-Orthodox and Israeli Arabs, respectively, compared with 75% of the general population.

The stories behind lower participation in the labor market of the Ultra-Orthodox and Israeli Arabs are very different. Historically, both communities have struggled economically because of lack of opportunity and/or inequality, but for different reasons. While a large proportion of the Ultra-Orthodox community actively chose not to participate in the economy, in order to maintain their religious way of life, the Israeli Arab situation stems from several major factors, which will be the focus of this paper. First, external barriers that pertain to the relationship between the Israeli-Arab population and the Israeli government and include the following: the role of military service and the relationship between the two sub-societies (Israeli Arabs and Israeli Jews). The second major category is internal barriers within Israeli Arab society, including patriarchal societal norms and leadership challenges. The third category is internal-external barriers, which include a lack of influence in the key decision-making centers in Israel, geographic location and lack of transportation, and poor proficiency in Hebrew.

On December 30, 2015, the story took a new turn. After a year of data analysis, an extensive period of mapping out the relevant stakeholders and gaining allies, and a long dialogue with the Israeli Arab community, it finally happened. To turn economic peril into opportunity and realize the economic potential of Israeli Arab society, the Israeli government, at its third meeting on the topic, approved a comprehensive plan (**The Plan**) for Israeli Arab society (Israeli Government Resolution No. 922 (**Resolution**)). The Plan called for a change in resource allocation and increased investment in the Arab sector, with particular emphasis on education, public transport and infrastructure, housing, employment and public safety. The Resolution changed the budget allocation by directing a percentage of national funds to the Israeli Arab community and setting specific targets to guarantee that the increase in funding would have visible effects.

The Plan was approved by a right-wing government at a time of growing tension between different factions in Israeli society. This paper tries to identify the reasons that led to approval by such an unlikely government. Is it possible to lead a critical, game-changing policy when there is no political gain? What is the role of the officials?³ And can policymaking of this type be replicated under different scenarios in Israel and other countries and political systems?

² In Israel, “matriculation entitlement,” means that a student who has finished high school has sufficiently completed the required testing in order to receive a high school diploma. It is possible to complete classes but not receive “matriculation entitlement.”

³In this paper, "official" refers to civil servants rather than political appointees.

2. THE HISTORY OF ISRAELI ARABS⁴

The first period: 1947-1966

On November 29, 1947, the UN General Assembly adopted Resolution 181, the plan to end the British Mandate. The Resolution, which recommended the creation of independent Jewish and Arab States, was accepted by the Jewish leadership, but rejected by the Arab leadership. At that time, the majority population of the Mandate was Arab. The Declaration of the State of Israel took place on May 14, 1948. To this day, May 14 marks Independence Day for the Jewish population, but marks Nakba Day ("Catastrophe Day") for the country's Arab population.

As a result of mass Jewish immigration from around the world upon its independence, the demographics of the new state changed dramatically. By the end of the War of Independence in 1948, Jewish residents had become the majority in the State of Israel. The Arabs in Israel, who had become citizens of the new state, now represented only 15 percent of the population.

In the Declaration of Independence, it was expressed clearly:

The State of Israel will be open for Jewish immigration and the ingathering of the exiles; it will foster the development of the country for the benefit of all its inhabitants; it will be based on freedom, justice, and peace as envisaged by the prophets of Israel; it will ensure complete equality of social and political rights to all its inhabitants irrespective of religion, race or sex; it will guarantee freedom of religion, conscience, language, education, and culture; it will safeguard the Holy Places of all religions, and it will be faithful to the principles of the Charter of the United Nations.⁵

Meanwhile, given the tension and suspicion that remained between Arabs and Jews after the War of Independence, a military government-administration was imposed on the Israeli Arab population. This military administration, which operated in parallel with the government ministries, was responsible for all areas of civilian life among Israeli Arabs, which made it effectively the exclusive entity dealing with the Israeli Arab population. In 1966, about 18 years after it was imposed, Prime Minister Levi Eshkol cancelled the military administration, and other government ministries took responsibility for Israeli Arab well-being.

The second period: 1967-1993

The second period can be described as the emergence of the "Palestinization"⁶ era, a period which saw an emerging criticism of the Israeli establishment and acknowledgment of the Palestinian identity of Israeli Arabs.

Post-1967, after the Six Day War between Israel and its neighbors Egypt, Jordan, and Syria, a reunion took place between Israeli Arabs and Palestinians from the West Bank and the Gaza strip, raising questions of identity among Israeli Arabs. The emergence of a new, educated middle class

⁴ Though the history of the Israeli Arabs began prior to the UN Resolution in 1947, this paper focuses on history since that period.

⁵ "The Declaration of the Establishment of the State of Israel," from Knesset Israel website, May 1948, https://www.knesset.gov.il/docs/eng/megilat_eng.html

⁶ Elie Rekhess (ed.), *The Arab Society in Israel: A Compendium* (Israel: Abraham Fund Initiatives, 2009), 5 (Hebrew).

among Israeli Arabs, together with the effects following the war, led to new criticism of Israeli government policy by the Israeli Arabs.

In 1976, the first violent clash took place between Israeli Arabs and state authorities over the state's land expropriation from Israeli Arab citizens (famously known as "Land Day"). Following these events, Israeli Arabs began a period of political activism, which included the creation of institutions such as the National Student Union of Arab Students and the Higher Arab Monitoring Committee.⁷

Although this period raised the issue of identity between Israeli Arabs and Palestinians, it also highlighted the differences between Israeli Arabs and the Palestinians as reflected in their respective standard of living and the cultural change resulting from the Israeli Arabs' citizenship in a developed country.

The third period: 1993-2000

In the third period, the Oslo Accords in 1993 strengthened the Israeli orientation of Israeli Arabs.⁸ The Oslo Accords dealt with the relationships and the autonomy of the Palestinian population in the West Bank and the Gaza strip, but there was no discourse related to the unique context of Israeli Arabs.

The political leadership of the Israeli Arabs supported the Oslo Accords. Although they were not part of the coalition, they did enjoy fruitful cooperation with the government headed by Yitzhak Rabin, as reflected in an increase in government expenditure on the Israeli Arab population.

While peace expectations grew with the Oslo Accords, the Palestinian Authority focused on the establishment of a Palestinian state. Since Israeli Arabs were not part of the discourse, they became increasingly aware of the split between the two societies (the Israeli Arab and the Arab Palestinian). They thus focused their efforts on improving their quality of life within the State of Israel.

The fourth period: 2000-2015

The fourth period began with severe internal protests in Arab cities on October 1, 2000, after a clash between the Palestinian Authority inhabitants and the State of Israel. Twelve Arab citizens of Israel were killed in the demonstrations. The protests raised the issue of the economic gap between Israeli Jews and Israeli Arabs, and the gaps in budget allocations.

In order to investigate these events, a state commission of inquiry (the "Or Commission") was appointed to investigate the events. A government-appointed commission was unusual and can be seen as a significant achievement for Israeli Arabs. The recommendations of the Or Commission⁹ were divided into specific recommendations regarding the responsibility of individual officials, and general recommendations regarding the relations between the State of Israel and Israeli Arabs. In the latter section, they called on the State of Israel to reduce budget inequality and diminish

⁷ Rekhess, *The Arab Society in Israel*, 6.

⁸ For further reading regarding Oslo agreement see: <https://history.state.gov/milestones/1993-2000/oslo>.

⁹ For the official summation of the Or Commission Report, see The Jewish Virtual Library - <https://www.jewishvirtuallibrary.org/the-official-summation-of-the-or-commission-report-september-2003>.

discrimination connected to issues such as land allocation, while also demanding that the Israeli Arab leadership avoid inflammatory messages that encourage civil disobedience and undermine Israeli Arab loyalty to the State.

Current Status

In 2015, 67 years after the establishment of Israel, 21% of Israel's population was Arab. The total Arab population numbered around 1.8 million of whom 83.8% were Muslim, and 8.4% Christian. Israeli Arab society still lags in almost every indicator, such as the poverty rate - which is four times higher than the Jewish poverty rate. Israeli Arab society continued to be marked by low participation of women in the labor market and in the political leadership.

3. STAKEHOLDERS

The Government and Parliament (the Knesset)

Israel is a multiparty democracy with a parliamentary system. In January 2018, independent watchdog agency Freedom House¹⁰ gave the State of Israel the status of a free country, awarding it an overall freedom rating of 2/7 (where 1 is most free; 7 least free).

The main function of the Knesset is legislative, and it consists of 120 members (Member of Knesset – MK) who are elected every four years. The diverse social composition of Israel’s society creates a multiplicity of parties in the Knesset, with more than 10 parties having representation in the current Knesset. The Government of Israel is the executive authority, headed by the Prime Minister (PM), who appoints a Cabinet of Ministers, approved by the Knesset. The government is the executive authority in most governmental and public aspects and each ministry has significant influence and responsibility on the way its relevant sphere of responsibility is shaped. Each ministry consists of a Minister, Director Generals who are personally appointed, and civil servants. Israeli public service is composed of a professional bureaucracy that usually remains stable through political changes. Civil servants in Israel, as in other parliamentary democracies, have a weighty role in decision-making. The four most influential ministries are: The Ministry of Justice, Ministry of Defense, the Prime Minister’s Office, and the Ministry of Finance (**MOF**).

The Prime Minister’s Office

The Prime Minister’s Office (**PMO**) is composed of various units and is responsible for four major areas: first, coordinating all governmental ministry offices on various matters; second, assisting the PM in his daily work; third, formulating Cabinet policy, conducting Cabinet meetings, and overseeing the implementation of Cabinet policy; and fourth, overseeing foreign diplomatic relations with countries around the world. The work of the PMO’s Director General focuses on economic topics. Specifically, they work with the Budget Department at the Ministry of Finance and on the first three topics mentioned above. One of the main PMO units is tThe Authority for Economic Development of Minorities (which would later become part of the Ministry of Social Equality).¹¹ Founded in 2007, its main role is to maximize the economic potential of Israeli Arabs by building programs to incentivize employment and economic development, and by supervising and assisting in the implementation of these programs. Though the Authority for Economic Development of Minorities leads diverse projects to improve the economic welfare of Israeli Arabs, its resources and executive influences are limited.

¹⁰ For the full report, see Freedom in the World 2018: Israel <https://freedomhouse.org/report/freedom-world/2018/israel>

¹¹ The unit was until mid-2015 part of the Prime Minister’s Office, and later became part of the newly-established Ministry of Social Equality. In this paper, ‘PMO’ is used to describe both the PMO and the Ministry of Social Equality.

The Budget Department

The Ministry of Finance's Budget Department (**BD**) is an economic unit that formulates annual budget allocation and has assisted in the planning of Israel's economic policy since 1953.

Like other budget departments in OECD countries, its influence stems from its responsibility for the allocation of national resources. In addition to the structural influence of the BD, in 1985, after years of economic crisis, the BD enhanced its standing and unique status in Israel through its role in initiating and implementing economic efficiency reforms. The BD consists of 60 young economists who join the team for a limited period, without tenure. As an influential unit, the BD has a strong ethos of duty and loyalty to the public, and it knows how to deal with pressure from special interest groups.

The Team

At the end of 2014, the government appointed a joint team drawn from the PMO and the BD to analyze the economic development status of Israel's Arab citizens. Throughout 2015, they consulted with various players to find an efficient method to maximize Israeli Arabs' economic potential, created a comprehensive plan, and ensured that they brought in all relevant stakeholders (**The Team**). The officials' ability to lead significant policy change can be partially understood as a result of the political-system structure, as Moe and Caldwell suggest.¹² In a presidential system, since authority is divided between president and congress, the president has little choice but to rely heavily on his appointees. On the other hand, in a parliamentary system, "the bureaus work closely together, as do their principals, and are staffed by civil servants with reputations for honesty, expertise, and neutral competence."¹³ Moe and Caldwell examined the UK as an example of a parliamentary system, in which two arms of executive power exist - the civil servants in the PMO and those in the Chancellor of the Exchequer's Treasury.¹⁴ They refer to the control of the Treasury, whose control over taxes and budgets is so complete that the intervention of parliament, and indeed of cabinet, is limited.¹⁵

The President of Israel

The functions of the President, as described by the Constitution, are those of a non-partisan Head of State who represents the country and the people as a whole, internally and externally. Because the President does not hold executive power, he is able to represent national unity and the core values of the State. The President is tasked with roles and powers that other governmental institutions cannot take upon themselves, such as signing laws into effect, appointing new ambassadors, and accepting the credentials of foreign ambassadors.

¹² Terry M. Moe and Michael Caldwell, "The Institutional Foundations of Democratic Government: A Comparison of Presidential and Parliamentary Systems," *Journal of Institutional and Theoretical Economics (JITE)* 150, no. 1 (March 1994): 171-195.

¹³ Moe and Caldwell, "A Comparison of Presidential and Parliamentary Systems," 188.

¹⁴ Equivalent to the Ministry of Finance in Israel.

¹⁵ Moe and Caldwell, "A Comparison of Presidential and Parliamentary Systems," 189.

Israeli Arab Leadership

Arab leadership in Israel can be divided into two main layers: the national layer and the municipal layer. The Arab national leadership has a range of opinions on economic and political topics, with some emphasizing economic integration as a key goal and others focusing more on Palestinian nationalist concerns. After years of having several small parties with different political manifestos, in the 2015 elections, due to the setting of a new heightened threshold for the minimum number of parliamentary seats per party, a multi-party alliance of Israeli Arab political parties was formed (named the 'Joint List'). In that election, The Joint List focused on an economic campaign.¹⁶ At the municipal layer, there was the Union of (Arab) Local Authorities established in 1974 to attempt to gain parity in state budget allocations between Arab local authorities and Jewish local authorities. From the beginning of the State of Israel in 1948, the Arab leadership in Israel adopted a "strategy of adaptation" and acceptance of the State of Israel as a Jewish state in which the Arabs are a dominant minority.¹⁷ Towards the end of the 20th century, more opposition voices were heard in the Israeli Arab community against the institutions of the State of Israel and against their own leadership.

The Media

In this day and age, mass media plays a central role in representing social reality. Israeli news media tends to highlight political and security issues rather than economic or welfare issues. An analysis of topics in the Israeli media in 2017 shows that security and economic topics had almost identical coverage (18% and 16%, respectively). However, when examining Arab media in the country, security topics had more than double the coverage of economic topics (6% and 2.6%, respectively).¹⁸ This is reinforced by examining the appearance of Arab MKs in the Israeli media in articles, interviews, etc. Despite the fact that Arab members of the Knesset work primarily to promote civil topics (97% of the proposals submitted by Arab Knesset Members in the 18th Knesset dealt with civil issues and only 3% concerned Palestinian topics),¹⁹ 75% of their media interviews deal with Palestinian topics.

¹⁶ 37.5% from the basic principles of The Joint List's platform, was on economic matters.

¹⁷ Amal Jamal, *Arab Civil Society in Israel: New Elites Social Capital and Oppositional Consciousness* (Israel: Hakibbutz Hameuhad, 2017), 115 (Hebrew).

<http://www.kotar.co.il/KotarApp/Viewer.aspx?nBookID=104226721#125.9998.6.default>

¹⁸ Ifat Media Analysis, 2016.

¹⁹ Uri Gopher, "Analysis of the Parliamentary Activities of Arab Members of Knesset," *Abraham Fund Initiatives* (2012). <http://www.abrahamfund.org/webfiles/fck/km.pdf>

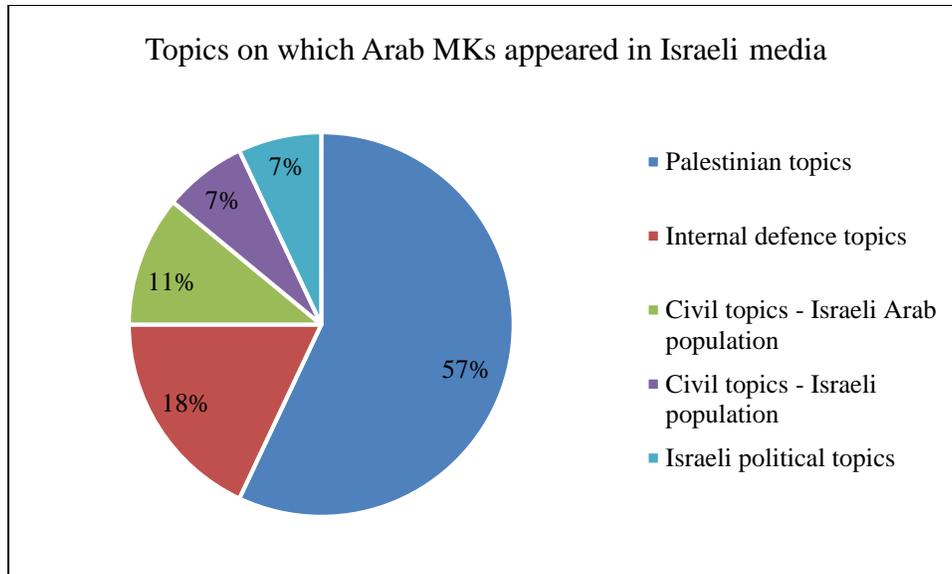


Figure 1: Topics on which Arab MKs appeared in Israeli media. Source: Ifat Media Analysis, 2016.

The Public

The Internet and social networks have become the "public square" where communities are formed and interactions take place and take off. Social protests utilize these networks. The most prominent example of a social protest in the past decade is the "Arab Spring" which began in Tunisia in 2011, mostly via Facebook. As Turkish writer, academic and techno-sociologist Zeynep Tufekci explains, "This is analogous to the role offline street protests play as a way in which people sharing dissenting ideas can find one another and form the initial (or sustaining) groups that make movements possible."²⁰ Among Israeli Arabs, the growth of virtual space has brought about a fundamental change in patterns of media activity. The younger generation raises crucial issues which are not necessarily represented by the official leadership.²¹ In a 2011 survey, 77% of surveyed Israeli Arab youth answered that Facebook is a factor in "removing social restrictions and accepted norms," and 48% believe that Facebook could improve the status of women in Israeli Arab society.²²

This involvement of the public makes the most of virtual space, as can be seen in the growth of Israeli Arab non-profit organizations (NGOs). The number of these organizations has been increasing steadily since the early 1980s. Indeed, most NGOs and civil society organizations in Israeli Arab society have been established over the last three decades. As of 2006, there were 2,609

²⁰ Zeynep Tufekci, *Twitter and Tear Gas: The Power and Fragility of Networked Protest* (Connecticut: Yale University Press, 2017): 11.

²¹ Jamal, *Arab Civil Society in Israel*, 151-155.

²² Tal Pavel, *Annual Report of Arab Media in Israel, 2012* (Ariel: Institute for the Study of New Media, Society and Politics, Ariel University, 2013): 97 (Hebrew).

<http://aunmedia.org/sites/default/files/research/mediareport2012.pdf>

registered third sector organizations in the Arab sector, of which around 1,517 are active.²³ In particular, these NGOs focus on culture, religion, and leisure, education, research, and welfare.

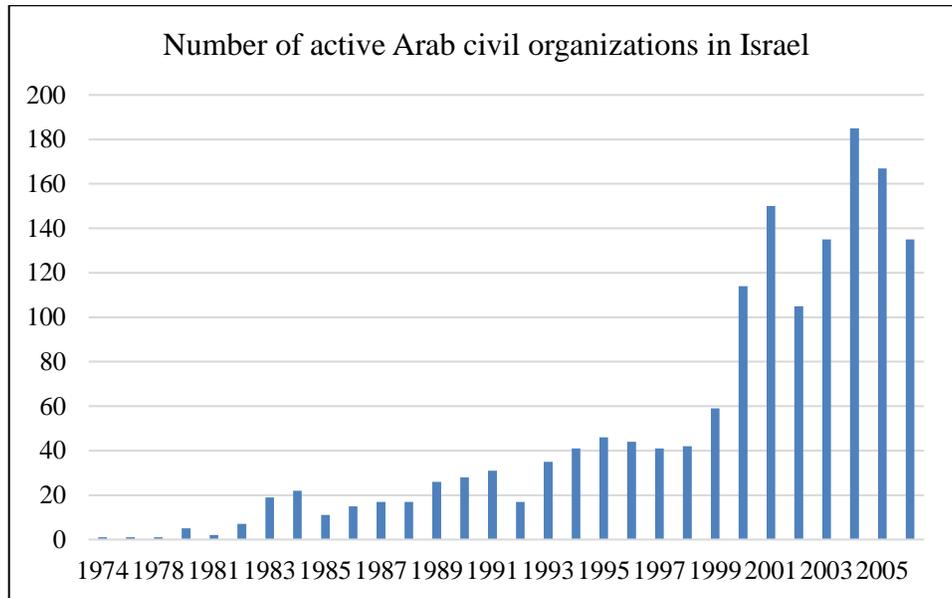


Figure 2: Number of Active Arab Civil Organizations in Israel. Source: Amal Jamal, *Arab Civil Society in Israel: New Elites Social Capital and Oppositional Consciousness* (Israel: Hakibbutz Hameuhad, 2017), 125 (Hebrew)²⁴

²³ Nissan Limor, *Civil society and the Third Sector in Israel* (Jerusalem: The Israel Democracy Institute, June 2010), 26-28 (Hebrew). <https://www.idi.org.il/media/4923/%D7%97%D7%91%D7%A8%D7%94-%D7%90%D7%96%D7%A%D7%97%D7%99%D7%AA-%D7%95%D7%9E%D7%92%D7%96%D7%A8-%D7%A9%D7%9C%D7%99%D7%A9%D7%99-%D7%91%D7%99%D7%A9%D7%A8%D7%90%D7%9C.pdf>.

²⁴https://books.google.co.il/books?id=pWLCpqnsLQC&pg=PA201&lpg=PA201&dq=2006+2,609+ngos&source=bl&ots=v1B73HdHvW&sig=b_2mAE5naqv44bn5FGG15ZuoTxQ&hl=en&sa=X&ved=2ahUKEwipyajdn8rcAhXQsaQKHZtMAZ8Q6AEwAnoECAEQAQ#v=onepage&q=2006%202%2C609%20ngos&f=false

4. WHY INTERVENTION WAS NEEDED

Minorities lag economically in many countries, but the impact of this on a nation’s economy depends largely on the population percentage of the particular minority group and how far they are behind economically. In the 1980s, in Israel, the “general population” accounted for 80%, today it is down to 69%, and by 2060 it is expected to decrease to 50%.²⁵

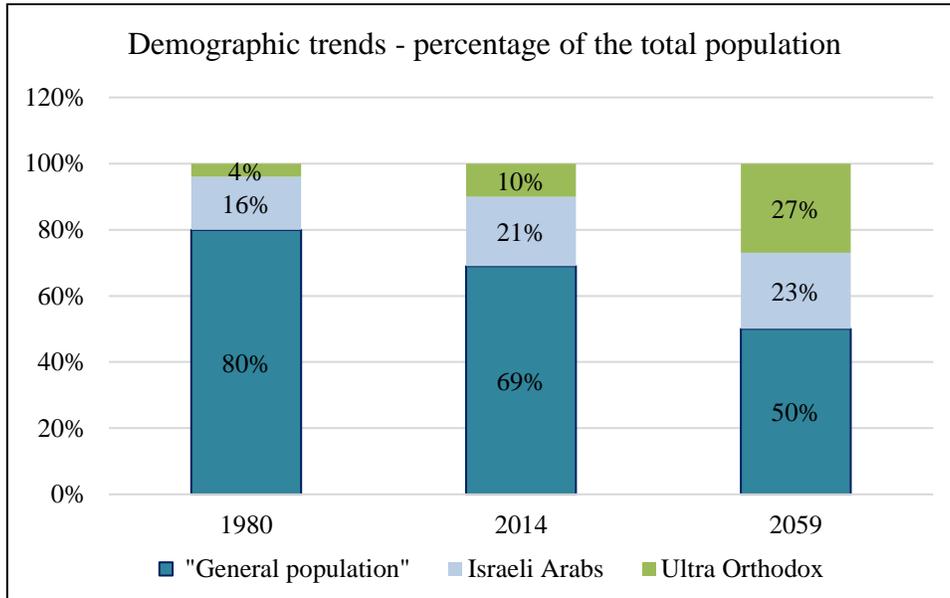


Figure 3: Demographic trends - percentage out of total population. Source: CBS and the processing of Israel national bank.

The importance of full Israeli Arab integration in Israel’s economy was recognized by different committees long before Government Resolution 922. It was common knowledge that gaps existed in different forms and measures across most economic matrices, but the severity of the gaps, and what this implied about the lack of Israeli Arab integration into the economy, remained a riddle.

Previous government approaches to the economic integration of its Israeli Arab citizens, which had a very limited understanding of the gaps, focused on short-term solutions such as annually allocating millions of shekels specifically to certain Israeli Arab topics. The allocation was not based on a profound understanding of the gaps, nor did it include specific goals.

The deeper, structural issues of economic gaps between Israeli Arabs and non-Arabs in Israel needed to be addressed in order to ensure a sustainable solution for the long-term. Therefore, one of the first things the Team did was seek to understand the bigger picture regarding the economic gaps between the Arab and Jewish sectors. With the assistance of different officials, the Team found that a comprehensive long-term approach was needed.

²⁵ Assuming the fertility rate remains at its current level.

Macro Level

Israel's Arab population is expected to grow from around 16% of the total population in 1980 to 23% in 2059. Specifically, the working-age (25-64) Arab population is expected to grow by 3% from 2015-2019, while the general population in the same age group will grow only by 0.2%. If Israel's Arab citizens enjoyed high employment rates, which would have been a fantastic source of growth for the Israeli economy, but this was not the case. Only one out of three Israeli Arab women is employed compared to around four out of five women in the general population. If these demographic and employment patterns continue, they will lead to a 2% reduction in overall Israeli employment by 2020 and a 6% reduction in 2059. Since every 1% drop in the employment rate has a negative influence of 0.75% on the Israeli GDP, the worrying employment rate of the Israeli Arab population will result in losses of tens of billions of NIS in future GDP.

It is also important to note that the Arab population of Israel includes Muslims, Christians, Druze, Bedouin and Circassians and is thus not homogenous, and while this paper takes the broad view of the population as a whole, further reading is recommended particularly with regard to the Arab-Bedouin population in the Negev, where labor force participation in general is very poor, and among women all the more so (although it is rising slowly), resulting in particularly poor socioeconomic conditions among large swathes of this community.²⁶

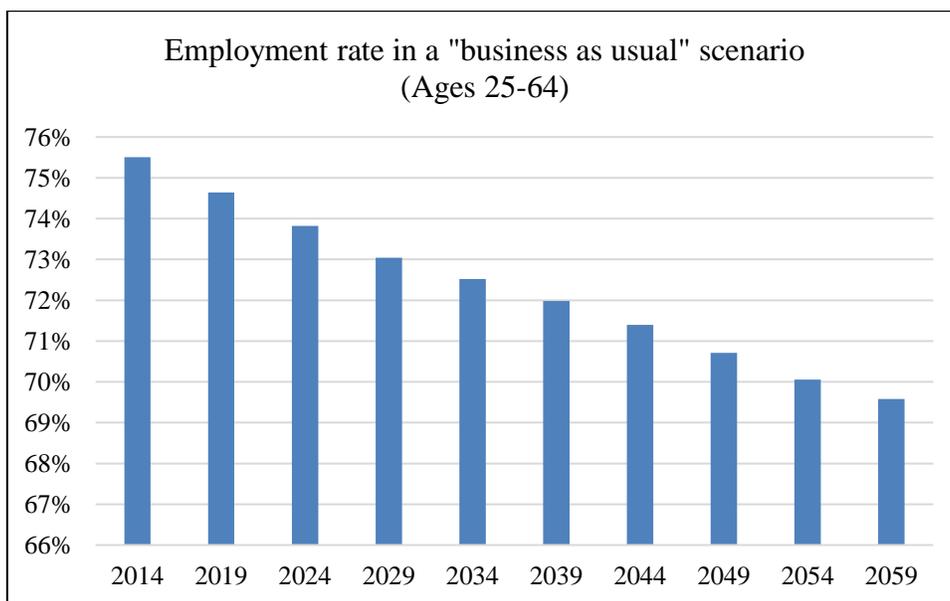


Figure 4: Employment rate in a “Business as Usual” Scenario. Source: CBS and the processing of Israel Bank. Based on the assumption that both employment rates and fertility rates remain constant.

²⁶ Perspectives on Arab-Bedouin Women Employment in the Negev, March 2018, Negev Coexistence Forum for Civil Equality [<https://www.dukium.org/wp-content/uploads/2018/05/Bedouin-Women-Employment-Report-2018-email-version.compressed.pdf>]

This trend affects the Debt-to-GDP ratio, one of the most significant indicators of economic growth. Under a “Business as Usual” scenario, in which the employment rate of Israeli Arabs and Ultra-Orthodox Jews remains as it was in 2015, the Debt-to-GDP ratio would rise to 170% (from around 60% in 2015). However, under a “convergence” scenario, based on the assumption that the employment rate of these groups will grow and will converge with the rate of general society, the Debt-to-GDP remains in a favorable range. A non-convergence scenario could therefore lead to a financial crisis in the future.

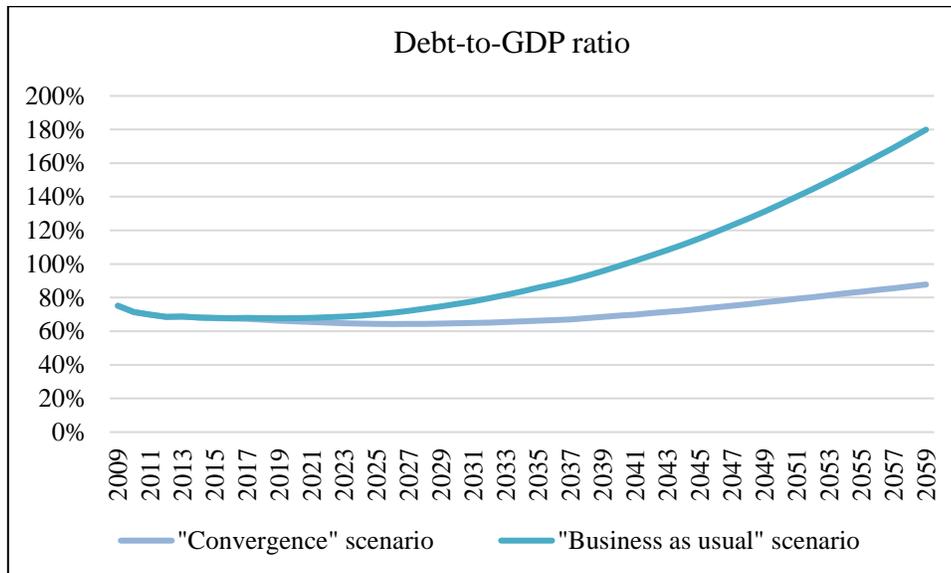


Figure 5: Debt-to-GDP Ratio. Source: Chief Economist Department, Ministry of Finance.

Major Gaps²⁷

Education

Current gaps in employment rates and salaries can be explained partially as the outcome of previous gaps in education. Similarly, understanding the current gaps in education will be key to closing future gaps.

Gaps exist across all stages of education in Israel. In 2012, only 24% of the country’s Arab population had a post-high school education, while among the Jewish population the figure was above 50%. The gap is evident even before higher education – in 2013, the matriculation entitlement rate was 45.7% among the Arab population, in comparison with 72.2% among the Jewish population.²⁸ Earlier still is the gap in performance recorded in the education system’s first national exam in the 5th grade between 4% and 9%.²⁹

²⁷ All the numbers in this section were gathered and analyzed prior to 2015.

²⁸ Out of the relevant group age.

²⁹ The exam is composed of three parts: English, math, and science and technology.

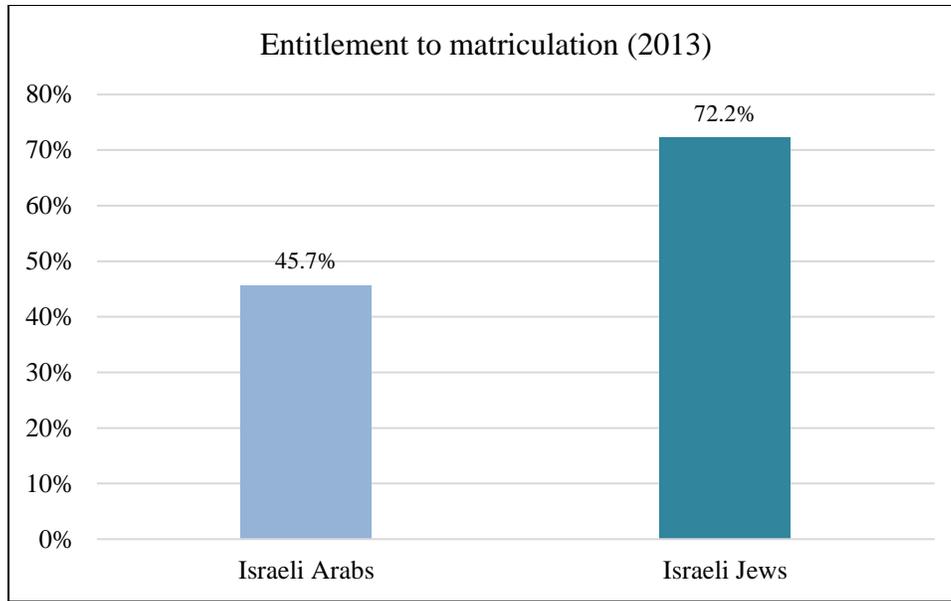


Figure 6: Entitlement to matriculation. Source: Ministry of Education.

Infrastructure

The Arab population is mostly concentrated in outlying areas and, as a result, is somewhat dependent on public transit and adequate road infrastructure if they are to participate in the workforce.

The gaps in public transit help explain one of the reasons for the low employment rate among the Arab population in Israel. As a point of reference, the Team examined Jewish and Arab localities of a similar population size that were proximate to one another. The results showed that the Arab localities, on average, received only 40% of the public transportation services that “similar” Jewish localities enjoyed. In several measurements, the gaps were even larger.

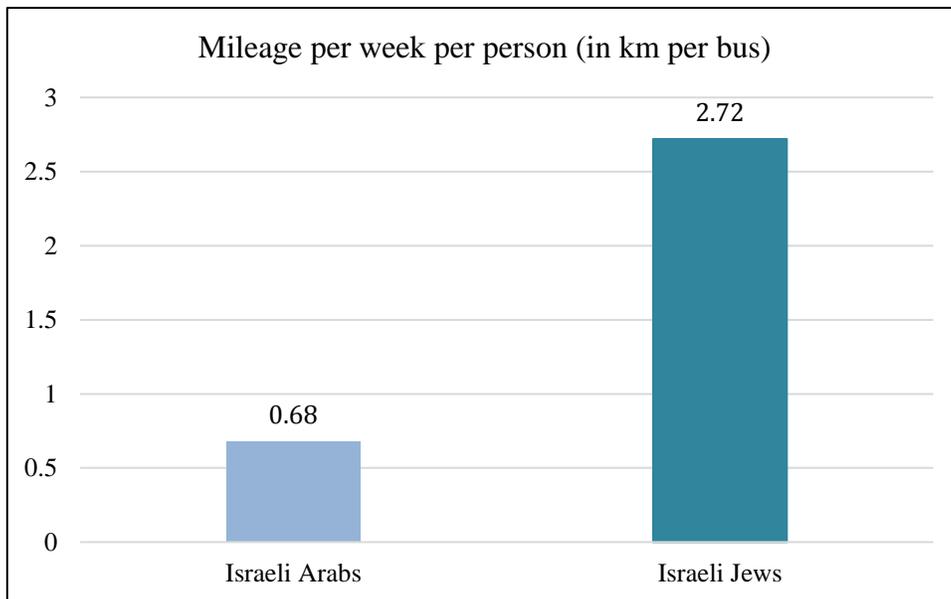


Figure 7: Mileage per week per person. Source: Ministry of Transportation.

Local authorities

The local authorities in Israel are responsible for providing education, welfare services, and other municipal services. The more resources and the stronger the human capital of a local authority is, the more and better the quality of services its residences will receive.

Based on a national socioeconomic scale of 1-10 (10 being the highest), the average spend of local authorities on services per capita is ranked at only 2.3 in Arab municipalities (of which there are 85³⁰ in total), compared with an average of 5.5 for Jewish local authorities. Hence, on average, the per capita spend of Arab local authorities on services equates to 70% of the average spend per capita in Jewish local authorities.

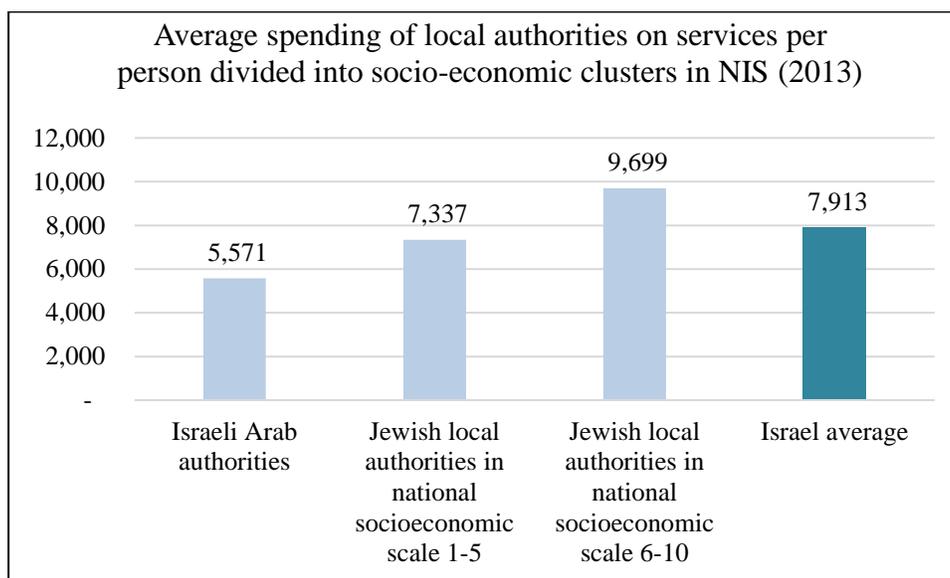


Figure 8: Average spend per capita by local authorities on services according to socioeconomic clusters in NIS (2013). Source: CBS.

*In 2013 all the Arab authorities were between 1-5 on the socioeconomic scale.

Employment programs

The Israeli government uses different methods to increase employment, including subsidizing daycare for the children (aged 0-3) of women in employment, and subsidizing the construction of industrial areas.

In these programs, the support extended to the Arab population is low relative to its share of the population. To illustrate the point, only 6% of all the children in government supervised and subsidized daycare kindergartens are Arab children, and the size of industrial areas per capita is seven times higher for Jews than for Arabs.

³⁰ From the professional and inter-ministerial team report 'Atudot Le'Israel' for fostering management training programs and formulating change in the public service sector in Israel, April 2016. <http://www.pmo.gov.il/SiteCollectionDocuments/Atudot/Atudot%20for%20Israel%20Brochure.pdf>

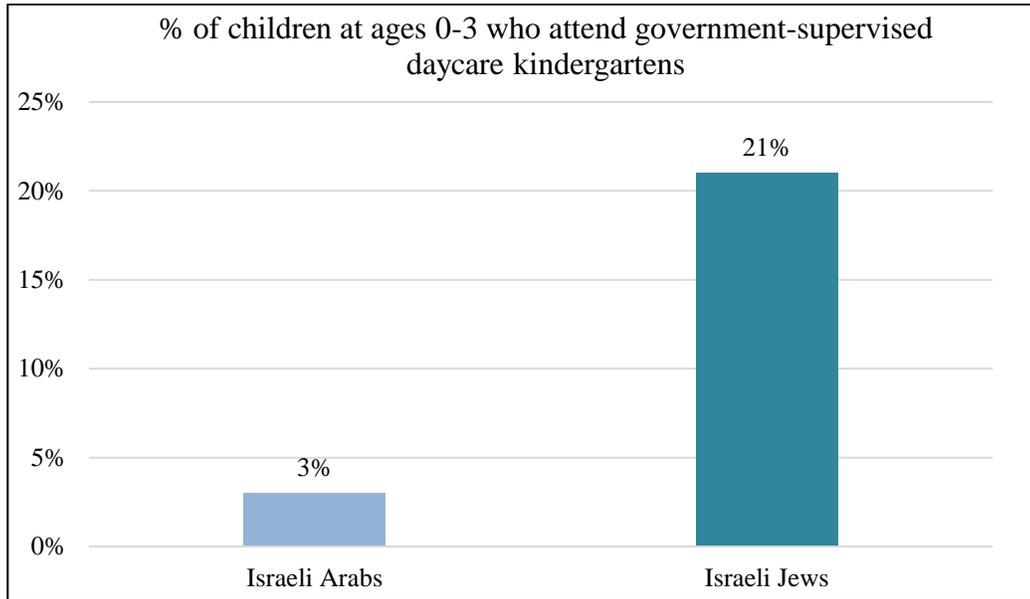


Figure 9: Percentage of children aged 0-3 who attend government-supervised daycare. Source: Ministry of Economy.

Housing

Urbanization is economically advantageous on several fronts, not least because it increases access to a wider range of educational and medical services, which subsequently increase literacy and health. Urbanization also tends to decrease the use of private vehicles and increase the availability of public transportation. There is more social integration in urbanized areas, as well as the possibility of greater earning potential, due to greater employment availability.

The Arab population in Israel is in the main located in more outlying areas, often without centralized planning or the high-rise construction typical of urban areas. This contrasts with large, planned modern cities.

Gaps in the availability of planning bodies and public institutions by sector		
	The Arab Sector	The Jewish Sector
Public institutions	2,770	77,594
Planning	24,500	256,183

Figure 10: Gaps in the availability of planning bodies and public institutions by sector. Source: “120 Days Report” regarding housing in the Israeli Arab sector.

Public Safety

Strong law enforcement and the maintenance of public order are essential to economic prosperity. Violence and crime undermine potential commercial transactions, create distortions, and lead to economic inefficiencies.

In general, the annual Israel Police reports reflect much higher involvement of Arabs in violent crimes than their proportion in the population. 55.6% of the murders, 43.7% of the robberies, 37.9% of assaults, and 50.2% of severe attacks on police officers were reported as being committed by Arabs, who make up only 21% of the Israeli population.

These figures should be read together with the low Arab representation in Israel's police. At that time, according to police data³¹, of the total of 28,674 permanent members of Israel Police only 12% were non-Jews. In addition, in the upper echelons of Israel Police, the first ever Muslim deputy commissioner was appointed in 2015.

Number of violent crime cases based on the suspect's religion, 2006-2016			
	Jewish	Arab	% Arab
Murder	267	334	55.6%
Robbery	1,821	1,419	43.7%
Assault	1,260	772	37.9%
Assault of a police officer under extenuating circumstances	2,653	2,769	50.2%

Figure 11: Number of Cases of Major Violent Crime Based on the Suspect's Religion, 2006-2016.

Source: Knesset Data and Research Center.

Vicious cycle

The gaps mentioned are inter-connected and reinforce one another, creating a self-perpetuating circle of poverty and lack of economic opportunity. Education gaps are one of the main causes of income gaps; income gaps weaken local authorities; weakened local authorities have fewer resources to invest in infrastructure, transportation, and other social services; and a lack of infrastructure, transportation, and social services leads to a shortage of jobs that will in turn affect education.

³¹ Police Annual Report 2015 (Hebrew) https://www.police.gov.il/Doc/TfasimDoc/din_2015.pdf (Pie Chart on page 142 of PDF)

5. BARRIERS TO INTEGRATION

a. Influence and Decision Making

Decision making is carried out by a limited number of officials. The PM of Israel is the head of the government and leader of the multi-party parliamentary system. Executive power is exercised by the government, including management of all ministries and setting of the national budget. The Supreme Court interprets laws and has the power to cancel legislation made by the Knesset. Other important figures include the Attorney General, the media owners, leading editors and announcers at major Israeli media channels, and the CEOs and presidents of the largest private companies.

As of the founding of Israel in 1948, 34 different governmental coalitions have been built; some were led by the reigning right-wing party at the time and others were led by the leading left-wing party. Each coalition comprised diverse parties from almost every sector of the Israeli population, but the Israeli Arab parties have never been part of the Israeli government. Thus, the Israeli Arab parties have never had an appointed minister nor representation in the sphere where decisions were made.³² This absence of executive experience and lack of participation in the creation of the State's budget and in setting economic-policy goals makes it difficult for Israeli Arabs to promote national reforms. For instance, there have been only two permanent Israeli Arab Supreme Court Justices in the Israel Supreme Court, and both were Christians (none have been Muslim),³³ no Israeli Arab has served as Attorney General, and there have been no key figures in the media channels that mold Israeli public opinion. Similarly, there is scant representation of Israeli Arabs among the most influential people in Israel's private sector.

b. Leadership

Lack of internal cohesion and ineffective municipality management hinders economic growth on a national and local level.

Arab society is characterized by multiple identities: Arabs who identify as Israeli, Arabs who identify as Palestinian, with Arab society further separated by religion and/or ethnicity into Muslim, Christian, Bedouin, Druze and Circassian groups. The struggle between these different identities creates tensions in the national leadership of the country's Arab citizens.

Evidence of internal tensions and volatility can be seen in the distribution of voting between three segments of Israeli Arab voters between 1949 and 2003:³⁴

³² The only Arab-Muslim Minister ever to hold office in Israel's government was Raleb Majadele, but he was a member of Israel's Labor Party and not a member of an Israeli Arab party.

³³ There was once an Arab Muslim Justice on temporary appointment.

³⁴ Ra'anán Cohen, *Strangers in their Homeland: Arabs, Jews, State* (Tel Aviv: Dyonon Tel Aviv University Press, 2006): 31, 188 (Hebrew).

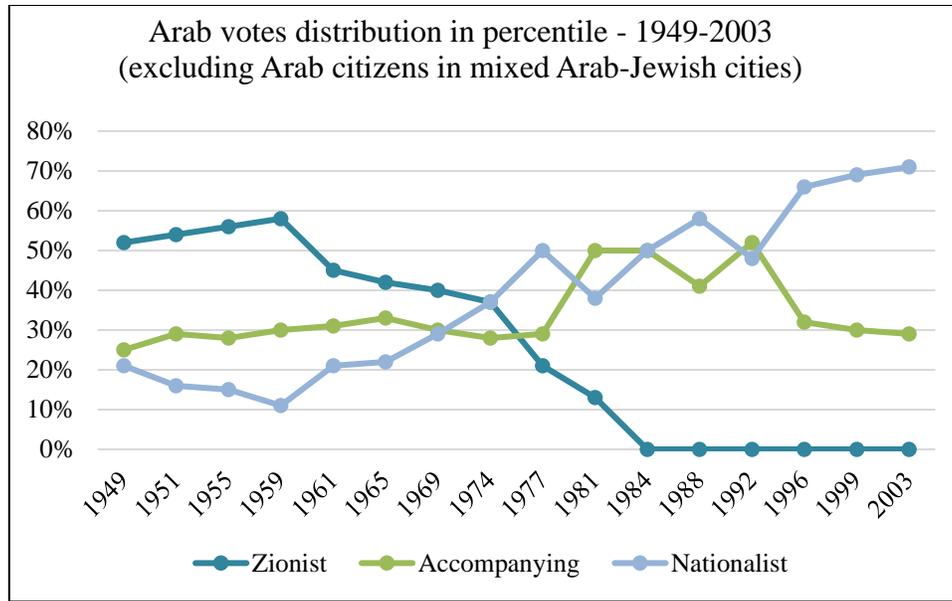


Figure 12: Arab Votes Distribution in Percentile, 1949 – 2003 (excluding Arabs living in mixed Arab-Jewish cities where ballot results are not as clear-cut as in purely Arab towns and villages). Source: Ra’anan Cohen, *Strangers in their Homeland: Arabs, Jews, State*³⁵ (Tel Aviv: Dyonon Tel Aviv University Press, 2006) (Hebrew).^{36 37}

A second challenge for Israeli Arab leadership is reflected in the mismanagement of Israeli Arab local authorities. When central government intervenes in an authority's activity, this indicates weak local management. There are two methods of central government intervention: the first is the appointment of an independent accountant to supervise the authority's budget on behalf of the State. This method had been applied in 63.5% of the local Arab authorities by the end of 2008 compared to 16.9% in the Jewish authorities. The second method suspends the elected mayor while appointing an ad-hoc council to run local authority affairs. It is considered a last resort decision, and since 2004 it has been used in 27% of Israeli Arab local authorities compared with only 4.7% of Jewish authorities.³⁸

³⁵ An English version of Ra’anan Cohen’s book *Strangers in their Homeland: A Critical Study of Israel’s Arab Citizens* was published by Sussex Academic Press in 2009.

³⁶ *Zionist* – Jewish people that support the notion of a Jewish country in the land of Israel. *Zionist satellite parties (Accompanying)* - used as terminology for parties that were established by the Labor Party, the leading party in Knesset and the government until 1977, to gain broader support. *Nationalist* - Arab movements, which raise the idea of Arab national unity.

³⁷ Mixed Jewish-Arab cities is a term used to describe municipalities in which Jews and Arabs live together, such as the city of Haifa.

³⁸ Nadia Hilu, "The 2013 Local Elections in Arab Localities: Characteristics and Results" *INSS Insight* No. 482, (November 5, 2013) (Hebrew).

<http://www.inss.org.il/he/publication/%D7%94%D7%91%D7%97%D7%99%D7%A8%D7%95%D7%AA-%D7%94%D7%9E%D7%A7%D7%95%D7%9E%D7%99%D7%95%D7%AA-2013-%D7%91%D7%99%D7%99%D7%A9%D7%95%D7%91%D7%99%D7%9D-%D7%94%D7%A2%D7%A8%D7%91%D7%99%D7%99%D7%9D-%D7%9E> - <http://www.inss.org.il/publication/israel-the-2015-elections/>

In the State of Israel there are 257 authorities, of which 85 are in Arab localities. Of the 31 temporary committees appointed in Israel since 2004, 23 were in Arab localities. At the end of 2008, there were 54

A sea change in Arab leadership is a fundamental condition for the successful economic integration of Israel's Arab population.

c. Relations between sub-societies

Trust in a society builds solid ground for economic progress. However, the relationship between Arabs and Jews has been constantly tense, right from the start. Although the Jewish leadership accepted the UN resolution for the founding of two separate states in 1947, the Arab leadership in and beyond Palestine rejected it, leading to the War of Independence in 1948.

We will use two tools to highlight the impact of this constant social barrier: an index of Arab-Jewish Relations based on opinion polls, and an analysis of the psychological needs of each group.

Index of Arab-Jewish Relations in Israel, 2015

The annual Arab-Jewish Relations Index is based on a public opinion poll conducted by Sammy Smooha, a Professor of Sociology at the University of Haifa. The purpose of the survey is to provide an up-to-date picture of the attitudes of Jewish and Arab citizens towards each other and the State. Smooha's surveys indicate that despite the tension between the two groups, both Jewish and Arab Israelis show acceptance of the fundamental fact of coexistence in the State of Israel. As Smooha concludes, "In 2015, between 62.8% and 81.3% of Arabs agreed on the foundations of coexistence as did 58.9% to 88.9% of Jews. These very high percentages reveal a strong commitment of Arabs and Jews to coexistence in principle."³⁹

Arab society has undergone "Israelization," which includes bilingualism, biculturalism, and a modern way of life, and acclimation to a democratic form of government. Moreover, Israeli Arabs share the benefits of living in a welfare state.

While trust is built between the two groups in places of continuous interaction - such as the workplace - Smooha notes that alienation between the two societies is more overtly expressed in random meetings between them in the public sphere. As of 2015, only 26.6% of Arabs do not feel comfortable working in a place where Jews work, while 34.1% of Jews do not feel comfortable working with Arabs.⁴⁰ This finding shows significant mutual discomfort between the two populations and presents a great challenge for integrating Arabs into the labor market.

The psychological needs of each group

Theories of reconciliation determine that an end to a struggle cannot be achieved merely by satisfying the instrumental motivations of both parties, such as maximizing achievements. Instead,

accountants on behalf of the state in the Arab authorities, out of 83 accountants who were appointed in all authorities throughout the country

³⁹ Sammy Smooha, *Still Playing by the Rules: Index of Arab-Jewish Relations in Israel, 2015* (Haifa: Pardes, 2017), 277. The coexistence definition is based on seven questions, and the above range represents the scores in the various questions.

⁴⁰ Smooha, *Still Playing by the Rules*, 283.

it is critical to satisfy the emotional needs of both sides. As long as these emotional needs remain unsatisfied, they block the path to full integration.⁴¹

In other words, an "emotional transaction" should be established. In such a transaction, the high-power group in Israel (the Jewish citizens) should empower the lower-power group (the Arab citizens), while the low-power group has to accept the high-power group (accepting the notion of a Jewish state).

Psychology Professor, Eran Halperin, in researching the social psychology of intergroup conflict, describes the varying needs of high-power groups and low-power groups. The former wants to maintain the hierarchical relationship, while also maintaining a positive self-image and keeping the peace.⁴² On the other hand, the latter group needs a distinct and positive identity. Since it is hard to satisfy all these needs simultaneously, Halperin's compromise centers around individual mobility, rather than social change, while maintaining the hierarchy.

d. The participation of women⁴³

Traditional societies typically limit and, in certain cases, exclude women from full civil and economic participation. In Israel, the phenomenon is most evident in the Arab sector, thus creating both economic and social barriers to the full inclusion of Israeli Arabs in civil society. In Arab society, Hisham Sharabi explains, patriarchy exists in all social structures and is not limited to familial patriarchy. This is known as "neopatriarchy". The practice of neopatriarchy is at odds with modern, meritocratic social structures which promote people regardless of gender or family affinity.

The participation of women in Arab institutions in Israel is low in many aspects.⁴⁴ In politics, representation is almost nonexistent. Prior to 1999, there had never been a female Israeli Arab MK, and in the current parliament only two of the 18 Israeli Arab MKs are female.⁴⁵ At local government level, there is currently not a single female mayor in any of the country's 85 Arab local authorities. Since 1948, only one Israeli Arab woman has served as mayor.

Employment figures in Israel indicate the existence of a patriarchal social structure as well, as the employment rate of Arab women is 33%, compared to 82% for Jewish women.

⁴¹ Nurit Shanbel and Arie Nadler, "A Needs-Based Model of Reconciliation: Satisfying the Differential Emotional Needs of Victim and Perpetrator as a Key to Promoting Reconciliation," *Journal of Personality and Social Psychology* 94, no.1 (January 2008): 116 – 132.

⁴² Eran Halperin, "The Psychology of 922" (PowerPoint presentation, The Applied Center for the Psychology of Social Change IDC Herzliya, December 2017), slides 13-24.

⁴³ Hisham Sharabi, *Neopatriarchy: A Theory of Distorted Change in Arab Society* (Oxford: Oxford University Press, 1988): 3-14.

⁴⁴ Faisal Azaiza, Khawla Abu-Baker, Rachel Hertz-Lazarowit, and As'ad Ghanem, *Arab Women in Israel, Current Status and Future Trends* (Tel Aviv: Ramot, 2009) (Hebrew).

<http://www.text.org.il/index.php?book=0904122>

⁴⁵ Joint List – 13 MKs; Other political parties – 5 MKs.

The existence of a traditional structure within an advanced economy constitutes a barrier to a cohesive society with full participation of all its elements in civil society and the economy. As a result, in the last decade, the Israeli government has taken steps to enable Arab women to gain a better education and thus improve their chances of integration into the labor market. However, the ability of the government is limited. Substantial internal structural change is necessary and must be led from within Israeli Arab society.

e. Geographic location and transportation

Proximity to major industrial and business areas increases employment opportunities and increases income levels, and promotes the development of housing, infrastructure, transportation, culture, and more.

The heartland of Israel's economy, where half of the population is concentrated, and where the majority of cultural events take place, is a conurbation in the geographic center of Israel, known as the Dan Metropolitan Area or the 'Dan District'. Only about 10% of the Arab population lives in the Dan District, while 47% of the Arab population lives in northern Israel. A combination of factors limits the economic potential of Israeli Arabs. Many Israeli Arabs live, on average, two hours by car from Dan District; they often live in relatively small villages (the largest, Nazareth, with about 66,000 inhabitants), and without sufficient public transportation - 41% of Israeli Arab localities did not have any public transportation in 2009 and 43% had only sporadic public transportation services.⁴⁶ Limited road infrastructure further limits the economic potential of Israeli Arabs and hinders social and culture integration.

f. Military service

With certain exceptions, the Israel Defense Service Law requires all 18-year-olds to serve in the Israeli Defense Forces ("IDF").

Serving in the military is the norm in Israel and it therefore has post-military service implications on Israeli society. Participation or non-participation in the military can impact acceptance or exclusion from Israeli society. The IDF is a "ticket" to societal inclusion,⁴⁷ and in the labor market it is key to networking. Moreover, military service is recognized as one of the basic demands of any civilian and is likely to top any list of requirements in job descriptions.⁴⁸ The IDF is an important and popular Israeli institution, and Israeli society continues to view the IDF as one of the most symbolic State institutions. Israeli Arabs do not serve in the IDF for several reasons,

⁴⁶ Eran Yashiv & Nitsa Kasir (Kaliner), "The Labor Market of Israeli Arabs: Key Features and Policy Solutions," *Center for Economic Policy Research Policy Insight* 78 (February 2015):7.

⁴⁷ Amnon Rubinstein and Tomer Kenneth, *Multiculturalism in the IDF* (Herzliya: IDC Herzliya, May 2017): 4 (Hebrew).

⁴⁸ Ephraim Lavie, *The Arab-Palestinian Society in the State of Israel*, (Tel Aviv: Institute for National Security Studies, June 2016) (Hebrew).

<http://www.inss.org.il/he/wp-content/uploads/sites/2/systemfiles/IsraelandArabSociety072794085.pdf>

including the belief that it is immoral to ask Israeli Arabs to fight against their Arab neighbors.⁴⁹ This does however create a significant barrier to economic and social integration.

While military service is the most common path, a secondary path called “National Service” has grown in popularity over the years. National Service is a two-year program that spans service jobs related to welfare, healthcare, and other volunteering activities. It was originally created for religious Jewish women and later made accessible to other groups in Israeli society, including Israeli Arabs. Even though the number of Arabs in the service has increased over recent years, it is still just a small percentage of the Arab population in the pertinent age group.

g. Language

Knowledge and proficiency in the common language is an important part of economic and social integration. Even though in Israel there are three official languages – Hebrew, Arabic, and English – the most commonly used language is Hebrew.

According to the National Authority for Measurement and Assessment (RAMA),⁵⁰ 29% of Israeli Arab children had low proficiency in Hebrew studies. Only 25% of the students tested showed high levels of proficiency.⁵¹

In 2011, 79% of Arab employees confirmed they speak Hebrew at work. This figure highlights the direct connection between employment and level of proficiency in the Hebrew language. Lack of proficiency in Hebrew creates obstacles to entering the labor force, and also affects income levels. There is a correlation between income and knowledge of the Hebrew language among Israeli Arabs. Among Arabs with relatively low incomes (up to 2,000 NIS a month per capita in the household), the rate of those who are fluent in Hebrew (at a "good" or a "very good" proficiency level) is about 55%, while among those with high income the rate exceeds 90%.⁵²

⁴⁹ Rubinstein and Kenneth, *Multiculturalism in the IDF*, 5.

⁵⁰A unit in the Ministry of Education, 2016-2017 results.

⁵¹ Ministry of Education, “Hebrew as a second language for Arabic-speaking students,” *National Authority for Measurement and Assessment in Education (RAMA)* (October 5, 2017) (Hebrew). http://meyda.education.gov.il/files/Rama/Alda_Takzir_2017.pdf

⁵² Shirley Marom, *The importance of the Hebrew language for integration and advancement The Arab population in the employment market* (Israel: Department of Publications, Ministry of Education, 2014), 122 (Hebrew). <http://cms.education.gov.il/NR/rdonlyres/F489CADF-99FB-426D-92D7-AE8AAB1E5694/183414/15.pdf>

6. THE PLAN

a. Structure and details

The changes in budget allocation took shape in different forms, all as part of The Plan:

1. Government Resolution 922 of December 30, 2015 – set out the core of The Plan;
2. Differential budgeting in education – agreement between the Ministry of Finance and Ministry of Education to reallocate budget resources, by redistributing resources from strong elementary schools to weak ones;
3. Government Resolution 1560 of June 19, 2016 – set goals for the education system such as matriculation entitlement and dropout rates;
4. Government Resolution 1402 of April 10, 2016 – public safety plan, including the addition of more police stations in Arab localities and increasing the number of Israeli Arab police officers (men and women).

The Plan did not focus on an increase in the total State budget. Instead it focused on a new budgetary allocation that would give the Israeli Arab sector a proportionally larger slice of the budgets of the stakeholder ministries in order to redress the disproportions of the past. It was estimated that the total budget to be allocated to Israeli Arabs would increase by 15 billion NIS (approximately 4B USD) over a 5-year period. Specifically, The Plan called for proportional budgeting by the government in several fields – education, public transportation, road infrastructure, water and sewage infrastructure, local municipalities, employment, housing, public safety and more, as explained briefly below:

Education

Comprised of six major components: 1) allocating more funds to “weaker” schools by differential budgeting; 2) ensuring that a specific amount of the informal education budget would fund other after-school activities, such as scouts; 3) improving the quality of teaching; 4) removing barriers to the construction of new classrooms; 5) committing to goals designed to equalize the matriculation entitlement rate and decrease the Arab dropout rate to 3% by 2021; and 6) achieving goals set with regard to the percentage of Arabs in higher education: undergraduates (17%), post graduate students (12%), and doctoral students (7%), and taking concrete steps to reach these goals.

Public transportation

In order to close the service gaps between Arabs and Jews by 2022, The Plan was to ensure that Arab villages would receive a 40% share of each new budget for subsidizing public transportation services. In addition, the Ministry of Transportation committed to make accessible, in Arabic, all available transportation information regarding schedules, prices, and so on, both online and on-site.

Transportation infrastructure

The Plan promised the Arab community at least 40% of budget allocations for the construction and maintenance of urban roads in Israeli Arab areas. Moreover, additional funds were allocated to intercity roads in regions with large Arab populations.

Municipalities

Municipalities can draw on different sources of revenue to provide basic services to their inhabitants. Municipalities that cannot provide basic services may receive a “balancing grant” from the government, which is assigned according to a formula. The Plan adjusted the formula so that a significant sum would be transferred from the stronger municipalities to the weaker ones. In addition, The Plan sought to create pioneering, excellently managed Israeli Arab municipalities through development grants. Lastly, The Plan sought to further equip the labor force in the Arab authorities through a leadership training program for the municipalities.

Employment

In regard to employment, The Plan prioritized Arab citizens in employment programs and budgets, by seeking to remove employment barriers, and by developing specialized targeted programs. The Plan allocates 25% of the budget for building new daycare for the Arab community; funds the operation of national employment centers tailored to the Arab population; ensures a specific amount is directed to industrial areas; and allocates a specific portion of the budget to assist small businesses.

Housing

There are two essential tools needed to develop the real estate sector – statutory tools to facilitate quicker approval of building plans and permits required by law, and the earmarking of budget for development purposes. The Plan deals with both. A new zoning committee was established, and it has significantly shortened the average time of approval from 10 years to one year. In the budget, allocations for housing development, planning, and construction of public institutions grew to approximately NIS 1.7 billion (450M USD).

Public Safety

To improve public safety, and to increase the likelihood of successful Arabic businesses, the Ministry of Interior will promote, among other things, an increase in the number of Israeli Arabs serving in the police force, the construction of new police stations, implementation of programs to reduce violence and crime and to improve relations between the police force and the Arab community in Israel. The Police actively increased its recruitment efforts among Muslim Arabs and it is hoped that forthcoming annual reports from Israel Police will show the outcomes of this and other initiatives to increase the faith of the Arab public in its presence, and whether indeed the promised 12 new police stations have come into being.

Civil service

Since the vast majority of Israeli Arabs do not serve in the Israel Defense Forces, and since civil service is recognized as an alternative to military service, The Plan will track the progress of government goals for the number of Arab members doing community or civil service, for example increasing participation to 6,000 in 2017 (in comparison to 240 in 2005).

Other aspects

The Plan included additional aspects, with relatively smaller allocations, to categories such as sports, culture, healthcare, and tourism.

b. The crucial moments and how The Plan nearly slipped away

During the 2016 budget legislation process, the BD initiated a new rule – the Numerator. According to this rule, in effect since January 1, 2016, a new budgetary allocation must be fiscally balanced at the same time as the State budget. This means that budgetary issues usually arise once a year, when the annual State budget is passed. In consequence, the last day for approval of The Plan in the Cabinet was December 31, 2015. It was an inflexible deadline.

The draft resolution was scheduled to be presented and voted on during the third week of December 2015. The Team worked around the clock to build the broadest consensus possible before the meeting, while hoping to attract relatively little press attention. As the deadline approached, more rumors arose regarding The Plan. On the morning of the cabinet meeting, a well-known financial newspaper published an article on the draft resolution, and The Plan was removed from the Cabinet agenda without explanation.

On Sunday, December 27, the last Sunday before the Numerator came into effect, the Resolution should have been approved in a government meeting. All parts of the Resolution were agreed upon in advance and were backed by budget agreements between the government ministries and the BD.

Before the meeting started, four Ministers declared they would vote against the resolution, since, according to them, the Arabs needed to increase civic participation in order to receive more budget allocations. From a right-wing political point of view, their dissent would make sense. They could only stand to lose by approving The Plan, while they could gain politically by resisting and stopping it.

The Plan was presented by The Team at the government meeting. The opening slide of the presentation included a quote from Ze'ev Jabotinsky, the founding father of Revisionist Zionism.⁵³ Jabotinsky is almost universally acknowledged as the most important figure in the history of the

⁵³ Revisionism is a faction within the Zionist movement. It is the founding ideology of the non-religious right in Israel and was the chief ideological competitor to the dominant socialist Labor Zionism.

Likud, the party then leading the government. In a 1926 piece of writing entitled, "What the Revisionist Zionists Want," Jabotinsky referred to the importance of Israeli Arabs.

He wrote,

After the formation of a Jewish majority, a considerable Arab population will always remain in Palestine. If things fare badly for this group of inhabitants, then things will fare badly for the entire country. The political, economic and cultural welfare of the Arabs will thus always remain one of the main conditions for the well-being of the Land of Israel.⁵⁴

By opening with the Jabotinsky quote, the Team Leaders created empathy and helped to build common understanding.

After touching on the political scene, the presentation then focused completely on economic analysis, the gaps between the population groups and their influence on the economy, and the peril on the one hand, and opportunity on the other, from successfully integrating Arab society into the nation's economy. Several participants were surprised that the entire discussion was quantitative and focused on future implications for Israel's economy in the absence of integration. This meeting also ended without a vote as consensus had not been reached.

A short time later, the Prime Minister scheduled an ad hoc government meeting for the morning of December 30, 2015. The same dynamic of resistance continued from previous meetings, and this meeting ended at noon without a consensus. Throughout the two meetings and more than six hours of discussion, the room was split into three groups: the opposition, who continued to insist on Arab civic participation as a prerequisite for increasing budget allocations; the supporters – such as the Minister of Finance, the Minister of the Interior (an Ultra-Orthodox person), each from independent parties, and the Minister for Social Equality; and the Prime Minister, who believed in the necessity of The Plan, but also needed to deal with the resistance among members of his party.

The final meeting was scheduled for that afternoon, ahead of the Numerator deadline. It was now or never. Before the final meeting, The Team reached a compromise with the government ministries. The Team negotiated with the resisting stakeholders by meeting with each person individually. Illegal construction in Arab localities was a common phenomenon and regulating it would provide the opposition a trophy to bring back to their voters. The compromise suggested that the housing clause in the government resolution would be postponed until the problem of illegal construction was dealt with. The compromise ensured that the majority of The Plan could continue going forward.

So it was that at the eleventh hour, on December 30, the resolution was approved. Six months later, a plan to regulate illegal construction was approved, and the government could also put the housing clause into effect.

⁵⁴ Ze'ev Jabotinsky, "What the Revisionist Zionists Want", 1926.

7. KEY FACTORS TO SUCCESS

a. Present the full scope

The existence of economic gaps between Arabs and Jews in Israel was known to all. Anyone could clearly see evidence of it in the workforce or by visiting an Arab village. But who could quantify the low number of buses serving an Arab village every week in comparison to a Jewish village of similar size? How many subsidized daycare centers were there in Arab villages in relation to the total number nationwide? Cross-budget analyses such as these had never been conducted before.

They came about when the BD decided on a new strategy, in a similar way to private companies. The first step included market analysis, risk and opportunity assessments, and strategic goal setting. This process was far from common in government workplace culture, and it helped plant the seeds of a future "revolution" in budget allocation.

In mid-2013, the new management team at the BD set itself a goal "to lead responsible economic policy that would enable growth for the sake of Israel's inhabitants." Achieving fiscal discipline was the first goal, but the immediate follow-up was the integration of minorities into the Israeli economy. According to current demographic trends and labor market indicators at the time, Israel's economy would not be sustainable in the forthcoming decades without the large-scale integration of minorities into the economy.

In December 2014, yet another short-term government solution, similar to previous government solutions, was on the verge of being approved until the PMO and the BD intervened. The government approved the PMO and the BD's proposal to establish a team to recommend long-term solutions.

And the journey of The Team had started.

The Team conducted a deep analysis of the gaps, across multiple sectors, between the country's Arab and Jewish populations. The analysis focused on two measurements: Inputs (budget allocation) and outputs. Gathering and analyzing the data was a highly sensitive task for the different ministries. It meant internal intervention in the autonomy of the ministries and full transparency regarding their budget allocations. Mapping the key stakeholders in each ministry and bringing them on board was crucial to the approval of the government resolution (this is expanded on in section 7.c).

The gaps were larger than imagined. The number of government-owned daycares in the Arab villages was less than 7% of the total number of government-owned daycares, and the average number of bus trips per inhabitant of an Israeli Arab village was only 17% of the average number of bus trips per inhabitant in an equivalent Israeli Jewish village.

Mapping the gaps was a game changer. Not only was it the first time that cross-budget analyses were made, but because government itself analyzed the gaps, the analyses were given the needed stamp of authority. Analyzing the gaps between the different sectors held up a mirror to everyone.

With the factual data on the asymmetries now out in the open, a dynamic of change was created. Given that a well-known entity had created the information using a professional data-driven approach, the asymmetries were no longer sustainable and had to be addressed.

b. Bundle strategies

Plans to improve the economic level of specific sectors had not been very successful in the past. Israel's society, like other societies, is comprised of varied household income levels that in many cases share similar obstacles to economic progress. Dealing with one group without changing the entire system does not sufficiently close the gaps over the long run, as discrepancies between groups might re-occur. A more systemic change that deals with all sub-sectors with similar characteristics was more likely to help all parts of the population and assist the overall national economy.

In addition, because the Israeli Arab political parties had always had a minor impact on decision making, making a change in budget allocation to channel resources to Israeli Arabs seemed difficult. Although the Joint List, an alliance made by the four main Arab political parties ahead of the March 2015 elections, came third in terms of party size, gaining 11% of the total seats (14 out of 120) in the Knesset, it did not become a member of the coalition that formed the government, so its influence on the decision-making process is minor-to-negligible (see section 5.a).⁵⁵ Therefore, those who were potentially the biggest proponents of a new budget resolution could not make it happen.

The solution came from the notion of bundling. Creating an appealing “package” to include all the population sub-groups that suffer from the same symptoms would incentivize key players to support The Plan and decrease the risk of it devolving into different personal interests. Instead of explicitly allocating funds to Israeli Arabs, part of the resolution bundled benefits for all low-income households, of which the former constitute a significant part. However, the segment of low-income families contains many members of the two Ultra-Orthodox parties, as well as other low-income groups with representation in the government, and they are an essential part of the day-to-day decision-making process.

This bundling approach appeared in several places in Resolution 922, including the creation of a new statutory committee and a change in the formula for government support to municipalities, mentioned earlier. A similar bundling strategy helped achieve reform in the education budget. Schools have three main revenue streams: government, municipality, and fees paid by parents. Government support is the most significant piece. Until The Plan came into force, the budget was allocated relatively equally across school districts. At first glance, this seems like equitable distribution, but broader analyses of school district revenue revealed massive inequalities in total

⁵⁵ As an anecdote, in the 70 years of Israel's existence, an Arab party has never been part of the coalition making up the Israeli government.

revenue. While a school in an impoverished area received the same government funds as a school in a wealthy area, the impoverished areas received almost no additional revenue streams in comparison to the enormous revenue from parents and municipalities in wealthy ones.

This is where The Plan intervened with differentiated allocation, allocating relatively higher government support to schools in areas with a lower socioeconomic status. This compensated for the asymmetric funding from the municipalities and parents.

c. Create a win-win mentality

Since 1985, economic policy in Israel has been driven predominantly by the BD. Most economic resolutions were typically initiated without strong partnerships. The lack of cooperation could be seen in the way budget resolutions were approved despite specific ministry opposition. As a result, some reforms initiated by the BD were only partially implemented. In addition, in 2011, a social protest arose demanding a lower cost of living, and from that point on the public became more involved in economic matters. Any reform received a lot of attention from the public and the media, and thus the ministries in question; almost nothing could happen under the radar as it used to. Consequently, the BD's staff acknowledged the need for cooperation both in approving reforms and in ensuring their implementation.

Gaining allies and persuading those that might oppose a resolution was done gently and precisely, tremendously more diplomatically compared to other reforms. Instead of creating a plan alone, the Team built a network of partners.

In the first stage, the Team analyzed the key players. They mapped the relevant stakeholders onto a spectrum that extended from support at the one end to likely opposition at the other. Next, they determined the precise order in which each player would be exposed to The Plan.

The Team employed a "circles strategy" that started with key, influential stakeholders who shared similar values and held top positions to create an initial coalition; it continued by adding partners who had been positively influenced by the initial coalition; next, the coalition gained support from external players such as NGOs, academia, and other external supporters; and last, the coalition confronted those hardest to convince.

The Team started by creating a **first circle**. Here the focus was on ministries which, based on the Team's experience, shared a similar understanding of microeconomics, and bringing them on board would help create a domino effect of support from other ministries. The Team started by gaining support from the Finance Minister and eventually this initial coalition radiated out to include the Ministries of Education, Transportation, and the Economy.

I. The first circle of stakeholders

As a starting point, the Team focused on ministries that in their experience shared a similar understanding of microeconomics. They knew that bringing them on board would help create a domino effect of support from other ministries. The Team started by gaining support from the

Minister of Finance and this early coalition went on to include the Ministries of Education, Transportation, and the Economy.

The Minister of Finance

Moshe Kahlon, the head of independent political party Kulanu⁵⁶, possessed political power both in his capacity as Finance Minister and because the government would not have a majority without his party. His philosophy is a free market economy that is compassionate to the poor. In his view, the state has a central role to play in creating equal opportunities and reducing inequality. Upon taking office, the Finance Minister gave his support to the BD to move forward with The Plan, and during the dialogue with the Arab leadership, he played a significant role in creating trust between the Ministry of Finance and the Arab leadership in Israel.

II. The second circle of stakeholders

This circle of stakeholders included ministries that were potentially influenced by the first circle and, with the right incentives, would be willing to support the prospective Plan. These ministries included Housing, the Interior, Public Security, Tourism, Sports and Culture, and the Water and Wastewater Authority.

The President

Israel's President, Reuven Rivlin, decided to take on the vital role of being the key public figure for this reform. Israel's President does not hold executive power, nor is he part of the government. Although Mr. Rivlin had been an elected MK of the leading right-wing party for many years, in the non-partisan presidential role, it was particularly important to him to represent all segments in the Israeli population. This was a risky step for a President to take in such a public manner as he would have no direct say in the process or its results. Rivlin's role in The Plan took different forms. He organized meetings at the presidential residence, mentioned The Plan in many of his speeches, and helped create trust between the Arab population and governmental institutions.

The following is an excerpt from a speech he gave to support the aims of The Plan:

In the 1990s, Israeli society comprised a clear and firm majority, with minority groups alongside it. A large secular Zionist majority, and beside it three minority groups: a national-religious minority, an Arab minority, and a Haredi minority. Although this pattern remains frozen in the minds of much of the Israeli public, in the press, in the political system, all the while, the reality has changed. Today, first-grade classrooms are composed of about 38% secular Jews, about 15% national religious Jews, about one-quarter Arabs, and close to a quarter Ultra-Orthodox. While it is true that numbers and definitions are dynamic, neither identities nor birthrates remain static over time. But one thing is clear, the demographic processes that are restructuring or redesigning the shape of Israeli society, have, in fact, created a 'new Israeli order'.⁵⁷

⁵⁶ In the 2015 elections, Kulanu gained 10 seats, one of which is held by a Druze MK

⁵⁷ Reuven Rivlin, IDC conference in June 2015.

The Prime Minister

Prime Minister Benjamin Netanyahu, now in his fourth term in office, had previously served as Minister of Finance. His economic viewpoint emphasizes a small budget, low deficit, low taxes, and the encouragement of employment while minimizing welfare. The discussion with him about the importance of The Plan and its structure was very direct and professional. It centered on the need for integration and its benefits rather than ideas of justice or equality.

Strong levels of professional trust on economic matters were built between the Prime Minister and the BD over the years. The track record of the BD in fiscal parameters and the liberalization of the Israeli economy contributed to a shared understanding that helped the Prime Minister support The Plan.

The NGOs

External support came in the shape of NGOs. For many years they had worked strongly on Arab integration into Israeli society and could contribute data to the Team. The two major NGOs that helped the Team were Sikkuy⁵⁸ which advocates the advancement of civic equality and Nazareth-based Injaz⁵⁹ dedicated to building professional infrastructure and mutual trust between local Arab authorities and central government and its officials. The involvement of NGOs in creating and implementing policy is unusual, and it was important for the Team to justify their importance in the process.

The last piece of the puzzle required that the support of the third and final circle be gained. This was the most complicated, as it included the Arab leadership and the remaining government ministries.

III. The third circle of stakeholders

The Team focused on bringing on board the Israeli Arab leadership (led by the head of the Joint List and the Committee of Local Authorities) by creating trust and cooperation, and persuading the last ministries.

Israeli Arab Leadership

The trust was created through intense dialogue, one-on-one meetings, occasional gatherings in the presidential residence and the chamber of the Minister of Finance, and on-the-ground visits to the Arab localities.

All players clearly identified the Arabs' preference to focus on socioeconomic issues. As Rudnitzky and Radai found, "Israeli Arab citizens are interested first and foremost in issues related to their

⁵⁸ Sikkuy is a shared organization of Jewish and Arab citizens, working to implement full equality on all levels between the Arab Palestinian and Jewish citizens of Israel. www.sikkuy.org.il/en/

⁵⁹ Injaz is also a shared organization of Jewish and Arab citizens, with the goal of advancing the competence, integrity and effectiveness of elected officials and senior employees in Arab local authorities. <https://injaz.org.il> (Website currently Hebrew only; English version to be published shortly)

daily lives, and less preoccupied with external issues such as the peace process or matters related to the Palestinian territories.”⁶⁰

The Plan was opposed by various members of the Israeli Arab leadership, including a few Arab MKs, NGOs, and Arab mayors. The opponents argued against collaboration with the current right-wing government.

After a process that extended over six months, the Team built trust between themselves and the Arab leadership. From that point on, agreement on major parts of The Plan became possible, and both parties could participate in government meetings.

Last ministries to bring on board

The fact that the process had reached completion with most players on board along with the approval of the Prime Minister and the Minister of Finance, and a diverse group of stakeholders now anticipating The Plan’s approval, made it difficult for the final dissenters to continue opposing The Plan. However, it was important to create the broadest possible consensus, so negotiations continued to take place during and between the cabinet meetings, and between the Team and the opposing ministers until compromise was reached with most.

d. Keep a low-profile

Achieving profound change required tremendous effort behind the scenes, making sure that things got done. Any misstep in the process could have ended The Plan. Israeli Arab society was not the top priority for the government and working under the radar was necessary. Keeping The Plan quiet and without public visibility, and ensuring each key player felt personal ownership for The Plan, were crucial parts of The Plan’s success.

First, aware of the possible reluctance of some players, the Team decided to involve only the most relevant ministries as they began to build The Plan, gaining their official support and fully developing each component of The Plan before persuading potentially oppositional parties. When The Plan began to gain momentum and public visibility, the players who were involved and at the forefront, participated in events at the President’s Residence and began to receive credit for The Plan in the media.

Second, the public plays a significant role in the ability of the government to implement any reform, and those promoting a reform should either use public support to their advantage or keep it under wraps to avoid premature media and public visibility, which might impact the reform plan. If The Plan had leaked to the media, an uninformed and heated debate would have arisen, which likely would have stopped its progress. The Team therefore decided to keep the process low profile for as long as it could. In general, politicians would prefer to approve a resolution that did not harm

⁶⁰ Arik Rudnitzky and Itamar Radai, *Citizenship, Identity, and Political Participation: Measuring the Attitudes of the Arab Citizens in Israel* (Jerusalem: Bayan, the Konrad-Adenauer-Stiftung (KAS) Israel, 2017) (Hebrew). <https://dayan.org/content/citizenship-identity-and-political-participation-measuring-attitudes-arab-citizens-israel>

them electorally, and this could only be achieved if the media was silent. Journalists who asked to report on the upcoming plan were refused details. It was crucial for the success of the process to report to the media after the fact, rather than before.

e. Reframe the setting

Historian and publicist Dr. Gadi Taub, wrote that The Plan was driven by self-interest rather than good intentions:

... Both the nationalistic government and the winds of opposition that frequently rail against it for “fascism” or “apartheid” are politically and emotionally preoccupied with depicting relations between Jews and Arabs as a zero-sum game. What’s good for the Zionist state is bad for the Arabs and vice versa. In reality, however, life together means mutual dependence, and sometimes what’s good for one sector of the population depends on what’s good for another.⁶¹

Changing the previous way of thinking and arguments that were not appealing enough in the past, and bringing discussions to the “home field,” helped those who opposed The Plan look at it from a different perspective. The framing strategy for The Plan was to use the lens of economic risks and opportunities rather than focusing on discrimination and other non-economic measures. The risks were analyzed and presented through Debt-to-GDP ratio. Under a “Business as Usual” scenario, in which the employment rate of the Arab and Ultra-Orthodox societies remains as it is today, the Team found a Debt-to-GDP ratio of 170%, which is unsustainable. The opportunities were framed by referencing the dramatic boost immigration from the Soviet Union in the 90’s gave to the Israeli economy.

Since the early 1990s, the government had created many five-year plans, allocating budget for many categories without strategic plans and targets. In practice, these plans have had no real impact, and the gap between population groups has not changed over recent decades. Instead of trying to address issues of discrimination in the next five-year plan, the Team’s method was to create a “business plan” for integration. Like a business plan in the private sector, the first step is to analyze the market (the gap), the second is to set goals, and the third is to outline the steps needed to reach these goals. The budget allocation method marks percentages of the approved budget for various categories, rather than fixing a set amount. Although this does not guarantee a fixed number, it creates a mechanism which ensures execution of the allocation. In the mass public transit example, 40% of future funds to new public transportation would be allocated to Arab localities, until parity is reached in transportation access. This critical change should sustain implementation in the long run as well.

⁶¹ Gadi Taub, "The Arabs will accept," *Haaretz*, 14 January 2016 (Hebrew).

<https://www.haaretz.co.il/opinions/premium-1.2821576>. “Why Israel Will and Must Help Its Arab Citizens Catch Up”

[English (premium service) <https://www.haaretz.com/opinion/premium-why-israel-must-help-its-arab-citizens-1.5390761>]

The Team reframed The Plan by emphasizing to each player those elements with which they could most resonate. In other words, each stakeholder would be better able to identify with a narrative that fit their point of view. For several parties, The Plan could be framed as a path to economic growth, creating security, modernizing the population, lowering fertility rates, and increasing levels of productivity. For other parties, The Plan was a step towards social solidarity, equality between societies in Israel, and inclusive growth. For economic organizations, this would be the path to inclusive and meaningful growth, and for the jurists, this could be a serious corrective measure addressing the inequality among people who are entitled to the same civil rights. For the Arab public, this could be seen as an honest, non-patronizing gesture with the goal of genuine, beneficial economic growth coming from a place of cooperation.

As Taub said,

If we had to rely on a love of justice alone, then the current right-wing government, the most right-wing of governments in Israel's history, would most likely not have been the one to try to rectify the years of injustice toward the Arab population. In this instance, however, the right thing to do also converged with what would benefit both populations. True, the victory of justice over expedience and of the weak over the strong may sound more romantic, but when expedience supports justice and the strong back the weak, it's more effective. So, while the bombast may continue, there is apparently no stopping the reform.⁶²

⁶² Taub, "The Arabs will accept."

8. FIRST FRUITS

To implement The Plan, Government resolution 922 established a steering committee chaired by the Director General of the Ministry for Social Equality with its members drawn from all the government ministries participating in The Plan. The government also decided that the chairman of the Union of (Arab) Local Authorities, would also be a member of the implementation team. The implementation team monitors progress of The Plan, and in case of need provides solutions to barriers to implementation. The structure of the team creates an additional layer that expands the connection between the Arab municipalities and the various government ministries.

Many ask whether The Plan has been successfully implemented. Although 2017 was only the second year of implementation of a five-year plan, success can already be noted in four major fields – education, public transit, employment, and housing.

According to recent publications, the educational gap between Arab and Jewish students is shrinking. Recent results from the standard tests show an increase among Arab students on average test grades in different subjects:

In 5th grade math, the gap has reduced from an average of 48 points to an average of 23 points - an improvement from 511 points to 550 points for Arab students compared with 559 and 573, respectively, for Jewish students;

In 8th grade science, the gap has reduced from an average of 47 points to an average of 16 points - an improvement from 520 points to 576 points for Arab students compared with 567 and 592, respectively, for Jewish students;

In 5th grade English, the gap has completely closed – there has been an improvement from 508 points to 540 points for Arab students compared with 530 and 539, respectively, for Jewish students.

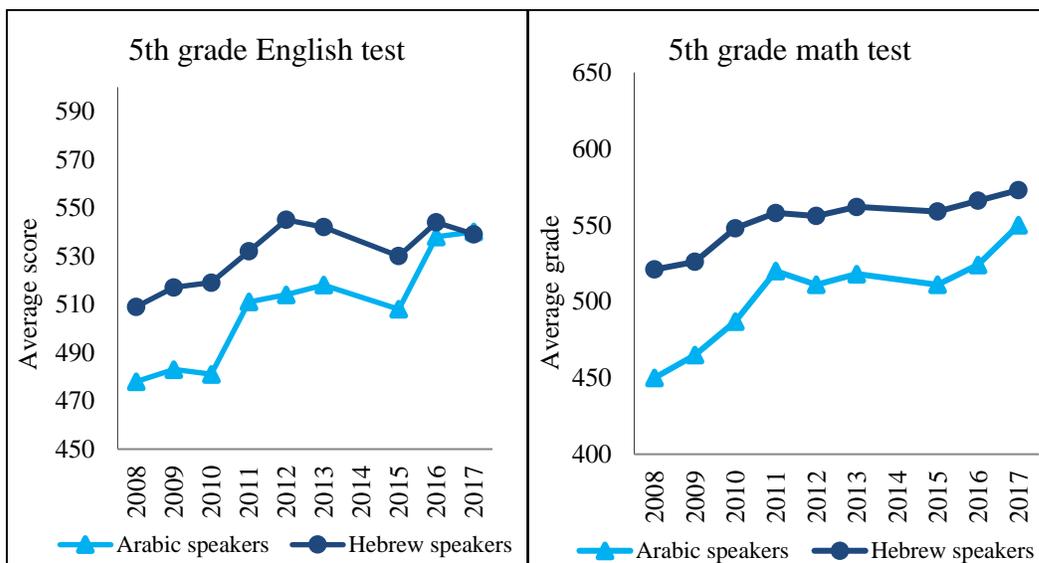


Figure 13: 5th Grade English Test and 5th Grade Math Test. Source: National Authority for Measurement and Evaluation in Education.

In the public transit sector, 341 new bus lines launched in Arab communities between 2015 and 2017, an increase of 22%, and the numbers of daily trips have increased by 47%, from 87,000 to 128,000. Compared with the starting point, this is a sharp increase, which can create better access to the labor market.

The rate of daycare launched since the approval of The Plan has increased by 7%.

In the housing sector, an enormous increase has been noted in the amount of planned housing. 27% of the approved units by the National Planning Authority were for the Arab population, while they comprise only 21% of the population. It is the first time in the history of Israel that this has happened.

In addition, a significant increase in housing units has been approved through the local planning committees for the Arab sector – from 8,600 units prior to The Plan to 16,500 units in 2016, and 26,000 units in 2017.

9. NEXT STEPS

The goal of successful integration was not new, as mentioned all those years ago by Ze'ev Jabotinsky, who emphasized the importance of Israeli Arabs economic and cultural integration. By framing the resolution as a step towards inclusive growth for the good of the national economy and setting aside issues such as those raised by the Head of the Fassuta municipality, the Team took The Plan through to government approval at the end of 2015. Although The Plan is a substantial milestone in the socioeconomic integration of the country's Arab citizens, further steps are needed. Both the Israeli government and Arab society should promote the following:

The Role of the State

Success in implementing and creating visible change in Israeli Arab society, in various areas, is critical, and the Ministry of Justice and Equality has been taking this role seriously. Frequent, continuous involvement is required both at the professional level and at the political level, and bureaucratic obstacles must be removed. It is also important to adopt an inclusive narrative that seeks to integrate Arab society in Israel's economy.

The Role of Israeli Arab Leadership

Since the establishment of the State of Israel in 1948, Israeli Arabs have lived in a democratic country with a developed economy. Israeli Arabs have enjoyed the fruit of a global and progressive western economy, and do not want to be left behind.

The Plan has kickstarted the process to close the economic gap. In this new reality, Israeli Arab leadership has real opportunity to advance the Arab citizens even further by setting game-changing targets.

Indeed, for The Plan to fully succeed over time, much now depends on Israeli Arab leadership. It could, for example, ensure that local and regional leadership is developed on a professional, success-oriented basis rather than by family affiliation. It could also do more to equalize the imbalances inherent in a male-dominated social structure, which would allow more Israeli Arab women to take up professional positions in a progressive social structure to which civil society in Israel aspires.

Finally, it is important to adopt the Or Commission's recommendation to avoid blurred loyalty to the State of Israel, and to clearly adopt a narrative of integration.

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