

# **Israeli Government Budgets Directed to the West Bank and Gaza Strip & Estimates of Surplus Investments During 2001**

## **INTRODUCTION**

National budgets are an expression of a state's political and moral priorities. In the process of developing budgets, a state formally decides which segments of its population it wants to assist, where its resources are best invested, and how it envisions its future. In the case of Israel, there has been almost no public effort to determine how much money the state allocates to settlements in the West Bank and the Gaza Strip, even though such allocations provide important financial incentives for people to move to the settlements, deepen Israel's presence in the occupied territories, impose a greater defense burden on the Israeli military, and undermine Israel's ability to eventually separate itself from Palestinians living in the same areas.

This lack of public awareness of official Israeli spending on settlements is particularly disturbing given the terrible security and economic damage that has been inflicted on Israel during the current Intifada. Israel has suffered hundreds of casualties in the fighting, much of which has centered on the occupied territories. Israelis inside the country's formal borders have been left less protected as greater defense resources have been allocated to protecting settlers in the West Bank and Gaza. Meanwhile, Israel's economy has been weakened considerably, in part, as a result of the fighting, with unemployment rising, investment declining, and the standard of living falling. Therefore, it is not surprising to find that, according to national opinion polls, a growing majority of Israelis is now willing to evacuate settlements in the context of a peace agreement with the Palestinians. They recognize that the settlements have become a strategic burden, not an asset, and they are willing to part with them.

And yet, government spending on settlements continues.

So in 2002, the Israeli Peace Now movement commissioned a professional accounting analyst in Israel (Dror Zaban of N.I.V.-AD Management, Consulting, Promotion, and Implementation, Ltd., who was formerly with the Budget Department of the Israeli Ministry of Finance and assistant to the Director General of the Ministry) to examine government spending on settlements in the West Bank and Gaza for the previous year. The goal of this study was to derive a comprehensive picture of the amount of money spent in these territories, as well as how large this spending was relative to the size of the settler population and the Israeli population inside the pre-Six Day War borders, commonly referred to as the Green Line.

**In addition, Peace Now sought to get a better idea of the surplus budget directed to the settlements, that is, the amount of money dedicated to settlers and settlements that would not have otherwise been spent on these individuals and their communities as part of normal budget allocations available to Israelis inside the Green Line.**

## **METHODOLOGY AND CHALLENGES IN DETERMINING STATE SPENDING ON SETTLEMENTS**

While portions of state spending on settlements were available for research purposes, other, major segments were not. As a result, the Peace Now study dealt with the year 2001 and covered money channeled to local authorities, income tax reductions provided to settlers, the housing budget, transportation costs, expenditures from the Settlement Division of the government, industrial zone development, water sources, and some activities outside of the state budget (i.e., the health system and the state lottery).

Regrettably, the research was not able to explore four important components of the state budget: defense spending (which is not open to the public), transfers to support bodies and institutions (a majority of which are non-profit organizations), the Education Ministry's budget (mainly wages for teachers and state workers who are not employees of the local authorities), and current activities of various government ministries (such as transfer payments, services to citizens, and items for which spending in the territories cannot be isolated from total expenditures.)

The inability to track defense expenditures in the West Bank and Gaza is particularly significant because a great deal of money is spent on security there. The army is obliged to invest massively in guarding settlements and working on infrastructure (such as protecting and clearing roadsides, as well as planning roads). From ongoing defense activities to guarding settlers, military expenditures have become necessary due to the dispersion of the settler population and the establishment of a large number of settlements, including, but not limited to, illegal outposts.

Finally, there are many activity components that do not constitute an integral part of the state budget. For example, there are activities carried out by government companies, such as the Israel Electric Company, which is investing in laying an infrastructure in the occupied territories and is financing this activity through payments for electricity consumption.

**Consequently, the findings included in this report should be seen as only a partial reflection of spending in the occupied territories. The budgets actually being spent are much higher than those that can be pinpointed.**

Primary sources of information for this study were the budget book of budget regulations, budgets outside the state budget, the report of the Central Bureau of Statistics, and the State Revenue Administration report.

This research related to areas in the West Bank and Gaza, but did not cover East Jerusalem or the Golan Heights. The following local authorities in the West Bank and Gaza were covered in the study. Cities: Ariel; Beitar Ilit; and Ma'aleh Adumim. Local Councils: Alfei Menasheh; Elkana; Efrat; Beit El; Beit Arye; Giv'at Ze'ev; Modi'in Ilit; Ma'aleh Ephrayim; Emmanuel; Kedumim; Karnei Shomron; and Kiryat Arba. Regional Councils: the Gaza Coast; Mateh Binyamin; Shomron; Gush Etzion; Megilot; and the Hebron Mountain.

During 2001, according to Census Registration figures, approximately 204,000 settlers resided in this area, constituting 2.93% of all Israeli residents during that year. This number should be kept in mind when considering the percentage of state funds spent in the territories.

## MAJOR FINDINGS

**In 2001, Israel budgeted at least 2.190 billion shekels (NIS) for settlers and the settlements, of which NIS 1.808 billion amounted to surplus expenditures that would have not been made if the settlements did not exist. (Again, surplus expenditures being the amount of money dedicated to settlers and settlements that would not have otherwise been spent on these individuals and their communities as part of normal budget allocations available to Israelis inside the Green Line.)**

**Using an exchange rate of 4.1 to the dollar, which is roughly how the shekel was valued mid-way through that year (June 2001), the Israeli government spent a total of at least \$533.6 million in the West Bank and Gaza that year, of which at least \$440.5 million can be considered surplus expenditures.**

By way of comparison, Israel received \$838.2 million as its annual economic grant from the United States in 2001, meaning that Israel spent over half that amount on settlements during that period.

President Bush requested \$600 million for Israel's regular economic grant in FY2003. The shekel weakened considerably at the beginning of 2003, trading at a rate of 4.83 to the dollar in early January. Even at this weak rate, the amount of surplus shekels spent on settlements in 2001 would represent \$374.3 million in January 2003 dollars, still worth more than half the amount earmarked for regular economic assistance from the U.S. to Israel this fiscal year.

Israel is also currently seeking a supplemental economic aid package from the U.S. in the form of \$8 billion in new loan guarantees. The last time the U.S. provided such a loan guarantee package to Israel (\$10 billion in the early 1990s), the guarantees were provided at a rate of \$2 billion per year over a five-year period. If the \$8 billion in new loan guarantees were distributed at a similar rate over four years, then the amount of surplus money Israel spent on settlements in 2001 would be about 19% of the value of the annual loan guarantees in any given year.

**The budgets being allocated to the settler population are immeasurably larger than the 2.93% of the overall Israeli population that it represents. This study found that such allocations were not done according to economic criteria or socioeconomic considerations, but were based on political interests that discriminate in favor of the settlements.**

For example, judging from the report of the State Revenue Administration for 2001, which provided weighted socioeconomic rankings of the entire beneficiary population, it was clear that settlement populations were not needy relative to populations in Israel. On a scale of one to ten (with one being the weakest population), the inclusive average of the beneficiary population in the West Bank and Gaza earned a rating of 6, compared with residents of the Negev (rated 4) and residents of the Galilee (rated 4.6).

## **BREAKDOWN OF ISRAELI GOVERNMENT SPENDING IN THE WEST BANK AND GAZA IN 2001**

### **State Budget Transfers to Local Authorities**

The Israeli government transfers budgets to local authorities, both for regular budget items (such as funds for welfare) and for development budget items (such as money for housing, transportation, roads, the environment, and public buildings).

In 2001, approximately NIS 802 million (\$195.6 million) from the state budget was transferred to local authorities in the West Bank and Gaza, of which NIS 618 million (\$150.7 million) can be considered surplus expenditures for the settlements.

Although settlers account for just 2.93% of the Israeli population, they received 6.51% of the total budget transfers to local authorities. In a sector-by-sector breakdown, settlers accounted for 1.13% of all Israeli urban residents, but got 1.93% of these funds; settlers accounted for 6.64% of all Israeli local council residents, but they received 9.3% of this money; and settlers were 13.15% of all Israeli regional council residents, yet they got 19.89% of these funds.

In 2001, the Israeli government transferred to authorities in the West Bank and Gaza on average NIS 3,916 (\$955) per person, compared with just NIS 1,763 (\$430) per person inside Israel, that is to say, two and a quarter times more.

### **Income Tax Reductions**

Israeli residents of regions of national priority are entitled to reductions in the income tax rates that they pay. The rationale for granting these reductions is to attract strong populations, earning above the tax bracket for tax purposes, to development areas. The intention was, at first, to encourage their integration into existing communities characteristically comprised of weaker income populations. Settlers began benefiting from income tax reductions in 1978.

In 2001, the total income tax reductions for settlers amounted to NIS 200 million (\$48.7 million), of which NIS 160 million (\$39 million) could be considered surplus expenditures for settlers.

### **Housing**

For more than 30 years, Israel has invested billions of shekels in building settlements to absorb approximately 47,000 households. There are two channels of government activity regarding settlement housing.

First, the state housing budget provides assistance to Israeli residents in buying residential apartments, including funds to banks to furnish loans for apartment purchases and budgets to subsidize interest on the loans and various grants for apartment purchases.

In addition, there are occasional housing assistance campaigns that include special interest subsidies. One example of such an initiative was the “Sharansky Campaign,” which encouraged apartment

purchases in cities where the demand for apartments was especially low. The criteria that the Housing Ministry used clearly indicate that preference was given to settlements in the occupied territories.

In 2001, the Israeli government allocated approximately NIS 374 million (\$91.2 million) for assistance in apartment purchases in the occupied territories, which constituted about 6.9% of overall expenditures for this activity (more than double the percentage of the settler population). Of the portion spent in the West Bank and Gaza, NIS 216 million (\$52.6 million) can be considered surplus expenditures for settlements.

The Housing Ministry also spent NIS 186 million (\$45.3 million) developing construction sites, mostly building infrastructures, constructing public institutions, and funding the Rural Construction Administration in the occupied territories. Since any expenditure beyond the Green Line for this activity can be considered a surplus expense, the full NIS 220 million can be seen as surplus funding for settlement-specific projects.

In sum, the Housing Ministry spent NIS 560 million (\$136.5 million) in the territories, of which NIS 402 million (\$98 million) can be considered surplus expenditures in the settlements.

## **Transportation**

One of the biggest parts of Israeli government spending is transportation, especially road building. The phrase “bypass roads,” used to refer to highways in the West Bank and Gaza, highlights the fact that road building in the occupied territories does not comply with the accepted criteria for road construction in the State of Israel, and certainly is not a result of considerations of heavy traffic, traffic accident prevention, or reducing the hours of sitting in traffic.

In an earlier report from the Adva Center based on data from the Central Bureau of Statistics, an analysis of the ratio of the area of road building starts per square meter between 1990 and 1999 found that, of all districts, the highest ratio of road building starts per capita was in the West Bank and Gaza, which reached 17.2 square meters per capita. During those same years, the ratio of road building per capita for the entire State of Israel was 5.3 square meters per capita. The Adva Center report also noted that the area of road building in the occupied territories exceeded even the length of the roads there, perhaps also an indication of the standards used in the West Bank and Gaza.

The transportation budget includes four main items, of which the Peace Now report examined just two: the road maintenance budget and the development budget. In 2001, NIS 396 million (\$96.5 million) were allocated for these purposes in the territories. The entire amount of these expenditures can be considered surplus budgeting for the settlements. (This amount accounts for nearly 10% of the overall state budget for these items, but rises to roughly 14% if the development of railroad tracks and mass transportation systems is factored out.)

## **The Settlement Division**

The Settlement Division mainly works to establish infrastructures in the settlements and to assist in developing manufacturing facilities in the occupied territories. In 2001, NIS 113.5 million (\$27.6

million) was spent by the Settlement Division in the West Bank and Gaza, all of which can be considered surplus expenditures.

### **Development of Industrial Zones**

The Ministry of Industry and Trade develops employment and industrial zones in development areas. Over the years, the Ministry has created 17 industrial zones in the West Bank and Gaza. In 2001, the Ministry spent NIS 28.2 million (\$6.8 million) on such zones in the occupied territories, approximately 18% of the total national budget for this purpose, all of which can be considered a surplus expenditure.

### **Development of Water Sources**

The National Infrastructures Ministry operates a budget item called “water works.” Within this item, resources are allocated for developing water sources and sewage plants, as well as stream draining. In 2001, the water works budget for the West Bank and Gaza amounted to about NIS 40.5 million (\$9.8 million), all of which should be considered surplus expenditure. With these amounts, 11% of the overall water works budget was spent in the territories that year.

### **Activities Outside the State Budget**

It is difficult to track all the resources channeled to the territories and the settlements. However, from time to time, there is publicity about the transfer of a budget of one source or another to the West Bank and Gaza. Sometimes these funds do not constitute an integral part of the state budget, at least not directly. But they still constitute a diversion of money from which the overall economy could derive benefit. Here are two examples of such items that can reasonably be assumed reflect 2001 spending.

Budgeting of the health system is based on the collection of insurance fees, which are transferred to health funds. The health fund in the territories is the Leumit Health Fund, which has claimed on numerous occasions that there is a surplus cost in establishing and maintaining its system of clinics in the settlements. The amount presented to the government as surplus costs was approximately NIS 30 million (\$7.3 million).

In another example, the State Lottery is an external arm of the government, operating an annual budget for the development and establishment of education, health, welfare, sports, and arts institutions. In 2002-2003, the Lottery intends to allocate NIS 20 million (\$4.8 million) of its budget for the territories.

**SUMMARY OF 2001 ISRAELI GOVERNMENT EXPENDITURES IN THE WEST BANK AND GAZA (IN MILLIONS)**

<b><u>State Budget Item</u></b>	<b><u>Overall/NIS</u></b>	<b><u>Surplus/NIS</u></b>	<b><u>Overall/\$</u></b>	<b><u>Surplus/\$</u></b>
Local Authorities	802	618	195.6	150.7
Income Tax Reductions	200	160	48.7	39
Housing	560	402	136.5	98
Transportation	396	396	96.5	96.5
Settlement Division	113.5	113.5	27.6	27.6
Industrial Zones	28.2	28.2	6.8	6.8
Water Sources	40.5	40.5	9.8	9.8
<b><u>Items Outside State Budget</u></b>				
Health Fund	30	30	7.3	7.3
State Lottery	20	20	4.8	4.8
<b>TOTAL</b>	<b>2.190 Billion</b>	<b>1.808 Billion</b>	<b>533.6 Million</b>	<b>440.5 Million</b>