

**Peace Now Special Report:
The Price of the Settlements in the 2009-2010 Budget Proposal**

June 2009

An examination by Peace Now of the 2009-2010 state budget shows that nearly 1 billion shekels are explicitly designated for the settlements each year. This includes only special budget items for the settlements, without the general items where budgetary expenses involving the settlements are hidden. In this document we will try to check:

1. How much do the settlements cost us?
2. How much money in the 2009-2010 budget is allocated to the settlements and in which budget items?
3. So where is the big money hiding?
4. National priority areas and the settlements

1. How much do the settlements cost us?

It is very hard to estimate the final price of the settlements. The difficulty is not only because Israel pays a very high prices for maintaining the settlements and the continued occupation in terms of its security, values, society and international standing; also because the items in the state budget simply do not specify allocations to the settlements explicitly. Most of the budget items are worded in a general way without a geographical breakdown and without listing the communities for which the money is designated. Nevertheless, past attempts to estimate the price of the settlements reached 2.5 billion shekels a year.¹

Some of the figures can be found in the publications of the Finance Ministry and the Central Bureau of Statistics on state transfers to local councils. The information is published after the end of the budget year and collected retroactively based on the actual budget performance. The transfers to the local councils are just part of the overall investment in the settlements. According to Finance Ministry figures, in 2007 the state transfers to local councils in the territories amounted to NIS **1,127,455,469** (more than 1 billion and 100 million). That amounts to 8.9% of the total transfers from the state to councils that year. At that time the number of residents in the settlements was 3.8% of the residents of Israel. Therefore the budget for the settlements was more than double their relative size in the population.

According to CBS figures, gross investment in public construction in Judea and Samaria (not including East Jerusalem) that year was **NIS 305 million**, which constituted 12.6% of total public investments in construction for housing that year (in the years 2005 and 2006 gross

¹ See for example: <http://www.haaretz.co.il/hasite/pages/LiArtSR.jhtml?objNo=53757>
http://www.peacenow.org.il/data/SIP_STORAGE/files/0/4020.pdf
http://www.peacenow.org.il/data/SIP_STORAGE/files/5/2985.pdf
[http://www.adva.org/UserFiles/File/aa-Full%20Report%20-%20Latest%20November%202008\(1\).pdf](http://www.adva.org/UserFiles/File/aa-Full%20Report%20-%20Latest%20November%202008(1).pdf)

public investment in the settlements was more than 16% of total investments). It should be noted that some of that amount is included in the amount transferred by the state to the local councils.

Another example of the figures that can be found in retrospect are figures on transportation projects periodically published by the Ministry of Transportation.

In 2008 highways costing a total of more than NIS 345 million were completed in the territories including:

- Upgrading Highway 1 between Maale Adumim and the Jordan Valley -- NIS 157 million
- Bypass road around East Jerusalem – 112 million
- Upgrading Highway 60 S. – NIS 30 million
- Completing Highway 5 between Barkan and Ariel -- NIS 46 million

The financial cost of the settlements at least 2 billion shekels a year is tremendous. But the budget remains vague and unspecific regarding the settlements.

A comprehensive effort, as presented below, is needed in order to make the state budget transparent and clear regarding investment in the settlements. This would require obligating the government ministries to report the geographical breakdown of the budget allocations and closely following those figures.

2. How much money in the 2009-2010 budget is devoted to the settlements?

There are several items designated for the settlements which cannot be hidden in general budgets, and are specified explicitly in the state budget proposal. Following are sums that can be found in the 2009-2010 budget proposal.

A. Sums that appear in the budget proposal explicitly (in millions NIS):

Ministry	Item	Sum 2009	Sum 2010	Item number
Defense	Continued acquisition of security components, public transportation armoring and more	85	81	
Defense	Security components for settlements	13	13	
Education	Support for Ariel College	80.435		2102
Housing	East Jerusalem security	54.54	54.54	706914
Housing	Maale Adumim development	76.84	76.84	707005

Housing	Har Homa development	107.84	107.84	707007
Transportation	Bus armoring	9.5	9.5	
Transportation	Road No. 80	80		
Transportation	Upgrade of Road No. 1	280		
Transportation	Upgrade of Silwan Road	30		
Infrastructures	Judea and Samaria water systems	7	7	7314
PM office	The Holy Basin Plan	50	50	
PM office	Support for The Wailing Wall Heritage Fund	20		
Various subsidies	Exporter compensation	16.737	15.39	320408
Total		910.892	At least 415.11	

B. Sums and partial figures that appear in the budget proposal (in millions NIS):

Ministry	Item	Sum 2009	Sum 2010	Item number	Comments
Defense	Coordinator of government activities in the territories	145	146.5	17	Some of the amount goes to the settlements
Agriculture	The settlement division	95.424	84.072	3328	Some of the amount goes to the settlements
Transportation	Subsidizing public transportation	27	28	3208	Some of the amount goes to the settlements
Education	Subsidizing student busing in the amount of 90% of the price				
Defense	Covering security expenses in settlements				
Public Security	Sha"y District	220	220		Estimation
Total		487.424	At least 478.572		

C. List of explicit budget items:

Housing Ministry:

- Security in East Jerusalem -- NIS 54.54 million a year (item 706914 in the budget). The settlers in the middle of the Palestinian neighborhoods in East Jerusalem receive close, 24-hour a day security protection provided by a private company at the expense of the taxpayers. [For further details press here.](#)
- Maale Adumim -- NIS 76.84 million a year to develop neighborhood 07, in which 3100 housing units were built. The last hundreds of housing units in the project are currently being built (see [Explanation of the Budget](#), pp. 79-80).
- Har Homa -- NIS 107.84 million a year to develop the Har Homa neighborhood in East Jerusalem, to build 240 housing units in 2009, and another 907 housing units in 2010 (see [Explanation of the Budget](#), pp. 79-80).

Transportation Ministry:

- Subsidizing public transportation by bus -- NIS 27 million in 2009; and NIS 28 million in 2010 under the code name "subsidies for other populations" -- for settlers and haredim (see [Explanation of the Budget](#), p. 36).
- Armoring buses -- NIS 9.5 million a year (see [Explanation of the Budget](#), p. 36).
- Highway number 20 -- NIS 80 million. The road is meant to connect Pisgat Ze'ev to Highway 45 towards Modi'in and Tel Aviv. This means paving an obstacle on the road to a final settlement, infrastructure running through Palestinian neighborhoods which are supposed to be part of the Palestinian state in the final settlement (see [Explanation of the Budget](#), page 81).
- Upgrading Highway 1 between Mishor Adumim and the Good Samaritan, between the Zeitim intersection and the Coca-Cola intersection (see [Explanation of the Budget](#), p. 34).
- Roads in East Jerusalem -- among other things "upgrading the Silwan ascent" for NIS 30 million, in cooperation with the Ministry of Tourism in a project initiated by the settler association Elad (see [Explanation of the Budget](#), p. 81).

Defense Ministry:

- Continued acquisition of security components and their maintenance, continued closure of siren and shelter gaps; armoring public transportation vehicles in the settlements -- NIS 85 million in 2009 and NIS 81 million in 2010. (p. 96)
- Security components for the settlements -- NIS or 10 million a year (separate item, 161003). (p. 42)
- Covering security expenses for guards and security coordinators of settlements (section 15) -- the amount is not specified. (p. 45).
- Parts of the budget of the coordinator of government activities in the territories, which is NIS 145 million for 2009 and NIS 146.5 million for 2010 (section 17). Among other things

for: planning settlements, supervising construction, infrastructure, land and so on. (pp. 37-38)

In 2009 NIS 3.336 million was added to the budget to increase supervision of Palestinian construction near the fence. (p. 37)

- Every settler is entitled to the armoring of his private vehicle against stones at the expense of the state -- a budget line from the days of the first intifada, recently put back in the budget under settler pressure (see: <http://www.myesha.org.il/?pg=&CategoryID=283>).

Agriculture Ministry:

- Settlement division - part of the division's NIS 95.424 million budget for 2009 and NIS 84.072 million for 2010 is for the settlements. The department gives support to settlements and communities in the Negev and Galilee.
- **Funding illegal outposts: there are 120 official settlements in the territories. According to the budget papers, the settlement department handles 134 settlements in the territories (and two outposts). Therefore at least 16 outposts are enjoying department support. (p. 44).**

Various subsidies:

- Exporter compensation (item 320408) -- NIS 16.737 million in 2009 and NIS 15.390 million in 2010 -- compensation for settler exporters for loss of tax discounts in the EU, which does not recognize goods from the territories as goods from Israel for the purpose of the free trade agreement. (p. 19)

The Prime Minister's office

- Strengthening the Jewish hold on East Jerusalem -- NIS 50 million a year, under a project for "the rehabilitation, development and maintenance of the Old City basin in Jerusalem," see details (see Explanation of the Budget, page 45).
- Supporting the Western Wall Heritage Foundation. The Western Wall Heritage Foundation is an organization that manages and develops the Western Wall area and is in charge of archaeological excavations and construction in the **Moslem quarter and its surroundings**. In the draft of the 2009 budget the amount of NIS 20 million appeared. In the new draft the amount does not appear explicitly (Budget Highlights, page 107).
- Continued budget for disengagement -- NIS 285 million in 2009 and NIS 271.3 million in 2010 (item 0406). This item is not for continued construction in the settlements but it is part of the price that Israel continues to pay for construction of settlements (see Explanation of the Budget, page 61).

Ministry of Infrastructures:

- Judea and Samaria water systems – NIS 7 million a year (item 7314). Work which consists mainly of separating the settlement water infrastructures from the Palestinian infrastructures. (p. 60)

Ministry of Domestic Security

- The SJ police district responsible for the settlements in the territories has 1030 police, at an estimated cost of NIS 220 million (at NIS 220,000 per standing policeman a year); the SJ district also has 178 police vehicles which constitute another cost, in addition to the police stations, equipment and other needed police infrastructures. This is not a budget to develop the settlements but it is part of the price that Israel continues to pay for them (see Explanations of the Budget, page 57).

Ministry of Education:

- Allocation for Ariel College -- NIS 80.435 million. The Ariel College receives the greatest allotment of all colleges (the Sapir College comes in second place with NIS 68 million). (p. 69)
- Participation in student busing at a rate of 90% for Judea and Samaria councils (that use bulletproof armored buses). For comparison: in other councils the ministry's participation ranges between 40% and 85%. (p. 193).

3. So where is the big money hiding?

How is the budget built? Most of the state budget is formulated by areas and subjects and not by geographical breakdown, so that it is not possible to know how much of it is designated for the settlements and how much is for other parts of the country. The budget items speak of investments in construction or support for industry or various elements of education, but without specifying the geographical breakdown of the budget. The little information that does nevertheless appear openly and explicitly in the state budget as detailed above is only in cases when the budget items cannot be formulated as part of another general budget line. These items total nearly 1 billion shekels in 2009.

The budget of the Housing and Construction Ministry, for example, is NIS 5.4 billion, and includes, among other things, public construction, planning and developing infrastructures and grants and benefits for buying apartments and security construction. Part of that budget goes to the settlements like to any other community.

But as we saw above, if you analyze the various investments retroactively, you can see that the gross investment in public construction in Judea and Samaria (not including East Jerusalem) in 2007 was NIS 305 million, which was 12.6% of the total public investment in construction for housing that year.

How, then, do the settlements receive the surplus allocations?

It is done in the **budget performance stage**, apparently in the decisions of the various ministries to divide the budget pie between the different communities, and their choice to prefer investments and projects in settlements at the expense of other locations. In order to know about special benefits for the settlements, the decisions of the various government ministries must be followed on a daily basis, and complete transparency about budget performance is needed. Although one can learn retroactively from each ministry's budget performance report about some of the fund allocations to the settlements (although even in the performance specification there is not always a geographical specification), the public discussion on allocating funds to the settlements should take place before the money is disbursed and not after.

The bulk of the task is incumbent on the members of Knesset, especially members of the Knesset finance committee, who could demand the government ministries provide a real-time report about every budget allocation to the settlements, and maybe stipulate any such allocation on the approval of the finance committee. This would require an initiative and organization by legislators on the political level.

National priority areas. Another way to encourage the settlements is defining them as national priority areas. For many years all the settlements enjoyed the status of national priority areas and the exceeding benefits that went with that definition. Today not all of the settlements are considered national priority areas A for the purpose of all of the benefits. The budget proposal presents the cost of some of the benefits for the priority areas (for example, aid in national priority areas (item 700916) -- NIS 181.853 million, and an item of subsidizing infrastructures in national priority areas (item 706923) -- NIS 74.64 million in 2009), but it does not say how much of it is for settlements beyond the Green Line. The appendix of this document details the various benefits given to national priority areas.

The list of communities in priority areas made in 2002 is going to expire shortly and the government is expected to change it as part of its budget decisions. According to proposals in the Economic Arrangements Law for 2009 and the National Priority Areas Draft Law 5747-2007 included in the draft Economic Arrangements Law, the government intends to enshrine in the law its power to decide on national priority areas and to establish, along with the criterion of socioeconomic strength and geographical location, a criterion of "other needs of the population in the area, which necessitate its advancement and development" to establish priority areas. This means that the various government ministries (and especially the Housing Ministry, which transfers very large sums of money to the settlements), will still be able to continue giving special benefits to the settlements, regardless of any socioeconomic rationale.

On August 24, 2008 the government decided to declare the periphery areas as national priority areas. According to the geographical criterion set forth in the decision, most of the settlements are not considered "periphery," and will not be included in the priority areas, except for the Hebron Mountain and the Jordan Valley. However, the decision does not exclude declaring other areas as national priority areas, and the various government ministries will apparently be able to continue giving the settlements a preferred status.

And a last comment on the economic situation in the settlements (2006 figures)*:

Most of the settlements do not suffer from a difficult socioeconomic situation. Indeed, the situation in some is comparable to the most affluent communities in the country. Nonetheless, they enjoy the status of "preferred area A". For example:

- The income level for a family in the settlements (NIS 13,566 per month) is 10% higher than the national average, which is NIS 12,343 per month (however, because of the larger family size in the settlements, the per capita income is lower than the national average).
- The unemployment level in the settlements is below the national average (6.5% in the settlements compared to 7.3% throughout Israel).
- The level of success in matriculation exams in settlements is higher than anywhere inside Israel: 71.2% of examinees in the territories compared to a national average of 65.8%.

It is important to emphasize that the strong economic indicators in the settlements exist despite the fact that one-third of the settler population is ultra-Orthodox – a group that ranks as among the poorest in Israel. The fact that despite the fact that 1/3 of the population is ultra-Orthodox, the settlers' economic figures are higher than that the Israeli average, is a clear reflection of the disproportionate benefits granted to settlements by the government, added to the special aid programs provided by the government to the ultra-Orthodox population.

** The above economic data is from 2006 and is based on the Central Bureau of Statistics and an Ariel College statistics yearbook.*

Appendix: national priority areas and the settlements

The government of Israel gives a series of benefits and allocations to various communities according to a map of national priority areas determined by the government. On August 24, 2008 the government of Israel decided on a geographical criterion to determine national priority areas, based on the CBS periphery index, which determines the level of marginality of each settlement according to its geographical distance from Tel Aviv. However, the various ministries still retain the legal possibility of declaring additional or other communities as national priority areas.

A. Different Lists of Preferred Areas

As noted above, the various Israeli government ministries use their own lists of “preferred communities,” and, consequently, the treatment of settlement varies according to the ministry in question. For example, all of the settlements are included in the “preferred communities” list used by the Ministry of Industry Trade and Labor (which also maintains subcategories of preferred areas A, B, and C, with A being the areas enjoying the most special benefits). In contrast, the Housing Ministry list includes some, but not all, settlements.

Bearing this in mind, the following are the main categories of special benefits given to preferred areas in general, with all of them applying to some or all settlements:

- **Industry and agriculture** -- all of the settlements and industrial areas in the occupied territories are considered "preferred area A". On May 23, 2009 the list of the preferred communities for industry and agriculture officially expired and the government should make a new list. (see the list here: <http://www.tamas.gov.il/NR/exeres/7D03B207-004C-489B-843E-A24F2971152E.htm> [Hebrew]).
- **Tourism** -- all of the settlements on the Golan Heights are considered "preferred area A" areas for tourism benefits.
- **Housing** -- some of the settlements are considered “preferred area A” by the Housing Ministry, thus qualifying them for a wide range of benefits. The Housing Ministry’s list of “preferred area A” communities is not publicly available and the Housing Ministry has thus far failed to respond to Peace Now’s request to receive the full list of “preferred area A” communities.
- **The Israel Lands Administration**-- the list of priority communities is presumed to be the same as the Housing Ministry's.
- **Education** – following a petition to the High Court by the Adalah organization, raising issues of discrimination against Arab communities in education budgets, the Ministry of Education decided to set new criteria for providing benefits to communities. As a result, while up until now all settlements have qualified for special benefits from the Ministry of Education, starting in 2009 some settlements were removed from the list of "preferred area A" for education and no longer qualify for these benefits.
- **Treasury** -- income tax discounts are given to a specific list of communities, including a few settlements, as well as a number of tax benefits as an element in subsidizing development and infrastructure costs in preferred areas designated for rural development and the development of industry, agriculture and tourism areas.

Benefits given to preferred areas:

Industry and agriculture:

- Grants and tax benefits for industry (Ministry of Industry Trade and Labor)
- Employer support (Ministry of Industry Trade and Labor)

- Aid to factories in crisis (Ministry of Industry, Trade and Labor)
- Help in developing infrastructures for industry (Ministry of Industry Trade and Labor)
- Grants for industrial research and development costs (Ministry of Industry Trade and Labor)
- Priority in funding technological incubators (Ministry of Industry Trade and Labor)
- Grants and tax benefits for agriculture (Ministry of Agriculture)
- Aid to rural settlement through the settlement division (Ministry of Agriculture)

Housing:

- Housing assistance -- subsidized loans to buy an apartment ("location loans") and loan supplements as part of relaxed entitlement standards (for example, the minimum age criterion for receiving a loan), (Housing Ministry).
- Development cost subsidy – subsidies to cover 50% of development costs for contractors and entrepreneurs (Housing Ministry)
- Budgeting public buildings -- the Housing Ministry underwrites the construction and renovation of public buildings to a greater extent in preferred areas (Housing Ministry)

Israel Lands Administration:

- Discounts on land price (ILA)
- Exemption from tender for land (ILA)

** There are other benefits given to preferred areas, such as in education, but they are not directly relevant to the settlements.*

Examples:

Purchase and construction of apartments:

- Mortgage supplement -- NIS 97,200 loan at comfortable terms (4.5% interest rate) for anyone buying an apartment (who doesn't have one somewhere else), regardless of economic situation and assistance entitlement points.
- Funding of 50% of development cost of the construction project.
- Exemption from tender for the land and 69% discount on the price of the land (buyers must pay only 31% of the price of the land).

For factories:

- 24% grant for permanent property (new equipment and buildings). If the investment is more than NIS 140 million the grant is at the rate of 20%.
- Exemption from corporate tax in the first two years, reduced corporate tax of 25% for another five years and calculation of accelerated depreciation.
- (Another option instead of the grant is a full corporate tax exemption for 10 years on undivided income and calculation of accelerated depreciation).
- 60% government grant for R&D expenses.
- Exemption from tender for land and 69% discount on value of land (buyers must pay only 31% of the price of the land).

For employers:

- Assistance at 15% of average monthly salary costs for new workers (with ceiling of up to NIS 120,000 per worker) for employers to increase the number of workers by 20% or by 25 workers, if the workers are residents of a preferred area.

For construction of industrial areas:

- Assistance of 40-50% of the price of the land and its development costs for entrepreneurs who receive the right to develop and manage industrial areas.

D. A sample of communities and benefits:

	Locality data		Benefits in buying and building apartment		Benefits for industry	
	Community	Average income NIS	Mortgage supplement NIS	Financing of development costs	Grant for permanent property	Exemption from corporate tax
Settlements – Preferred Area A	Efrat	7,793	67,200	50%	24%	Two years
	Ariel	5,508	97,200	50%	24%	Two years
Inside Israel -Preferred Area B	Beit Shemesh	5,091	67,200	Figures unavailable	10%	None
	Or Akiva	4,381	28,800	Figures unavailable	10%	None
No priority status	Ashdod	4,832	0	0	0	None
	Ramleh	4,428	0	0	0	None

Conclusions

The conclusion from these figures is that Israel grants the settlers many benefits, even though most of them do not need them. The emerging decision is that the government will have the exclusive power to decide the national priority areas as well as the list of benefits. Even if the criterion of distance from the center of the country is accepted as a guiding criterion for priority areas (as indicated by the previous government decision on August 24, 2008), it is not clear yet whether this will bind all of the government ministries or, as appears from the wording of the draft law and government decisions, different ministries will be able to make different lists with different criteria, as they do today.

Sources for the annex:

Ministry of Industry Trade and Labor website -- www.moital.gov.il

Central Bureau of Statistics website -- www.cbs.gov.il

Tznobar Consultants, Ltd -- report on tools to encourage settlement in preferred areas, December 2006

<http://www.moch.gov.il/NR/rdonlyres/B5711295-153D-4A66-89FC-28D492D5BF89/2752/EyzoreyAdifut1.pdf> [Hebrew]

Ariel College -- Judea and Samaria Statistical Yearbook 2007

Draft Economic Arrangements Law for 2009 -- Ministry of Finance Website

<http://www.mof.gov.il/BudgetSite/Law/Lists/List/Attachments/3/proposal%20for%20a%20law.pdf> [Hebrew]