

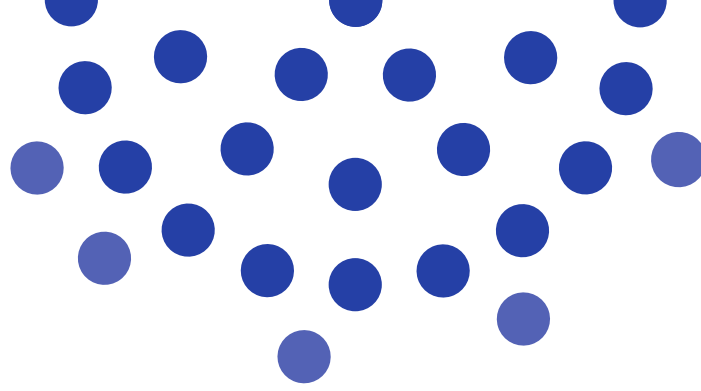
WHAT IS FINANCIAL INCLUSION AND WHAT NEEDS TO BE DONE TO INCLUDE ARAB SOCIETY IN ISRAEL?

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AdvaCenter
Information on Equality and Social Justice in Israel



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What is Financial Inclusion and What Needs to be Done to Include Arab Society in Israel: Executive Summary

Much has been written about the Israeli economy, and, of late, Israel as a Hi-Tech Nation. Our purpose here is to introduce a concept now being advanced by The World Bank that is also very relevant to Israel: **Financial Inclusion**.

On the individual or household level, **financial inclusion** is about something as simple as putting one's money in a bank, where it can be kept safe, provide the basis for a mortgage loan to purchase or build a home, a business loan to start or grow an enterprise, or a consumer loan for unexpected household needs; serve as the basis for digital payments for goods and services; build assets to cover contingencies that always arise and facilitate the socio-economic advancement of households – as well as of whole population groups.

On the country level, the universalization of the utilization of financial services (**financial inclusion**) leads to an increase in the general standard of living, due to more investment possibilities, more jobs and – in general -- more economic development.

In fact, the World Bank considers financial inclusion so important that it initiated “The Financial Inclusion Global Initiative,” in partnership with the Gates Foundation, among others, to encourage the initiation of financial inclusion targets in each and every country. In 2021, the World Bank produced *Fintex*, a comparative international index on banking and other issues connected with financial inclusion. While its focus was on developing countries, the World Bank stated that in rich countries, too, there are population groups that do not fully benefit from the financial services on offer in the country. Thus, the World Bank provided the impetus for Israel's government to examine the state of financial inclusion in Israel and to create targets for broadening its coverage.

The Bank of Israel followed suit with a report that collated most of the data currently available, entitled (in Hebrew) “Inter-Ministerial Committee for the Creation of a National Plan for Increasing Financial Inclusion,” published in July 2022.

The Bank of Israel report provides data on two social groups whose use of financial services lags behind that of the general population: Arab citizens and Haredi Jews. The present brief will focus on Arab citizens of Israel, following Knesset Committee of the Economy discussions and the Bank of Israel 2022 report on the lacuna in financial services utilized by residents of Arab localities.

The background to the government focus on Arab society is the fact that Arab society is active financially, but that money is handled within the informal rather than the formal economy. This situation leads to older Arabs going without and younger Arabs paying more for services, especially loans. More critical, the informal economy is less forgiving than the formal one, and arrears in repayment often lead to violence, not only against the borrowers, but also against their families and against innocent passersby. This point cannot be emphasized enough: the exclusion of Arab citizens from bona-fide financial services, for whatever reasons, results in both rampant crime and under-development for individuals, households, and Israeli society as a whole.

Bringing Arab citizens of Israel into the formal Israeli economy has the potential to significantly improve their welfare – as well as that of the Israeli economy. Thus, the government of Israel has established targets for increasing financial inclusion for the Arab minority, as documented most recently in Government Resolutions 922 and 550 and the Bank of Israel report.

Recent Major Israeli Initiatives on Financial Inclusion for Arab Citizens

Government Resolution 922 (2015) for 2016-2020	Government Resolution 550 (2020) for 2021-2026	Bank of Israel Inter-Ministerial Committee Report (July 2022) for 2022-2030
<p>Aid to Arab small business to receive bank credit</p> <p>Status</p> <p>Achieved: 17.5-20% of Maof¹ budget allocated to Arab businesses + an additional NIS 24 million allocated for encouraging small businesses as planned. Budgets were utilized</p>	<p>Increase of 50% in mortgage loans to Arab localities</p> <p>Status</p> <p>Too early to determine</p>	<p>Increase in mortgage loans to Arab localities</p> <p>Status</p> <p>Too early to determine</p>
	<p>Assistance in debt servicing</p> <p>Status</p> <p>3 debt servicing centers set up in Arab localities in the North</p>	<p>Increase in bank services and digital payments in Arab localities</p> <p>Status</p> <p>Too early to determine, but educational actions taken in Arab localities to encourage digital payments</p>
		<p>Multi-year program for financial literacy</p> <p>Status</p> <p>Too early to determine; tender put out to municipalities and non-profits to conduct courses for young people</p>

The financial services we will review here include many that most of us take for granted: banking; access to credit, especially for business initiatives; debt servicing; access to mortgage loans; asset building and saving for retirement. We will also touch upon the issue of financial literacy, which it is assumed may be the key to increasing the utilization of financial services among the under-served.

¹ Maof: Advancing Business and Initiatives in Israel, an advisory service of the Ministry of Industry and the Economy.

Basic Figures on Banking, Access to Credit, Debt Servicing, Access to Mortgage Loans, Asset Building and Saving for Retirement

1 - Number of Bank Branches*				
Total	In Jewish Localities	% of Total	In Arab Localities	% of Total
1,043	757	73.5%	103	10%

2 - % of Employed Persons without Pension Fund Savings amongst all Employed Persons Registered as Required by Law at the National Insurance Institute				
Bottom Income Decile	Second Lowest Income Decile	Third Lowest Income Decile	Fourth Lowest Income Decile	Top Income Decile
47%	38%	35%	32%	3%

3 - % of Banked Households	Jews	Arabs
	Nearly 100%	87%

4 - Asset Building: % of Individuals Reporting Ability to Save	Jews	Arabs
	38%	11%

5 - Loans Awarded by the Fund for Small and Medium-Sized Businesses to Companies in Arab and Jewish Localities* during the Corona Epidemic, by January 2022		
Total # of Requests Handled	Requests from Arab Localities	Requests from Jewish Localities
120,000	17,910	76,151
Average # of Requests Approved	Requests from Arab Localities Approved	Requests from Jewish Localities Approved
57.7%	53.1%	58.8%
Average Loan Approved	Average Loan Approved in Arab Localities	Average Loan Approved in Jewish Localities
NIS 346,500	NIS 248,800	NIS 359,700

6 - Debt Servicing: % of Debtors Registered at the Collection Office			
Jews	% of Population	Arabs	% of Population
83%	79%	37%	21%

7 - Debt Servicing: Percentage of Debtors Aged 18-26			
Jews	% of Youth	Arabs	% of Youth
37%	71.8%	63%	28.2%

8 - % of Total Mortgage Loans Received in Arab and Jewish Localities, 2020	Arab Localities	Jewish Localities
	1.5%	98.5%

* The remainder are in mixed Jewish-Arab localities.

- (1) Avidan, Yair. 2022. "Banking among Households in Arab Society". PowerPoint presented at a meeting of the Knesset Committee on the Economy. (Hebrew).
- (2) Menahem-Carmi, Sarit, Professor Avia Spivak and Mark Rosenberg. September 7, 2022. "Mandatory Pensions Law: Really?" PP presentation at the conference, "Low Enforcement and High Individual Responsibility: Portrait of the Pension System - 2022". Jerusalem. (Hebrew).
- (3) Bank of Israel Annual Report 2022. p. 80. (Hebrew).
- (4) Bank of Israel Annual Report 2020. Based on Israel Central Bureau of Statistics' Long Term Survey for 2018.
- (5) Noam Botosh. Knesset Center for Information and Research. January 3, 2022. "Data on Assistance to Businesses during the Corona Crisis". (Hebrew).
- (6) Authority for Enforcement and Collection, Department of Planning, Research and Policy. 2022. *Annual Report of the Activities of the Authority for Enforcement and Collection for 2021*. (Hebrew).
- (7) Ibid.
- (8) Calculation of author based on Bank of Israel. July 2022. "Inter-Ministerial Committee for the Creation of a National Program for Increasing Financial Inclusion." p. 74.

The advantages -- or rather -- the necessity of access to financial services -- is well-known among the affluent in developed economies, and as such is taken for granted. However, even in rich countries like Israel, not everyone is in the know and in the game. The Bank of Israel July 2022 report points to numerous barriers to the use of financial services in Israel among Arabs. *Regarding banks*, those barriers include the insufficiency of banking services in Arab localities, including the lack of information in Arabic; the distrust of many Arab citizens of Israeli banks; the non-use of digital banking services (lack of financial literacy and lack of trust), and the long-standing practice in Arab society of making payments, including wages, in cash.

The *barriers to the receipt of mortgage loans* are not only socio-economic but also connected to historical practices and lacuna, including the lag in city planning in Arab localities; the absence

of registry of many land parcels and the joint ownership of others, which effectively obviate the possibility of utilizing the home to be built or purchased as collateral. Another obstacle is the religious-cultural opposition to taking out mortgage loans (still relevant in parts of Arab society), as most loans involve interest, which is forbidden under Islamic law (as it once was in Christianity). Yet another is the lack of information available in Arabic and the inadequate number of Arabic-speaking bank employees with relevant expertise.

Arabs' small businesses encounter a similar obstacle; that is, low credit ratings; the absence of collateral to back up bank loans, due to the absence of bank accounts or limited accounts; and the fact that their assets may be in cash, and as such, undocumented and not fungible.

For Arabs, the *barriers to pension savings* are closely connected with the structure of the labor market; on average, Arabs earn less than Jews and are employed in economic sectors and in small businesses in which pension savings are not the norm, this sad reality despite the fact that monthly contributions to pension funds on the part of both employers and employees are mandated by law.

As the table above shows, Arab citizens, and especially young people between the ages of 18 and 26, are over-represented at the Collections Office of the Enforcement and Collection Authority of the Ministry of Finance. *Debt servicing* is crucial if a citizen is to have an active bank account and access to loans and other financial services. Here, too, the obstacles are numerous: the absence of branch offices in Arab localities and insufficient Arabic-speaking personnel; the expectation that debts be serviced digitally, whereas Arab citizens rely more on cash and less on digital payments; and the lack of financial literacy.

In the following pages the brief will elaborate somewhat on the issues of financial inclusion in general, banking, credit, debt servicing, asset building and mortgage loans, pensions and financial literacy.

What is Financial Inclusion and What Needs to be Done to Include Arab Society in Israel

In a 2022 Power Point presentation, “Annual Economic Forum of Arab Society,” Bank of Israel Governor Professor Amir Yaron defined “financial inclusion” as a situation in which citizens and business owners have access to a variety of efficient, available financial services that are suitable to their needs, at a fair price. Yaron continued, “increasing financial inclusion for Arab society will help to improve the standard of living in Israel. The Bank of Israel is acting, and will continue to act, towards this aim”.²

In recent years, the Arab middle class in Israel has grown thanks to higher rates of college education (still, only 15% of Arabs hold an academic degree, compared to 33% of Jews)³ and better jobs for some men and women,⁴ as

well as to the proliferation of small and medium-sized businesses in Arab localities. In his recent book on the Arab middle class in Israel,⁵ Professor Emeritus Aziz Haider presents Bank of Israel 2010-2011 figures showing the Arab middle class as encompassing approximately 22% of Arab households. A later calculation carried out by the Adva Center arrived at the figure of 26.2%. This is quite different from the size of the Jewish middle class in Israel: 57%.⁶ The difference is that the Arab middle class is a relatively new middle class; that is, it is mainly a first-generation middle class that often lacks financial backing or financial literacy. Accordingly, it appears that Arab citizens of Israel utilize most formal financial services at a lower rate than Jewish citizens, due to obstacles

2 Yaron, Amir. 2022. "Annual Economic Forum of Arab Society." PowerPoint. Bank of Israel. (Hebrew).

3 Haj-Yahya, Nasreen Haddad et al. March 2022. "Statistical Report on Arab Society in Israel: 2021." Israel Democracy Institute.

4 Still, a very small percentage of Arab men and women, in comparison with Jewish women and men, work in the more lucrative information and communication industries, financial services, professional, scientific and technical services, and public administration; rather, Arab men are concentrated in construction, manufacturing, retail and wholesale trade, hospitality, and transport; Arab women in education, health and social services, and also retail and wholesale industries. *Ibid.*

5 *The Growth and Consolidation of the Arab Middle Class in Israel*. 2019. Van Leer Institute. (Hebrew).

6 Shlomo Swirski et al. 2019. "Near Poverty: The Danger of Falling into Poverty and the Chance of Joining the Middle Class." Adva Center. (Hebrew). The middle class is defined as households having an income that is between 75% and 125% of the net average income per standard person.

described above and elaborated below. Consequently, they are not able to benefit from many of the advantages that normally come with the status of middle class. Regarding the majority of Arab citizens, who are not middle class, some financial services are especially relevant to them: banking, debt servicing, and micro business credit. In fact, the term **financial inclusion** was first used in connection with the Grameen Bank in Bangladesh (1976), which provided micro loans to poor rural people (97% of them women), to enable them to start small businesses to increase their income level.

Like social services, financial services need to be available to all citizens whose general welfare could be improved by them. This, for the good of Arab citizens as well as the economy and society of Israel.

The lack of availability of financial services to Arab citizens of Israel does not mean that they are inactive financially. What they cannot obtain from formal financial services, they get from informal ones: first those of the extended family, followed by non-bank and non-regulated loaners, many of which could be described as loan sharks. These latter elements, known in

Israel as “mishpahot hapesha” (criminal families), charge high interest rates for their services, use violence to collect outstanding debts, and have in recent years amassed large amounts of cash. In Arab society in Israel transactions are carried out mainly in hard cash, not via credit cards or mobile phone applications. To illustrate: 12% of Arabs get their salaries in cash (compared to 5% of non-Haredi Jews), two-thirds of bills paid by Arabs via the Postal Bank are in cash, and half of electric bills in Arab localities are paid in cash.⁷

On the heels of the work of the World Bank and as part of growing government investments in narrowing socio-economic gaps for Arab citizens, the Governor of the Bank of Israel and the ministers of Justice and of Social Equality created an inter-ministerial committee to develop a National Plan for Increasing Financial Inclusion. In July 2022, the committee published its National Plan (“Inter-Ministerial Committee for the Development of a National Plan for Increasing Financial Inclusion”). Its preface stated that “The committee’s findings show that while the level of financial inclusion in Israel is generally high and similar to that in other developed nations, the level of financial inclusion in various parts

⁷ Bank of Israel. July 2022. [Report of] *Inter-Ministerial Committee for the Creation of a National Plan for Increasing Financial Inclusion*. p. 79. (Hebrew).

of the population and most saliently – in large parts of Arab society – is relatively low and there are policy steps that can be taken to improve it.”⁸ The recommendations of the report focused on (1) increasing credit to households, (2) government initiatives that would enable Arab citizens to receive bank mortgages (only some 2% of bank mortgages are awarded to Arab citizens of Israel), (3) easing and improving debt servicing, so as to raise credit ratings, (4) increasing the use of advanced (digital) payment methods instead of cash, and (5) creating a national program for financial literacy. The report also mentioned the paucity of bank offices in Arab localities.

As the Bank of Israel report is the broadest and most recent government statement on financial literacy for Arab citizens, referring as it does to previous research conducted by a variety of sources, we will present some of its findings and a few more of its specific recommendations. Regarding mechanisms that affect financial inclusion, the report stated that one of the major obstacles is the fact that much of the land owned by Arabs cannot be utilized as collateral, as the real estate is not registered in the Israel Land Registry, and/or it is registered in the names of persons now deceased. Until ownership of such real estate is untangled and duly

⁸ Ibid. p. 5.

⁹ Avidan, Yair. March 2022. "Banking Among Households in Arab Society." Presented at meeting of Knesset Committee on the Economy. (Hebrew).

registered, a process that will take more than a little time, a substitute needs to be found for Arabs who need mortgages to purchase or build a home. As many are currently prevented from receiving mortgage loans, Arabs often take out bank consumer loans or non-bank loans in lieu of mortgage loans, whose interest rates are higher than the rates of loans designated as mortgages.

The same report states that another obstacle to Arabs' utilization of financial services in Israel is the language barrier: materials need to appear in Arabic as well as Hebrew. The fact is that the instructions of numerous governmental bodies are in Hebrew only. The report goes on to stipulate that only 21% of Arabs utilize bank computer or mobile phone applications, compared with 44% of non-Haredi Jews. In fact, 13% of Arab households, and 27% of Arabs over the age of 16, do not even own bank accounts, and among those that do, the use of debit and credit cards is low. For Arab households that are banked, credit lines are lower on average than those for Jews and interest rates are higher, but the use of bank credit is greater among Arabs than among Jews, reflecting greater need and fewer formal alternatives.⁹

What did the inter-ministerial committee recommend? For one, it suggested that

the State provide partial guarantees for mortgage loans to Arabs desiring to purchase or build a home in Arab localities, at least in the short run. Two other recommendations regarding formal credit sources available to Arab citizens: banks and non-bank credit agencies should provide limited, short-term credit to banked households defined as risky, and government, philanthropic and mixed government/philanthropic funds should provide micro credit to Arabs lacking a positive credit rating. Further, government agencies and non-governmental organizations should help Arab debtors improve the handling of their finances, including the servicing of their debts. Finally, the committee recommended providing support to organizations that assist Arab citizens to make payments digitally rather than in cash. This listing does not exhaust the committee's recommendations, but it gives a good sample of where concerned Israeli officials would like to go. The committee report will reappear in this brief, where it will be referred to as "The Committee."

Now let us examine some of the facets of financial inclusion, and what governmental and non-governmental agencies are doing to advance them for Arab citizens of Israel.

BANKING AND UTILIZATION OF BANKING SERVICES

In 2021, out of a total of 1043 bank branches in Israel, 757 were in Jewish localities, 183 in mixed Jewish-Arab localities, and 103 in Arab localities; that is 15% of the population residing in Arab localities had the benefit of only 10% of banking services.¹⁰

Table 1: Bank Branches by Type of Locality, 2021

Total	1043
Jewish Localities	757
Arab Localities	103
Mixed Arab-Jewish Localities	183

At a Knesset Committee on the Economy meeting, MK Saadi (Ta'al) mentioned that there was not even one bank branch in the 7 "recognized" Bedouin localities in the Negev. Moreover, it was found that bank branches in Arab localities had more customers than those in Jewish localities but fewer bank employees. Only 87% of Arab households hold bank accounts; this compared to nearly 100% of Jewish households. Three times as many Arab account holders in Arab localities than in Jewish and mixed Jewish-Arab localities have low credit lines (NIS 30,000). Two additional

¹⁰ Avidan, Yair. Op. cit. *The Committee...*

findings: In Arab localities interest on consumer loans in 2020 – 5.87% annually – was higher than that in Jewish localities – 4.68%, and more persons from Arab localities were arrears in payment.¹¹

Table 2: Banking: Jews and Arabs

	Jews	Arabs
Banked Households	Nearly 100%	87%
Restricted Bank Accounts	3-4%	15%
Annual Interest on Consumer Bank Loans	4.68%	5.87%

Not only do fewer Arabs than Jews own bank accounts; among Arabs who do possess accounts, 15% of those accounts are restricted, that is, they cannot be utilized due to debts, compared with 4% of the bank accounts of non-Haredi Jews and 3% of the accounts of Haredi Jews, according to a 2018 long-term survey of the Central Bureau of Statistics, cited in the Committee report.¹²

According to Ms. Safaa Agbaria, an economist who worked at both the Adva Center and Injaz: The Center for Professional Arab Local Governance, there are alternatives to Israeli commercial banks: many Arab citizens have accounts at the Postal Bank (which does not provide credit) rather than at regular commercial banks, probably due to greater accessibility and lower charges for services. In addition, those Arab citizens who do business in the Palestinian Authority may have bank accounts there.¹³

Arabs do less digital and long-distance banking than Jews, despite the paucity of the physical presence of banks in their neighborhoods: Only about 50% of Arabs in Israel have access to the internet from a computer, compared to 80% of Jews (However, some 80% of both Arabs and Jews utilize the internet via their mobile phones)¹⁴ and according to The Committee report, only 21% of Arabs use bank machines and applications, compared with 44% of non-Haredi Jews. What is behind the concern with digitalization has to do with both the aspiration for equality between Arabs and Jews and the desire to reduce cash interactions in Arab society and bring Arabs into the formal economy, thus reducing informal transactions that often end up in community violence.

¹¹ Ibid.

¹² Ibid. p. 51.

¹³ Agbaria, Safaa, interview, September 14, 2022.

¹⁴ Ganayem, Osema. 2018. "The Internet in Arab Society in Israel." Israel Internet Association. (Hebrew).

The problem is not just lack of digital literacy; according to financial counselor Ms. Nardeen Armaly, banks fail to provide “how to” explanations in Arabic.¹⁵ It should be mentioned, perhaps, that in the opinion of Mohammed Awad, senior official at the Mercantile Bank, one of the reasons that Arab citizens do not utilize digital banking options is distrust of the banking system: to overcome that mistrust, what is needed is face-to-face contact with a bank official whom they feel they can trust.¹⁶

The vision of The Committee vis-à-vis banking in Arab society in Israel: *“Every adult should have a bank account . . . by means of which s/he can make or receive payments digitally. The percentage of adults with bank accounts among Arabs and the use of digital banking will be the same as the percentage in the general population. Wages will no longer be paid in cash”*.¹⁷

ACCESS TO CREDIT FOR BUSINESSES AND HOUSEHOLDS

Credit, especially for businesses, is harder to obtain for Arab citizens than for Jewish ones; this is a serious barrier to equal opportunity.

A common avenue of mobility for Arab citizens of Israel is the business world: starting a business of one’s own. This is due partially to the fact that many Arab localities are far away (in Israeli terms) from centers of employment, and partially because most jobs that are somehow connected with security matters (many of them in hi-tech) are closed to Arab citizens.

Starting a business usually requires credit, and for Arabs in Israel, business credit is less accessible than it is for Jews, not only to start or expand a business but also to overcome crises like the recent Corona epidemic. According to a position paper published by Injaz, the Center for Professional Arab Local Governance, based on a 2017 periodic report of the Israel Small and Medium-Sized Enterprises Authority at the Ministry of the Economy, 72% of Arabs, compared with 35% of Jews, report difficulty in obtaining credit to start businesses. And when there are glitches, Arab businesspeople are often at a loss as to where to obtain a loan to tide them over, as the banks consider them poor risks, in the absence of collateral. In its report prepared for a February 2022 meeting of the Knesset Committee on the Economy, the Knesset Research Center revealed that 51% of Arab-

15 Armaly, Nardeen, interview, September 12, 2022.

16 Awad, Muhammed. February 12, 2023. Panel discussion at conference "Access to Financial Services: Yesterday, Today and Tomorrow." Rishon L'Tzion College of Administration.

17 The *Committee*, p. 12.

owned businesses had reported difficulty in obtaining a bank loan that limited the development of their enterprises. As under-stated in the Injaz position paper, “The absence of an appropriate response [to requests] for credit through accepted legal channels pushes some business owners to turn to the gray market, where loans carry higher interest rates that generally lead to problems in servicing and to an increase in the phenomena of crime and violence in Arab society.” Injaz recommends, among others, that banks be more generous to Arab small businesses, and that the State Guarantee Fund for Small Businesses [which provides guarantees for bank loans to small and medium-sized businesses], increase its activity vis-à-vis Arab businesses. This was, indeed, one of the recommendations of The Committee. The State Guarantee Fund is just that: in cooperation with the Ministry of Finance, it provides guarantees for bank loans to small and medium-sized businesses, usually after a referral from “Maof,” an advisory service of the Small and Medium-Sized Enterprises Authority, which provides training, mentoring and referral to credit sources. The problem is that many Arab citizens do not meet the

criteria for bank loans: in fact, 17% of banked persons are excluded from receiving bank loans, following credit ratings by the Bank of Israel.¹⁸

According to The Committee, the main difficulty is experienced not by large but by small businesses.¹⁹

*“The vision of the Committee is that every adult have access to credit in his or her hour of need, to be offered fairly and equally by responsible, regulated bodies”.*²⁰

A survey conducted by Israel’s Small and Medium-Sized Enterprises Authority revealed that more than half of small and medium-sized businesses – 56% -- were in need of credit in 2020. In 2019, the main reason for seeking business credit was to grow businesses, while at the beginning of 2021, the main needs were to deal with cash flow problems, or to make changes to better deal with the financial impact of the Corona crisis.

The State Guarantee Fund, to which business owners may apply for assistance in obtaining bank loans in the form of guarantees, increased its activity 3-fold between 2019 and 2021; in 2019 loans obtained through the Fund constituted 13% of total bank

18 Rubenstein, Chagit. January 12, 2023. Conference "Access to Financial Services Yesterday, Today and Tomorrow," College of Administration, Rishon L'Tzion.

19 The *Committee*, op. cit. p 29.

20 Ibid. p. 12.

loans, while in 2021 the Fund facilitated 41% of total bank loans.²¹ While the Fund usually assists businesses to receive a total of two billion shekels a year in bank credit, in 2020 it enabled businesses to receive more than NIS 20 billion.²² According to information the Accountant General reported to the Knesset Finance Committee in April 2020, of 40,000 loan requests submitted to the Fund, 15% originated in Arab localities (63% from Jewish localities and 22% in mixed Jewish-Arab localities). Not all requests were approved. The reasons for rejection of requests from Arab localities were often related to restricted bank accounts or foreclosures. Moreover, many Arab business owners reported that the loans they received were much smaller than the loans requested, often rendering the credit approved irrelevant.²³

PROGRESS IN THE FIELD

There are an estimated 60,000 Arab businesses located in Arab localities in Israel, 96% of which are micro-business; that is, they have up to 4 employees and an annual turnover of up to NIS one million. According to Ms. Chagit Rubinstein, vice president of Koret Israel Economic Development

Funds, there is a need for some NIS 100 million per annum in loans to small Arab businesses.²⁴

Koret Israel Economic Development Funds is a non-profit that has been providing loans mainly to Arabs in Israel since 2006 – long before financial inclusion became an international policy issue. Its main program, SAWA, is targeted at Arab women, to whom it gives small loans of up to NIS 30,000 for up to three years, providing NIS 15-16 million per year to some 1,500 women. Since 2011, Koret has been partnering with the Ministry of Industry and the Economy's Small and Medium-Sized Enterprises Authority, thanks to which SAWA has a budget line in Israel's National Budget -- no small achievement. **It is notable that none of the recipients of Koret loans are eligible for bank loans.** Koret requires but one guarantor as collateral, and the default rate is an impressive 1.7%; Arab women in Israel, like women elsewhere, are better about returning loans than men. Interest is 9% per annum and includes mentoring during the loan request, no matter where the business is located, as well as after receipt of the same. Ms. Rubenstein emphasizes the importance

21 Small and Medium-Sized Enterprises Authority, op. cit. p. 59.

22 Ibid.

23 Haj-Yahya, Nasreen et al. 2020. "Arab Society and the Coronavirus Crisis: Entry Data, Effects, and Recommendations for a Stronger Recovery". Israel Democracy Institute. p.87. (Hebrew).

24 Rubenstein, Chagit, interview, October 30, 2022.

of “being there” and “being like”: the organization has offices in the Arab cities of Rahat (in the Negev), Tira (in the Triangle) and Nazareth, and site visits are always made following a loan request. Koret employees speak Arabic and have the same social background as their clients.

Koret has a new loan program set up in 2020-2021 in the wake of the Corona crisis, which gives non-bank loans to businesses adversely affected by the epidemic. The maximum loan is NIS 100,000, and loans are for a period of up to 4 years. Recipients include both Arab men and Arab women. The new loan fund totals some NIS 15 million, half of which is from the government and half from philanthropy.²⁵

Koret began to work with another, larger loan fund, Ogen --“anchor” in Hebrew -- The Israel Association for Non-Interest Loans, in November 2022. Set up in 1990, Ogen, which defines itself as “social finance,” gives NIS 70 million in loans per year and is financed by philanthropy and, of course, loan repayment. In 2020 it gave out NIS 150 million, in 2021 nearly 300 million and in 2022 its loans were expected to total NIS 500 million. Its work is done entirely by internet, which, as we have seen, is not particularly suited to

the Arab population of Israel. Like Koret, Ogen’s services include mentoring loan recipients. As it lacks experience in loan-giving to Arab citizens of Israel, Ogen turned to Koret for a cooperative venture that would benefit Arab businesses.²⁶

The most notable aspect of Ogen’s services is that **its loans are interest-free**. Moreover, Ogen has six different programs that target persons in need of loans. Its “Keren Shemesh” (“Sun Fund”) helps set up and manage small businesses with the professional assistance of 1,200 volunteer mentors, all of whom are senior business managers. For mentoring, recipients pay a nominal fee of NIS 500 per year. Another program (Family Ogen) gives loans to families in debt, and another (Home Ogen) mentors young families so that they can manage their income when they purchase their first apartment. Yet another (Ment-Or) works with executive directors of non-profit organizations to teach them managerial skills. The partnership with Koret aims to bring Ogen’s interest-free services to Arab citizens of Israel. The plan is to give loans of up to NIS 400,000 for the development of Arab businesses. For that purpose, it hired Mr. Khaled Hassan, who previously worked at Mercantile Bank (the bank with the biggest presence in Arab localities), as

25 Ibid.

26 Ibid.

director of programs for Arab citizens.²⁷ In the joint project, Koret is to be responsible for “recruiting” Arab business owners or aspirants in need.²⁸

Another loan fund dedicated to providing interest-free loans for Arab women’s small businesses is a joint effort of the Small and Medium-Sized Enterprises Authority and the Department of Economic Development in Arab Society in the Ministry of Social Equality. Loans start at NIS 5,000, even before the business is duly registered. After registration, it is possible to receive larger loans. This joint project has been distributing NIS 3 million per year in loans to Arab women over the past ten years, and the fund is to continue operation for another five years. Financing comes from budget surpluses.

DEBT SERVICING

One of the recommendations of The Committee is to provide assistance for Arab citizens who run into difficulty paying back loans. In general, the literature on financial inclusion in Israel is replete with references to the problem of debt servicing among Arabs (see examples below). The reasons for the attention devoted to this issue are significant: debts have a negative effect on creditors, and taken together, a negative effect on the national economy. “Debts keep

people in poverty and prevent social mobility,” explains Ms. Adi Blutner of the JDC Department for Advancing Social Mobility. Yet another reason is that the phenomenon of non-payment of debts by Arab citizens leads to the blocking of bank accounts, which not only further impoverishes debtors, but also often results in their seeking to obtain the cash they require for daily and special needs from the informal market, where interest is high and non-repayment leads to violence of the creditor against the debtor -- and to what has become rampant violence in many Arab communities. Thus, there are news reports almost daily about stray bullets that kill or maim innocent bystanders, including children. Recourse to the so-called informal market also leads to the enrichment and empowerment of criminal elements in Arab society, who, according to one of our interviewees, launder money by means of home and land purchases. In short, the phenomenon of debt among Arab citizens of Israel leads to a vicious circle that authorities in Israel have yet to find an effective way to combat.

Factors Leading to Arab Debt in Israel

Why do Arab citizens fall into debt in the first place? Ms. Nardeen Armaly, a financial advisor who has been doing financial counselling for seven years,

27 Hassan, Khaled. interview, October 31, 2022.

28 Rubenstein, Chagit. Interview. October 30, 2022.

has a radio program about financial matters in Arabic, and has prepared payment programs for debtors for the Ministry of Justice, points to social and generational changes. According to Ms. Armaly, "Arabs over the age of 50 do not overspend,"²⁹ and one might add: they grew up in a different Israel, in which rich people, who now set the tone, were a rarity. Younger individuals get into debt in part because they are influenced by the ambience of what has become a very materialistic society; like many Jewish Israelis, they imitate, on a smaller scale, the spending and living habits of the top ten percent (among whom very few Arabs are to be found). According to economist Ms. Safaa Agbaria, young Arabs "will not forego owning a car" even if they do not have any money; they facilitate purchases by borrowing.³⁰ Arab citizens receive, on average, lower salaries than Jewish citizens.³¹ There are good reasons for wanting a car: the job market in Arab localities is small, and to work outside requires transportation. Public transportation within Arab localities and between them is far from adequate.

Concerned government officials and nonprofits working with and within Arab society in Israel view the phenomenon

of Arab debt as a problem they can and need to address. Thus, a report entitled "Program for the Encouragement and Advancement of Debt Servicing at the Collection Office,"³² a joint endeavor of the Enforcement and Collection Authority, the Legal Aid Department at the Ministry of Justice, the Rashi Fund and the JDC, cited information gathered by the Enforcement and Collection Authority of why Arab debtors failed to service their debts. These include language barriers and difficulty filling out required forms, geographical inaccessibility (there were no collection offices in Arab localities), lack of trust and fear of contact with government agencies, and simply lack of money. The conclusion was that individual counseling in Arabic provided in Arab localities might help. The average debt among Arabs was not astronomical: NIS 93,000, compared with NIS 127,000 among Jews. Yet while the debts of Arab citizens were smaller than those of Jews, Arabs were over-represented among debtors: their proportion of the population is about 21%, but they constituted 37% of debtors listed at the Collection Office. Moreover, most young debtors (aged 18-26) – 63% -- were Arab, while their proportion of the population of the same age group was only 28.2%.³³

29 Armaly, Nardeen, interview, September 12, 2022.

30 Agbaria, Safaa, interview, September 14, 2022.

31 In 2018, the average salary for salaried workers (aged 25-64) was NIS 15,619 for Jewish men, compared with NIS 8,829 for Arab men; it was NIS 10,135 for Jewish women, but NIS 6,296 for Arab women. As for the poverty rate, in 2018 the rate for Arab families was 45.3%, compared with 13.4 % for Jewish families. Haj-Yahya et al. Op. cit.

32 March 2022. (Hebrew).

33 Enforcement Authority, Department of Planning, Research and Policy, Ministry of Justice. 2022. "Annual Report of the Activities of the Enforcement Authority for 2021." (Hebrew).

Table 3: Who is in Debt and How Much Do They Owe

	Jews	Arabs
Average Debt	NIS 127,000	NIS 93,000
% Debtors Listed in Collection Office	63% (79% of population)	37% (21% of population)
% Young Debtors (18-26)	37% (71.8% of population)	63% (28.2% of population)

A joint program was designed to make debt servicing more accessible to Arab citizens, by setting up special centers for debtors in Arab localities, in which they could consult with Arabic-speaking law students and would also have access to a social worker and financial advisor. According to the document mentioned in the previous paragraph, as well as the 2021 annual report of the Enforcement and Collection Authority, between March and December 2021, a pilot was carried out at several centers in Bedouin localities in the Negev. A total of 1651 meetings were held with 979 debtors – families and young people, whose average debt was no more than NIS 19,046. The result: 14% of clients managed to cancel their debts. When asked by the writer why 14% was considered a good result, JDC head of debt programs at the Department for Advancing Socio-Economic Mobility, Ms. Adi Blutner, replied, “It usually takes two years to close off a debt, as the sum owed is in most cases divided into monthly payments. Those who managed to close off the debt had simple cases and small amounts of money owed.” The project partners viewed the

pilot as successful and as providing evidence that what was required was the creation of more centers in Arab localities, along with cooperative work with local organizations, community representatives and professionals. Furthermore, the Program document concluded that since many debtors had trouble servicing their debts, there was a need for *loans with convenient repayment terms and no interest*. The same document stated that within two years, the program planned to include 30 Arab localities in the North, East Jerusalem and the Triangle, involving some 4,000 meetings per year. The estimate was that 50% of clients would close out their debts by 2026. The program is being financed by Government Resolution 1279 in the South and Resolution 550 in the Triangle and the North, resolutions that support the social and economic development of Arab society in general and Bedouin society in the Negev in particular. Work in Bedouin localities in the Negev is still going on, now in 8 localities, soon to be expanded to 9, and the debt closure rate is now 20%; the number of debtors assisted has now reached over 2,000.

In addition, the project is now working with 3 localities in the North and has committed to working with no fewer than 20 localities. Work in the Triangle has yet to begin (November 2022).³⁴

How are debtors “recruited” to the project? The Authority for Enforcement and Collection sends SMS’s to debtors, inviting them to the project centers, which are located in local Social Welfare offices. The biggest challenge is to recruit Arab law students to work in the centers as employees of the above Authority.³⁵

Regarding the need for interest-free loans mentioned above, since June 2021 the JDC has been working with Ogen (See above), which won a tender put out by the Ministry of Justice, the purpose of which was to distribute NIS 20 million in **interest-free loans** to debtors. The project took some time to get started; thus far, 120 interest-free loans have been given out, one-third of them to Arab debtors.³⁶

34 Blutner, Adi, interview November 17, 2022.

35 Ibid.

36 Ibid.

37 For more about planning and development in Arab localities see [“Urban Planning in Israel’s Arab Communities: Essential and Complex Challenge for Economic and Residential Development”](#) IATF, February 2020.

38 After the establishment of the State of Israel, Arab citizens were confined to their own villages, which were put under Military Administration -- until that Administration was abolished in 1966. Ever since, in general, they have preferred to reside in those villages, many of which have become cities. Since 1948, no new Arab locality has been created, aside from 7 Bedouin settlements set up in the Negev, compared with hundreds of Jewish localities. Among the 1,200 localities in Israel, no more than 134 are Arab localities. As most of Arab lands were confiscated by the Israeli government, the possibilities of housing development are limited, resulting in housing problems that were ignored by the government for many years. Another limitation is that most Arab localities operate under outdated master plans -- or none at all -- for future development. Most of the land in Arab localities is privately owned; however, only 20% of Arabs own land. Some of this land is still defined as agricultural, but if owners wish to change its status to residential, they need to give 40% of the area in question to the State for public facilities: roads, public buildings, sidewalks and the like. They also need to pay some NIS 100,000-150,000 in development costs for each home to be built. Such development is thus fraught with complexity and prohibitive for most land owners.

MORTGAGE LOANS *

* Yaron Hoffmann-Dishon contributed the lion’s share of this chapter

In Israel, mortgage loans from banks constitute the main way of financing home purchase. Thus, their accessibility is considered one of the major issues of financial inclusion as well as a means of ensuring the right to housing.

However, the issue of housing for Arab citizens is much broader: a severe housing shortage, inadequate supply of available land for development, and planning regulations that are incongruous with crowded realities in Arab towns and ill-suited for development on private land further exacerbate access to this kind of credit³⁷ Economically, the net result of these barriers is that Arab families are unable to accumulate wealth in the form of assets and equity, and Arab society has little to no real estate market.³⁸

In an interview, Mr. Aiman Saif, an expert on Arab affairs whose last public position was at the Ministry of Social Equality, stated that he worked for years to promote the development of a real estate market in Arab localities, as well as for the provision of mortgage loans to Arabs who build their own homes either on private land or on public land belonging to the local authority.

What is needed, in his opinion, is to increase the supply of land for building homes in Arab localities, both from private property and from state property, the latter by increasing the area of jurisdiction of the local authority. However, "Adding State land to an Arab local authority is no simple matter: The local authority needs to submit a formal request, which requires approval by the Ministry of the Interior," stated Mr. Saif. He added that in Arab society in Israel there is a need for some 12,000 new living units every year; whereas existing solutions cover no more than 5,000 units.³⁹

In recent years, there has been a trend of emigration from Arab localities to Arab neighborhoods in mixed Jewish-Arab cities, like Haifa, Ramle, Acre and Nof-Hagalil, as Arab families seek less crowded conditions and better infrastructure and services. However,

at the same time, there is a trend of decreasing ownership of homes among Arabs in mixed cities. While in 2008, 67.4 percent of Arab households in mixed cities owned their apartments, in 2018 only 48.1 percent were homeowners.⁴⁰ This phenomenon is most likely due to gentrification in addition to the increasing cost of homes.

The Committee Report mentions the issue of mortgage loans as a central issue requiring action on the part of the government. The figures below and the obstacles to the receipt of such loans tell some of the reasons why.

The Bank of Israel reported that between 2010 and 2014, Arab citizens received no more than 2% of the total mortgages given out in Israel, despite their constituting 21.4% of the population of the country. Even in mixed cities – defined as localities in which the Arab population is between 10% and 90% -- Arab citizens received only 4.3% of the total mortgages obtained in those cities despite constituting 24% of the mixed-city population.⁴¹ In 2020, only 4% of homes purchased or built in Israel were in Arab localities, and only 1.5% of mortgage loans went to Arab localities.⁴²

39 Saif, Iman, interview, November 22, 2022.

40 Haddad Haj-Yahya, Nasreen and Oded Ron. January 2022. "A Worrying Trend in Mixed Cities: A Dramatic Decline in the Share of Arab Households Residing in Their Own Homes." Israel Democracy Institute. (Hebrew).

41 Bank of Israel. November 2017. Press Release: "Analysis of the Mortgage Market to Borrowers from Arab Society Against the Background of Structural Failures in the Area of Housing." (Hebrew).

42 Calculated by the author from The *Committee*, p. 74.

A 2017 Bank of Israel analysis revealed that Arab borrowers pay higher interest than Jewish borrowers, the difference being 0.3 percentage points, a discrepancy measured after neutralizing the differences in risk (including the borrower's income, the percentage that the mortgage loan constitutes of the total cost of the purchase or construction, the percentage of income designated for loan return and the time period of the mortgage loan). In mixed cities the difference is smaller, but a still significant 0.1 percentage points.⁴³

A sub-committee of The Committee found that in lieu of mortgage loans, Arab home builders and purchasers take out consumer loans, either from banks or from non-bank companies, as consumer loans do not require the home itself to serve as collateral. However, as might be expected, interest on consumer loans is higher than interest on mortgage loans. Consumer loans are also limited in amount: between NIS 400,000 and NIS 650,000, and they need to be paid back within ten years (mortgage loans can be for as long as thirty years).⁴⁴

The Committee attributed the low take-up of mortgage loans on the part of Arab citizens to two main factors: (1) the characteristics of the housing market and the state of planning in Arab localities, (2)

economic, social, cultural and religious characteristics of Arab households. We will address these one by one.

The Housing Market and Planning in Arab Localities

In Arab localities, land and real estate transactions were not traditionally registered with the Israel Land Authority, as was and still is the practice in Jewish localities. This makes it difficult to prove land ownership when requesting a mortgage loan to build a house on private land in an Arab locality (where most land is private). Moreover, many buildings in which Arab families reside are on land that is not divided into plots but rather held under joint ownership, a practice that has been going on since the days that Palestine was part of the Ottoman Empire. In addition, there may be conflicts among family members regarding who owns what. Thus, it is difficult to use a specific house (the one to be built on land held in common) as a guarantee for the loan requested.

At present, there is almost no real estate market in Arab localities, as houses and plots are rarely sold, but rather kept in the family and passed on from generation to generation. This situation makes it nearly impossible for banks to foreclose in the case of serious arrears or non-payment, making mortgage loans risky.

43 Ibid.

44 Mevorach, Yael, past Director-General of the Ministry for Social Equality, interview, September 14, 2022.

To begin to break this Gordian knot, The Committee recommended that the State grant a partial guarantee to mortgage loans for Arab citizens, until the processes of parcelization of land held in common and registration of land ownership were completed and a real estate market developed in Arab localities.

However, following the above recommendation, the Office of the Accountant General at the Ministry of Finance expressed its opposition to State guarantees of mortgage loans to Arab citizens, contending that The Committee had not examined the population for which a State guarantee would be relevant, and that the step would slow down or discourage a process that has already been set in motion: that is, the parcelization and registration of land belonging to Arab citizens.⁴⁵

Economic, Social, Cultural and Religious Characteristics of Arab Households

As noted above, wages are lower and poverty is higher among Arab households than among Jewish ones, which makes a mortgage loan for building or purchasing a home a huge financial commitment that is beyond the resources of many. The fact that the Bank of Israel assigns a credit rating to all banked individuals may

also constitute an obstacle for those who are or have been in arrears on previous loans. Also, the fact that 13% of Arab households do not hold bank accounts, and that some households keep whatever money they have in cash, also constitutes an obstacle; to receive a mortgage loan, one needs to show that he or she has assets of their own to cover 25 percent of the cost.

Another obstacle mentioned by The Committee includes religious-cultural opposition to taking out mortgage loans -- we assume because they involve interest, which is still forbidden under Islamic law, as it once was in Christianity. Yet another obstacle mentioned was the lack of financial literacy among Arab citizens, along with low access to bank services. The Department of Supervision of Banks at the Bank of Israel mentioned that the number of bank branches operating in Arab localities had increased significantly by 2019; however, it appears that this change has not been sufficient to provide equal access.

There is also a language obstacle, stemming from inadequate knowledge of Hebrew among many Arab citizens and the absence of presentation of financial products, mortgage loans included, in Arabic.

⁴⁵ Office of the Accountant General, Ministry of Finance. October 2021. Draft of Report of the Sub-committee on Mortgage Loans in Arab Society: The position of the Accountant General. (Hebrew).

To overcome the above obstacles, The Committee recommended conducting a national program for financial literacy, with a special emphasis on Arab society in Israel. Specifically, The Committee recommended putting out a tender for the purpose of examining regulatory obstacles to providing access to financial services that are in keeping with Islamic law, like the services offered in Moslem countries. (For example, a bank purchases a property at an upmarket price; the buyers then pay “rent” to the bank until the cost is covered and the property becomes their own.)

Likewise, The Committee recommended expanding bank services in Arab localities and ensuring that the personnel in those branches are suitable for the cultural and social characteristics of the clients, i.e., that the banks hire Arabs.⁴⁶ The recommendation was echoed by Mr. Alaa Alem, Economic Development Coordinator at Sikkuy for a Shared and Equal Society.

Mr. Jafar Farah, general director of Mossawa Center: Advocacy Organization for Arab Citizens of Israel, stated in an interview that his organization has been doing advocacy work on behalf of Arab citizens requesting mortgage loans since 2006. He reported that in some cases, due to advocacy, some regulations have

been eased to allow Arab citizens to receive loans for home purchase; for example, there were cases in which the Mercantile Bank allowed land held in common to be utilized as collateral, if the father and grandfather signed the property in question over to the client, who then received a consumer loan that served as a mortgage loan (at higher interest, of course).⁴⁷

SAVINGS AND INVESTMENTS (ASSET BUILDING)

The biggest assets of “ordinary citizens” in developed countries are homes (In Israel, more often than not -- apartments) and retirement funds. Individuals and families who are better-off also accrue assets in the form of investments and savings. Unfortunately, there is very little information about investments and savings in Israel. Clearly, savings and investments are the prerogative of the more affluent.

The only figure available about savings vis-à-vis Arab citizens of Israel is cited in the Bank of Israel 2020 Annual Report that includes a chapter on Arab society, based on the Israel Central Bureau of Statistics’ long-term survey for 2018.⁴⁸ The Survey found that only 11% of Arabs surveyed reported that they were able to save, compared with

46 The Committee, op. cit.

47 Farah, Jafar, interview, November 23, 2022.

48 The survey was conducted again recently, but the question about savings was absent from the report.

38% of Jews.⁴⁹ Attorney Sawsan Zahar, formerly deputy director of the non-profit Adalah: The Legal Center for Arab Minority Rights in Israel, expressed the opinion that this figure is quite low, and that the actual percentage of Arabs who save or invest may be higher.⁵⁰

Why is this issue important? Financial advisor Ms. Nardeen Armaly and feminist activist Ms. Ruti Gur, the latter of whom worked for many years in the civil society organization Economic Empowerment for Women, had an answer: Even if one earns enough for the proverbial daily bread, the unexpected always happens, requiring additional resources: holidays and weddings, illnesses, cars and home machines that need repair or replacement – and the list goes on. If one doesn't have the money, she either goes without or takes out a loan; if he is an Arab citizen, he will most probably turn to family or to the informal economy, where trouble lies just over the horizon.

Another aspect of asset building on the part of Arab citizens was upfronted by *The Times of Israel*,⁵¹ with an article whose headline read: "Lured by cheap prices and luxury digs, Arab

Israelis are snapping up West Bank homes." According to the article, some purchases are for actual residences, others for vacation sites, and still others for investment. The extent of the phenomenon is not known, but it points to the fact that upper middle-class Arab citizens of Israel do have some special options, like purchasing a home in Palestinian cities in the occupied territories, studying in Palestinian colleges, and, it is rumored, putting savings in Jordanian banks. Attorney Sawsan Zahar stated that the return on real estate investments in the occupied territories is higher than the return on real estate investments in Haifa.⁵²

The subject of asset building among both Jews and Arabs is one that needs to be researched.

PENSIONS

There is little comparative information on pension savings among Jews and Arabs. What is important to know is that a 2008 law made it mandatory for employers to establish retirement funds⁵³ for their employees after six months of work (unless employees had pension savings on a previous job, in which case the law mandates pension contributions

49 Bank of Israel. 2022. "Arab Society." Chapter of Annual Report, p. 80.

50 Zahar, Sawsan, Interview September 10, 2022.

51 February 5, 2022.

52 Zahar, Sawsan, interview, September 10, 2022.

53 There are several options for saving for retirement; we will use the term "pensions" to refer to any and all.

on the part of both the employer and the employee from the very first month of work); moreover, the law requires employers to contribute two-thirds of the stipulated monthly deposits to those funds, the other third to come from the employee's salary.

The Bank of Israel ordered a survey in 2022, which asked if respondents had savings at one of the companies operating pension funds. The results: 53% of Arab respondents, compared with 29% of the general population surveyed, replied in the negative⁵⁴. It should be noted that many workers do not know how to read their salary slips. Moreover, there are workers, like those employed by small contractors in the construction industry, who do not even receive salary slips: their wages are paid in cash without any documentation.

A consultation held by The Committee with civil society organizations working in or with Arab society and with other minority groups in Israel yielded two insights regarding the lack of pension savings: one, workers from minority groups, who are the poorest sectors of Israeli society, are so busy getting through the day that they lack the wherewithal to think about the future; that is, to make sure that they will have

an income in old age (aside from Social Security, which is quite low). They may not even be cognizant of the fact that pension savings are mandatory, and if they are, they may be too needy in the present to want to save for the future. In addition, it was mentioned by The Committee's informants that in Arab society, the notion is that when people grow old, they will be supported by their family and community. Regarding the latter insight, the Committee report commented that in view of the trends of increased longevity and rising cost of living, it is doubtful whether that model is sustainable⁵⁵. Financial consultant Ms. Nardeen Armaly confirmed that there is little awareness in Arab society of the importance of saving for retirement, especially among young people; she stressed that monies invested at the beginning of one's working life earn much more interest than monies saved later. When Ms. Armaly asks clients if they have pension savings, she sometimes hears the following distressing reply: "Why should I save for retirement? I don't know if I will be alive next year." This against the background of the epidemic of violence in Arab localities.

Additional information about pensions held by Arab citizens was presented at a conference sponsored by the Center

54 Bank of Israel, op. cit. 38.

55 The Committee, p. 35.

for Pension, Insurance and Economic Psychology at Ben Gurion University in the Negev, held in Jerusalem on September 7, 2022. One of the lectures presented preliminary findings from a 2019 study conducted by the Center, in cooperation with the National Insurance Institute, based on data from 3.4 million jobs held by persons aged 20 (for women) or 21 (for men) and older⁵⁶. The study was based on official documents submitted to the National Insurance Institute (Social Security) by employers, not written or oral surveys. One of the conclusions of the research, which has yet to be published, was that Israel's present pensions system is more suitable to high earners than to low earners, due to the fact, among others, that high earners have a financial incentive to contribute to retirement savings for themselves, as there are tax benefits on such savings, while low earners are below the tax threshold and therefore incur no additional benefits. As mentioned above, many low earners may have no interest in reducing their monthly income by making contributions to pension funds, even if the lion's share of contributions to their funds comes from employers. As for employers, they have no intrinsic interest in making pension contributions on behalf of

their employees, as such contributions lower the monies available for operating expenses and profits. Examining the data from the standpoint of income deciles, the researchers found that nearly half (47%) of the documents examined of persons in the lowest income decile (lowest 10%) showed no pension savings; this is a surprising and shocking finding; the percentages of employees in income deciles 2, 3 and 4 for whom there was no evidence of pension fund contributions coming out of their wages were also quite high: 38%, 35% and 31%, respectively (the figure for the highest decile: 3%). Not surprisingly, it was found that the probability of pension coverage among small employers (0-19 employees) was much lower than among large employers. All in all, the research found that for some 20% of employed persons whose salary figures were examined, there was no evidence of pension savings in documents submitted to the National Insurance Institute, despite the law that had come into effect 10 years before. And an examination by economic sector showed that the highest percentages of employees without pensions were to be found in the very sectors in which many lower-class Arab citizens are employed: construction (45%) and food and hospitality (45%).⁵⁷

56 Menachem-Carmi, Sarit, Professor Avia Spivak and Mark Rosenberg. September 7, 2022. PowerPoint Presentation: "Mandatory Pensions Law: Really?" Presented at conference entitled "Low Enforcement and High Individual Responsibility: Portrait of the Pension System in 2022." Jerusalem.

57 In 2019, 24.2% of Arab men were employed in the construction sector, and 6.6% in food and hospitality. In contrast, 32% of Arab women worked in the education sector and 20% in the health, welfare and nursing fields, in which pension savings are the norm. Haj-Yahya, Nasreen Haddad et al. March 2022. "Statistical Report on Arab Society in Israel: 2021." Israel Democracy Institute.

Table 4: Employed Persons with no Pensions, by Income Decile

Income Decile	1 (lowest)	2	3	4	10 (highest)
	47%	38%	35%	31%	3%

The dearth of pension savings among Arab citizens of Israel can be attributed not only to lack of interest or the absence of financial literacy but also, to the structure of the job market, where lifetime employment is a phenomenon of the past. Salaries are mostly either very high or very low, and employment itself is precarious for both unskilled and highly educated workers.

FINANCIAL LITERACY

The promotion of financial literacy in Israel dates back to the turn of the century, when banks and other companies began to offer their clients, as well as schools, workshops on family budgeting. In 2007, the ministers of Finance and Education decided that financial literacy should be taught in elementary school in the framework of the existing “Life Skills” program and would include the importance of saving, wise consumerism and managing allowances. In 2012, when the OECD Pisa (Program for International Student Assessment) exams first included a section on financial literacy, financial

literacy programs were initiated for Israeli 10th graders.

At about the same time (2011), a Department for Financial Literacy was set up in the Finance Ministry to promote the same. Since then, the agencies and organizations offering financial literacy programs have proliferated and now include the Ministries of Education and Finance, banks, investment and insurance companies, and non-profit organizations. A survey conducted at the end of 2017 by researchers Maman and Rozenhek found no fewer than 153 different financial literacy initiatives. A content analysis by the same researchers revealed that all the materials examined were in Hebrew.⁵⁸

Prior to the November 2022 elections, financial literacy seemed to be on the agenda of not a few government agencies, non-profit organizations and loan funds targeting Arab clients. This based, among others, on statements made by debtors concerning why they got into debt in the first place. The fact

⁵⁸ Maman, Daniel and Zeev Rosenhek. 2019. "The Construction of Homo Finansius: Conventions, Emotions and Ethics in Financial Education." *Israeli Sociology*. Volume 20 (1), pp. 23-49. (Hebrew).

that financial literacy is on the agenda of government agencies indicates recognition of an existing problem. But it is also the easiest aspect of financial inclusion to address: all that is needed is to organize a course, or put out a tender to municipalities or non-profit organizations to design and conduct financial literacy courses. This is much less challenging than getting the banks to open new branches in Arab localities or to make changes in their personnel, language and services to suit the preferences and allay the distrust of potential Arab clients; altering the criteria or providing guarantees for mortgage loans and business credit; or enforcing the mandatory pension law. According to organizational and financial advisor Ms. Samar Jabar-Massarwa, organizing or arranging for courses in financial literacy for adults is a “superficial solution, too little and too late” for persons who have not been exposed to the matter earlier. She would like to see financial literacy taught in schools but expressed the importance of instructors not representing banks and being both objective and critical about consumption issues.⁵⁹

In the case of loan funds providing a package deal including loans and mentoring vis-à-vis how to better

handle finances in order to service the loan – or in the case of Ogen: The Israel Association for Non-Interest Loans -- on how to improve the financial management of family budgets before and after taking out a mortgage loan for home purchase, financial literacy training may make perfect sense, because the mentoring – i.e., education for financial literacy -- is targeted at specific, burning issues. The need for assistance is immediate.

A recent tender (September 2022) promulgated by the National Estate Fund invited non-profits and local authorities to submit grant requests for financial education programs for Arab citizens: young people, who are to learn how to manage their own finances, and debtors, who are to learn how to get out and stay out of debt. The total budget for these activities is NIS 2,518,671.

A review of the literature arouses skepticism about financial literacy training for adults that is not targeted at a current problem or action, like an unpaid debt or the receipt of a loan for business development or home purchase. Ms. Jabar-Massarwa expressed general skepticism about financial literacy training for adults.⁶⁰ In addition, it should, perhaps, be noted that persons providing such training

59 Jabar-Massarwa, Samar, interview, January 11, 2023.

60 Ibid.

usually do not live on the same level of income as their clients, and one cannot help but wonder how the trainers would manage their own finances with the debtors' levels of resources.

Financial literacy is the easiest "remedy" for financial exclusion to implement. It is not controversial, and it does not require contentious parliamentary decisions. Nor does it require huge budgetary -- or philanthropic -- allocations. Moreover, it does not require Arab society in Israel to change any of its practices or traditions.

Obviously, there are experts who disagree. Mr. Sami Lahyani, Director of the Department of Economic Development at the Authority for the Development of Arab Society at the Ministry of Social Equality, would like to see middle schools teach basic financial concepts. As the figures on young Arab debtors attest, the temptations are many and the alternatives require foregoing prestige, pleasure and in some cases employment or continuing education. Still, Mr. Lahyani agrees that it is most effective to strike while the iron is hot; that is, provide financial literacy training in connection with immediate needs.⁶¹

GOVERNMENT INITIATIVES TO PROMOTE FINANCIAL INCLUSION

According to a Report of the Citizen's Empowerment Center (CECI) in Israel,⁶² "During the last decade, decision makers and professionals have become aware of the importance of reducing socio-economic disparities between Jewish and non-Jewish society [in Israel]. This awareness came to be reflected in government policy based on the notion that the integration and economic development of Arab society would constitute a central growth engine for the Israeli economy, as well as a tool for reducing social inequality. Government resolutions for the purpose of encouraging employment and improving the economic potential of Arab society were passed, the Minorities Economic Development Authority was set up in the Ministry of Social Equality, and various programs of assistance and affirmative action were initiated. In 2014, Government Resolution 2365 mandated the creation of a multi-year program for socio-economic development in Arab localities that would include structural changes in allocation mechanisms. This was the basis for the 5-year plan [that became known as Government Resolution 922]."

61 Lahyani, Sami, interview, November 20, 2020

62 Citizens' Empowerment Center. July 2021. "Follow-up Report: Government Activity for the Economic Development of the Minority Population during the Years 2016-2020, Based on Government Resolution 922 of December 30, 2015." (Hebrew).

Financial inclusion was not a major issue in Government Resolution 922. However, Article 13 did resolve that small businesses in the Arab sector were to receive more attention: In 2016, 17.5% of the budget of the branches of the advisory service, Maof, were to be devoted to minorities, and 20% in 2017-2020, along with an additional NIS 24 million to be allocated for future development. According to the CEI, these monies were indeed expended and allocated as resolved.⁶³

Government Resolution 550, a follow-up five-year plan slated to be implemented in 2021-2026, referred to three aspects of financial inclusion: mortgage loans, credit to small businesses, and (indirectly) debt servicing. Regarding mortgage loans, the resolution stated that the goal in this area was a doubling of the percentage of recipients of mortgage loans residing in Arab localities within five years, so that home buyers who were not eligible to receive mortgage loans due to structural obstacles, among others, the difficulty of registering a property at the Israel Land Registry, or its non-salable character, would be eligible to receive credit under the same conditions as mortgage loans from financial bodies. For the purpose of

achieving this goal, steps were to be taken by a committee to be set up under the auspices of the director-general of the Ministry of Finance, with representatives of the Budget Office, the Accountant General, the Supervisor of Banks and the Money Laundering Authority in the same office, representatives of the Office of the Prime Minister, the Ministry of Justice, the Economic Development of Minorities Authority and the Small and Medium-Sized Enterprises Authority. An interview with Mr. Hassan Tuafra, director of the Economic Development of Minorities Authority, confirmed that the committee had indeed been convened, although the interviewee was not forthcoming with any details.⁶⁴

Government Resolution 550's reference to business development in Arab society: The Maof advisory centers were to devote 17% of their budgets to Arab businesses each year, and to provide special grants and incentives to Arab businesses, in coordination with the Budget Office and the Economic Development Authority in the Ministry of Finance. For this purpose, NIS 55 million was to be allocated over five years. Among others, the Resolution mentioned the need to increase awareness among Arab business

63 Ibid. p. 7.

64 Tuafra, Hassan, interview, November 20, 2022

owners of the possibility of submitting applications to government tenders and to the tenders of government corporations and public companies. It also referred to the need to provide Arab women with bank guarantees to assist them to develop their businesses, as well as the need to assist Arab businesses to participate in international markets.

Debt servicing for Arab citizens was another issue acted upon: towards the end of 2022; as mentioned above, debt servicing centers were set up in Arab localities in the North, and more are scheduled to be set up in the Triangle.

National Plan for Increasing Financial Inclusion

Regarding the national plan delineated in the Bank of Israel report, “Inter-Ministerial Committee for the Creation of a National Plan for Increasing Financial Inclusion,” according to Mr. Yoav Soffer, Advisor to the Deputy Governor of the Bank of Israel and coordinator of the Bank of Israel work plan for broadening financial inclusion, “The Bank of Israel has created a plan for the implementation of the recommendations relevant to the Bank itself. Regarding the areas [of financial inclusion] for

which other government ministries are responsible, evidently there has not been much progress due to the dissolution of the government and the elections.”⁶⁵

At the Bank of Israel itself, several actions have been taken: The Bank’s administrative council approved a multi-year budget of “millions of shekels” for financial literacy in Arab society. In January 2023, the Bank’s Communications Department was at work on the creation of a program for financial literacy for Arab society.⁶⁶

The development of financial education for Arab schoolchildren and its dissemination in the schools will probably be the most salient result of government efforts to overcome the financial exclusion discussed in this paper.

Financial inclusion, first applied to the act of giving micro-credit to poor people (women especially) in Bangladesh to enable them to set up small enterprises, so that eventually they might be able to raise their standard of living, was adopted as part of the agenda of The World Bank and subsequently by the Bank of Israel and other government agencies. Its meaning was broadened to include not only micro credit to the poor, but also business and consumer credit to persons excluded from the world of credit due

65 Soffer, Yoav. Email to the author, January 18, 2023.

66 Soffer, Yoav, Email to the author, January 25, 2023.

to distrust of banks or past mistakes on their part or on that of spouses with whom they have joint banking accounts, expanding banking services to the unbanked and encouraging individuals who do not utilize digital banking services to join the ever-expanding digital world, enabling ineligible to receive mortgage loans, encouraging asset building, assisting debtors with debt servicing so as to raise their credit rating, and more.

In a modern economy, the use of financial services is a citizenship right that needs to be available to all, including Arab citizens of Israel. It is our hope that the efforts begun by the previous government will continue under the new one.

LIST OF PERSONS INTERVIEWED

Sawsan Zahar, attorney, past deputy director of Adalah, September 10, 2022

Ameer Bisharat, senior financial consultant to the Association of Arab Local Authorities, September 11, 2022

Nardeen Armaly, independent financial advisor, September 12, 2022

Safaa Agbaria, economist, past researcher at the Adva Center and at Injaz: The Center for Professional Arab Governance, September 14, 2022

Yael Mevorach, economist, past CEO of the Ministry for Social Equality, September 14, 2022.

Reem Younis, Owner and Co-Founder of Alpha Omega Engineering, October 15, 2022

Hagit Rubenstein, vice president of Koret Israel Economic Development Funds, October 30, 2022

Khaled Hassen, Director of Arab Society Programs, Ogen: Israel Association for Non-Interest Loans, October 31, 2022

Adi Blutner, Head of Debt Programs, Department for Advancing Social Mobility, JDC, November 17, 2022

Hassan Tuafra, Director of the Authority for the Development of Arab Society, Ministry of Social Equality, November 20, 2022

Sami Lahyani, Director of Economic Development, Ministry of Social Equality, November 20, 2022

Iman Saif, past Director of the Authority for the Development of Arab Society, Ministry of Social Equality, November 22, 2022.

Jafar Farah, General Director of Mossawa: Advocacy Organization for Arab Citizens of Israel, November 23, 2022

Nadav Dagan, Co-Executive Director, Sikkuy for a Shared and Equal Society, November 23, 2022

Alaa Alem, Economic Development Coordinator, Sikkuy, November 23, 2022

Ruti Gur, past activist at Economic Empowerment for Women, November 23, 2022.

Samar Jaber-Massarwa, Organizational and Financial Advisor, January 11, 2023

Adva Center
Information on Equality and Social Justice in Israel

