Sosyo
Ekonomi
Ocak-Haziran 2005-1

The Analysis of the Economic and Demographic Incentive System in Israel

Akram Rahhal
rahhal@admin.alquds.edu

İsrail'de Ekonomik ve Demografik Teşvik Sisteminin Analizi

Abstract

State of Israel had been declared on Palestine at May 15,1948. The new state was established between Arab societies which have different traditions, customs and religions. For developing its economy in this strange environment, Israel offer many incentives for Jews and Non-Jews investors to invest in. At the same time, Israel try to make a demographic balance between Arabs and Jews in Occupied Palestine by emptying Palestine from Palestinian and replace them by Jewish immigrants from around the world using various incentive policies. The main obstacle faced Israeli economy is the political stability which is absence in Palestine. This paper analysed the economic, demographic balance policies and other incentives in detail.

Keywords: Investment Incentives, Approved Enterprise, Incentives for Fertility, Palestinian Refugees, Israeli Settlements, Jews immigration

JEL Classification Codes: I02, A05, F10, P11, S14, J16

Özet

İsrail Devleti, 15 Mayıs 1948'de, Filistin toprakları üzerinde kurulmuştur. İsrail Devleti, Farklı gelenek ve inançlara sahip Arap toplulukları arasında yer almaktadır. İsrail, yahudi olan ya da olmayan yatırımcılara, pek çok alanda ekonomik kalkınmayı sağlayabilmek amacıyla çeşitli teşvikler sağlamaktadır. Aynı zamanda, İsrail'de Araplar ile Yahudiler arasında demografik bir dengenin sağlanabilmesine yönelik olarak da çeşitli teşvik politikaları izlenmektedir. Filistin'de İsrail ekonomisinin karşı karşıya olduğu en önemli sorun politik istikrardır. Bu çalışmada ekonomik ve demografik denge politikaları incelenmektedir.

Anahtar Sözcükler: Yatırım Teşvikleri, Kabul eden Teşebbüsü, Doğurganlık Teşvikleri, Filistinli Mülteciler, İsraillilerin Yerleşim Alanları, Yahudi göçü

1. Introduction

Israel is a Zionist statea state based on the political ideology known as Zionism. Israel founded by Zionist Jews from Europe, who began to colonize historic Palestine (is known as Israel, Gaza, and the West Bank) in the late 1880's. At that time, there were small Jewish communities that had long existed in the Middle East, but Jews had not been a large part of the population in Palestine for some 2,000 years. In 1897 Zionist Organization in their sixth conference which was took place in Basel the capital of Switzerland declared that “Palestine is the land without people for people without land” which means that Palestinian people must be transferred out of Palestine then Palestine will be an empty land so it will be ready for Jewish immigration, this declaration had been insisted by British government in 1917 when Belfor the foreign minister of British, at that date he promised Zionist leaders in his white book to build a national state for Jews in Palestine, this is called a Belfor Promises. After the war of 1948 this promises had been achieved and the new state began to promote many incentives in all fields especially in economic and demographic fields. It aimed to create a new reality on the ground when make a demographic balance between Palestinians and Jews or when Jews would be the majority in numbers because this majority offer them an absolute control on Palestine so they offer many grants for Jews to immigrate to Palestine and to create a suitable climate for investment.

In this paper these incentives will be discussed in details. There are three basic incentive groups. First one is the Israeli incentives' in economic field, the second is the demographic incentives and the third is the other incentives.

2. Israel Incentives for Investment

2.1. Introduction to Israel Government Incentives in Economic Field

The Israeli government provides various incentives to encourage economic development, and overseas investors may benefit from these. Indeed, incentives are enhanced for projects in which there is foreign involvement. There are generally no restrictions on the extent of foreign ownership in an enterprise, except in the security sector. Incentives take the form of cash grants, loan guarantees, and tax benefits. Research and development attracts special assistance. There is also a technology incubator scheme which nurtures new ideas, providing practical as well as financial aid to entrepreneurs. Israel offers a package designed to provide higher leverage for lower costs and risks as well as increased profits. The incentives package is easily adaptable to many types of investment projects or business plans in a broad range of economic sectors, including manufacturing, real estate, and tourism. Preference is given to industrial and tourism projects with the potential to inject foreign currency into the economy and provide employment opportunities in defined areas. The extent of the benefits is determined by the geographic location, or zone, of the enterprise. In addition to a central area, there are priority area "A" and priority area "B", with higher grants for priority area "A". Essentially, Region A comprises the Upper Galilee, Golan Heights, Jordan Valley and the Southern Negev, Region B the Lower Galilee and the Northern Negev, and Region C the remainder of the country (U.S. Department of commerce,2000).

2.2. The Incentives Available

In its application for approved enterprise status -the procedure for which will be discussed below- (,Zell,L. and Show, K.2003) a company must, in certain circumstances, choose between the various benefits available. Once made, the decision cannot be changed. The benefits fall into the following categories:

2.2.1. Grants

These are available, in the form of investment grants and capital grants, to finance the purchase of potentially up to 34% of fixed assets for the approved enterprise. However, the rate of grant varies according to the enterprise's location. Outlying areas attract higher rates; the central area no grant at all, at present grants is available with regard to, (National Priority Regions) Region C only to enterprises which are involved with tourism. In 1998 the range is 10-20% for those areas that qualify for grants. There does exist a special exception for high-tech and skill-intensive enterprises, but this extends only to enterprises located in an area surrounding and near to Jerusalem.

2.2.2. Reduced Tax Rates (Tax Benefits)

In general, a company which owns an approved enterprise is liable to a reduced company tax rate of only 25% (as opposed to 36%) of attributable income, for the seven years beginning in the year during which the enterprise first earned taxable income, provided that twelve years have not passed since the enterprise commenced, or fourteen years from the grant of the approval, whichever is the earlier. Further, dividends paid to shareholders from profits earned during the seven year period are liable to tax at a rate of only 15% without any restriction on the timing payment, if paid during the seven years or within the twelve years thereafter. There are, however, additional tax benefits available to companies owned by foreign investors, this being defined as where the percentage of foreign investment in share capital together with shareholder loans exceeds 25%. Here, the relevant period of benefits is ten years rather than seven, and tax rate is determined on a sliding scale depending upon the percentage of foreign investment (Zell,L. and Show, K.2003) . For a company with over 90% foreign control, the applicable tax rate will be 10% for the relevant ten year period. Additionally, the Board of the Investment Center has the power to determine that a particular company is a "foreign investors' capital intensive company", meaning that the company is highly capitalized, and that the amount of foreign investment is greater than 74%, and not less than $20 million. Such a company will be entitled to an additional five year incentive period provided that during these five years, 80% of its income is from exports.
A final note is that a foreign company owning an approved enterprise through a branch operation, as opposed to an Israeli company, is subject to an additional 15% "branch tax" on its earnings after company tax, in place of the dividend withholding tax, though this may be deferred if it can be shown that the profits were re-invested in the enterprise and not transferred abroad (U.S. Department of commerce,2000).

2.2.3. Alternative Benefits Tax Holidays

A company which has a taxable income from an enterprise approved after 1 April 1986 may choose this system as an alternative to the incentives outlined above. This system is not available to a branch of a non-Israeli company, or to an approved enterprise not owned by a company. Under this system, the recipient company will be entitled to exemption from company tax on undistributed profits, for a particular period which is determined by the location of the enterprise and the percentage of foreign control. For the balance of the period of benefits (see b) above), if any, the company will be taxed at the reduced rate as per b) above. Companies located in Region C are entitled to a two year exemption period (the corresponding figures are 6 years for Region B and 10 for Region A). Companies with more than 25% foreign ownership, which under b) above enjoy a 10 year period of benefits, therefore have a further 8 years during which they are taxed at the reduced rate. For companies not so owned, which as noted above have a period of benefits of only seven years, the reduced tax period consequently extends for only another 5 years. In order to encourage the re-investment of earnings, dividends which are distributed out of tax-exempt profits will be subject to company tax at the rate which would have been payable had the company not chosen the tax holiday. In addition, as previously, the dividend itself will be subject to 15% withholding tax. It is thought that scheme c) is particularly attractive to enterprises in Region C which are not entitled to grants, and to enterprises whose investment in fixed assets is relatively small in comparison to anticipated turnover and taxable income.

2.2.4. Accelerated Depreciation

The tax incentives detailed in b) and c) above include accelerated depreciation, at rates which range from 200% (for machinery and equipment) to 400% (for buildings) of the standard depreciation rates of such assets. The rates are accordingly 8-20% for buildings, and 15-20% for machinery and equipment, and are available for the first five years of the asset's operation. In a case of unusual wear and tear on equipment, the above mentioned rate of 200% may be increased to 250% with the consent of the Assessing Officer. Depreciation is calculated on the cost of the relevant fixed assets after the deduction of any government grants.

2.2.5. Approved Foreign Specialists

A further incentive available relates to a foreign resident, who has never been an Israeli resident, and who has been approved by the Investment Centre and engaged by an approved enterprise for a particular project. Such individual pays income tax at a reduced rate of 25%, on income up to a maximum of $75,000. The period of benefit is three years, but the Board may extend it for a further five years. “Approved Enterprise” The Board of the Investment Centre will consider a number of criteria in deciding whether to award approved enterprise status, of which those relevant are as follows:

a) International market: the Board will consider the ratio of potential export sales to total sales. As a general principle, and particularly in the higher priority regions, approvals are readily granted to enterprises creating significant job opportunities, enterprises producing import substitutes, and infrastructure enterprises.

b) Size of project: there is currently a tendency towards granting approved enterprise status to smaller firms which are able to maximize productivity and use of equipment; this is true particularly with regard to the software and high-tech industries.

c) Innovative technologies: conceivably the most relevant for current purposes, consideration will be given to innovative technologies particularly in the areas of industrial chemicals, electronics, software and communications, and, most relevantly, bio-technology. To qualify as such, an approved enterprise must be owned by one of the following:

1. an Israeli company
2. a foreign incorporated company duly registered at the Israeli Companies Registry
3. a cooperative society
4. a non-resident limited partnership duly registered in Israel

5. a partnership comprising all or some of the above
6. Whomever the Board agrees to.

In this regard, it is of particular importance to note that a change in the ownership structure of an approved enterprise, as well as a change in the location of the enterprise, or a change deriving from a corporate merger or division of an approved enterprise, requires the prior approval of the Investment Centre.

2.2.6. Loan Guarantees

Companies applying for approved enterprise status for industrial or tourism projects may request government guarantees for bank loans. This may be either together with or instead of a government grant (in the latter case a larger guarantee is available. Unlike grants, the guarantees are available in all three regions. The aim of the guarantees is to assist companies who lack the necessary capital for investment, or which are unable or have difficulty in providing the requisite loan security. The request for a guarantee should be filed at the same time as the main request for approved enterprise status, and the guarantee must be utilized within three years of approval of the enterprise. The loans themselves are given for up to ten years for financing the construction of buildings, and five to seven years for other requirements. The rates of interest chargeable on the loans are regulated by the Ministry of Finance. In addition, the personal guarantee of the owners of the company or of the company owning the company is also required, for up to 15% of the total loan. The risk premium is currently 1.5% per annum. The provisions in the Law relating to government loan guarantees were repealed as of 31 December 1996. Accordingly, while it would appear that guarantees already given will not be affected, new government loan guarantees, both with and without grants, are no longer available.

2.2.7. Premises and Infrastructure

Industrial premises at reduced rents may be available in development areas and industrial parks. In addition, subsidies are available to approved enterprises for the costs involved in providing essential infrastructure. Both these matters are separate from the incentives offered under the Law.

2.2.8. Free Trade Agreements

Israel enjoys the unique advantage of having free trade agreements with the US, the European Union, and EFTA. Apart from the direct benefits this confers, it also means that Israel can act as an efficient bridging country between these markets. For example, components may be imported into Israel from the US tariff-free, and incorporated into products sold, again tariff free, to EU countries. Israel has General System of Preferences status for developing countries in Australia, Canada, and Japan, giving Israeli exports to those countries customs duty reductions. Israel also enjoys most-favored-nation status in the Chinese market (Zell,L. and Show, K.2003).

2.3. Other Israel Government Incentives

2.3.1. Industrial Enterprise

A project that does not qualify for approved enterprise status may nevertheless come within the definition of an "industrial enterprise" for the purposes of the Law for the

Encouragement of Industry (Taxes) 1969, in which case it can claim special depreciation and amortization rates on tangible and intangible fixed assets.

2.3.2. Small Business Loan Fund

The fund provides loans and guarantees for the establishment or expansion of enterprises employing up to 75 people. Projects receiving other forms of government support are not eligible for assistance from the fund.

2.3.3. Exporters

Exporters can obtain a range of benefits, including relief on import duties on materials incorporated into exported products, accelerated VAT refunds, support for offering credit to overseas customers, and insurance covering various kinds of overseas trading risk.

2.3.4. Special Incentive for Overseas Investors - "Capital Intensive Companies"

This incentive applies only to companies in which share ownership is restricted to non-residents. Under the Law for the Encouragement of Investments (Capital Intensive Companies) 1990, companies awarded capital intensive company status by the Minister of Finance benefit from a 25% corporate tax rate on retained profit, and their shareholders are exempt from capital gains tax upon sale of their shares. These benefits apply for 30 years. A company may benefit from capital intensive company and approved enterprise status at the same time.

2.3.5. Incubators

Incubators provide a supportive framework for entrepreneurs with ideas but without the necessary resources or business experience to develop them. The assistance goes beyond grants, and includes practical help - administrative back-up, business planning, finding sources of finance, and so on. In essence, the incubator scheme gives enterprises two years in which to develop a marketable product and become self-sustaining. An incubator may have backing from an established company or an investor, or it may be independent. Incubator projects attract especially high levels of grant aid from the Office of the Chief Scientist for two years. After that, they may obtain aid under the regular R&D grant system mentioned above

2.4. Climate of Investment for Foreigners

2.4.1. Currency Conversion and Transfer Policies

In 1998, Israel abolished most of its remaining controls on foreign exchange, save only for limits on Israeli institutional investors holdings of foreign securities and foreigners access to certain hedging instruments. Nonetheless, despite the virtual elimination of exchange controls, foreign exchange transactions must still be reported to the central bank. Foreign residents and recent immigrants can maintain unrestricted, freely transferable accounts (called "Patakh" nonresident accounts) with Israeli commercial banks. Once the "Patakh" account is established, foreign investors can open a shekel account (the Israeli currency) that allows them to invest freely in Israeli companies and securities. These shekel accounts are fully convertible into foreign exchange.

2.4.2. Expropriation and Compensation

There have been no expropriator actions affecting U.S.-owned businesses in Israel in the recent past. Public authorities rarely expropriate land, although they will do so in the near future, with compensation, for the construction of a new north-south highway which will run through the central part of the country. Property would only be expropriated if the possibility had been indicated in a contract or as a result of a court order. Such an event remains unlikely, but, if it should occur, adequate payment, with interest from day of expropriation until final payment, is prescribed by law.

2.4.3. Dispute Settlement

Israel has a written and consistently applied commercial law based on the British Companies Act of 1948 as amended over time. The GOI is currently modernizing this law through legislation. Israel's commercial law contains standard provisions governing company bankruptcy and liquidation. Personal bankruptcy is covered by a separate bankruptcy ordinance. Monetary judgments are always awarded in local currency. The GOI accepts binding international arbitration of investment disputes between foreign investors and the State. Israel is a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958on the Recognition and Enforcement of Foreign Arbitral Awards.

2.4.4. Performance Requirements and Incentives

There are no universal performance requirements for investors in Israel. However, performance requirements are sometimes included in contracts with the government, particularly relating to exports. Two basic laws provide the framework for investment incentives in Israel: the Encouragement of Capital Investments Law, 1959 (with subsequent amendments), and the Encouragement of Industry (Taxes) Law, 1969. In addition, there are the Encouragement of Industrial Research and Development Law, 1984, and the Law for the Encouragement of Investments (Capital Intensive Companies), 1990. The Law for the Encouragement of Investments expired Dec. 31, 1997.

2.4.5. Private Ownership Rights

The Israeli legal system protects the right of both foreign and domestic entities to establish and own business enterprises, as well as the right to engage in remunerative activity. Private enterprises are free to establish, acquire, and dispose of interests in business enterprises. As part of its current privatization efforts, the Israeli government actively encourages foreign investment in privatizing government-owned entities. Both the Ministry of Industry and Trade and the Ministry of Finance are concerned with fair trade, and there is a law against unfair competition. It is Israeli government policy to equalize competition between private and public enterprises, although there are problems with competition because of the existence of monopolies and oligopolies in several sectors in Israel. In some instances, private sector firms have charged that their public sector competitors are unfairly advantaged by government ownership. The courts are reviewing this issue. In the case of monopolies, defined as entities that supply more than 50 percent of the market, prices are controlled by the government.

2.4.6. Transparency of Regulatory System

Problems with competition are evident in Israel, although it is government policy to encourage increased competition through market liberalization and deregulation. Tax, labor, health, and safety laws are frequently an impediment to the foreign investor in Israel, mostly because of high levels of regulation. Although there is a current trend towards deregulation, Israel's bureaucracy can still be difficult to navigate, especially for the foreign investor unfamiliar with the system. It is important that potential investors get approvals or other commitments made by regulatory officials in writing before proceeding, rather than relying on unofficial oral promises.

2.4.7. Corruption and Crime

While some Israeli politicians have been indicted in recent years on charges of improper use of campaign donations, corruption is not generally regarded as a serious problem in the Israeli business environment, and should not, as a rule, pose a problem for the foreign investor.

2.4.8. Labor

Israel's civilian labor force numbered 2.2 million at the end of 1997 (excluding Palestinians from the West Bank and Gaza and short-term foreign workers, mostly from East Asia and Eastern Europe). Highly skilled and well educated, the Israeli labor force continues to be a major asset to the economy. The Israeli labor market has also successfully absorbed a significant portion of the roughly 750,000 immigrants who have arrived since 1989. Among them are well-trained scientists, physicians, and academics from the former Soviet Union. Such workers can be expected to play a greater role in boosting the performance of the Israeli economy in the coming years.

2.4.9. Foreign Trade Zones

Israel has one free trade zone, the Red Sea port city of Eilat. In addition to the Eilat Free Trade Zone, there are three free ports: Haifa Port (including Kishon); the Port of Ashdod; and the Port of Eilat. In May 1994 the Israeli parliament passed legislation authorizing the establishment of free processing zones (FPZ's). However, by June 1998 no FPZ was operational. Israel has adopted a liberal import policy, and has thus far concluded Free Trade Area Agreements (FTAAs) with the European Union (EU), the United States, EFTA, Canada, the Czech Republic, Slovakia, Hungary and Turkey (U.S. Department of commerce .2000).

3. Demographic Incentives

3.1. Incentives for Fertility

Whereas most of the world has experienced decreasing fertility during the past half century, Israel has experienced a puzzling mix of trends. Completed fertility has decreased sharply in some ethnic-religious groups (Mizrahi Jews and non-Bedouin Arabs) and increased moderately in other groups (non-ultra-orthodox Ashkenazi and Israeli-born Jews). In a phenomenon that can only be described as a reverse fertility transition, fertility has increased substantially (from about 3 to 6 children per women) among ultra-orthodox Ashkenazi and Israeli-born Jews. Theoretical analysis of the social dynamics of fertility shows that this pattern could have been generated by the joint effects of (a) private preferences for childbearing, (b) preferences for conformity to group fertility norms, and (c) the major child-allowance program introduced by the Israeli government in the 1970s. Econometric analysis of fertility decisions shows that fundamental identification problems make it difficult to infer the actual Israeli fertility process from data on completed fertility. Hence we are able to conjecture meaningfully on what may have happened, but we cannot definitively resolve the Israeli fertility puzzles (Manski, Charles f. And Mayshar, J. 2002).

3.2. Israel Plans and Incentives to Resettle the Palestinian Refugees

The refugee problem was starting after 1948 when Zionist organization with British helping occupied 52% from the Palestine and establish a new state named Israel the main target for this new state is to empty Palestinian territories from Palestinian people and replaced them by newcomers (Jewish immigrants) from all the world. After this war about 600000 of the Palestinians have been forced to leave their cities and villages and they are transferred to refugee camps out of their lands now the number of refugees is increased to about 5000000. This problem has been doubled after 1967 war when Israel occupied the remaining Palestinian lands. In late August 1948 an official “Transfer Committee” was formally appointed by the Israeli Cabinet to plan the Palestinian refugees' organized resettlement in the Arab states. Apart from doing everything possible to reduce the Arab population in Israel, the Transfer Committee sought in October 1948 to amplify and consolidate the demographic transformation of Palestine by: a) preventing the Palestinian refugees from returning to their homes and villages; b) the destruction of Arab villages; c) settlement of Jews in Arab villages and towns and the distribution of Arab land among Jewish settlements; d) “the extrication of the Jews of Iraq and Syria”; e) seeking ways which would ensure the absorption of the Palestinian refugees in Arab countries-- such as Syria, Iraq, Lebanon, and Jordan and launching a propaganda campaign to discourage Arab return. . Apparently Prime Minister David Ben-Gurion approved of these proposals, although he recommended that all the Palestinian refugees be resettled in one Arab state, preferably Iraq, rather than be dispersed among the neighboring states. He was also set against refugee resettlement in neighboring Jordan. The refugees themselves have traditionally demanded repatriation and refused resettlement. Among the Palestinians the word refugee is synonymous with the word “returnee” (“a'aid”). The belief in return is strongly held. Refugee feelings concerning the “right of return” are intense. To the “right of return” that was enshrined in UN General Assembly Resolution 194 (III), passed on 11 December 1948 and reaffirmed almost yearly by the General Assembly. The resolution stated that “the refugees wishing to return to their homes and live at peace with their neighbors should be permitted to do so at the earliest practicable date” (Masalha, N.2003).

Israel Incentives to Resettle Palestinian Refugees out of Their Lands are as follows:

1) Many Zionists had argued that the Palestinians should be treated as an economic problem to be bought out of their lands they believed that money would dissolve the refugee problem. Many efforts were directed at finding big contracting companies, carrying out various schemes in the Middle East, and seeking ways to persuade them to employ mainly Palestinian refugees. Zionists businessmen began approaching British firms, construction and oil companies to employ Palestinian refugees such as Aramco oil pipeline from Saudi Arabia to Lebanon and the building of Latakiya port in Syria and so on.

2) Financial compensation to Palestinian refugees by establishing an international fund after valuing Palestinian property losses.

3) Exchange Jews properties in North Africa and Arab states that are immigrated to Israel by Palestinian properties in occupied Palestine.

4) Zionist leaders agreed with United States and Latin America to facilitate Palestinian refugee's immigration to their country.

5) 1967-1970 scheme financial aids $3000-$5000 for each family had decided to immigrate out of Palestine these incentives had been giving to Gaza Strip refugees.

At the end all these incentives generally have been failed in front of Palestinian refugee's determination to return to their homeland (cities and villages) where they were born.

3.3. Israel Incentives Given for Jews to Move to Settlements

Since 1967, every Israeli government has significantly expanded settlements, both in area and in population, in the Occupied Palestinian Territories by provided political, organizational and economic support, and encouraged their continual expansion. In 1977, the Likud Party came to power and began vast construction of settlements throughout the West Bank. Settlement activity has continued in The West Bank, including East Jerusalem, covers an area of 5,854 km^2, while Gaza strip covers an area of 365 km^2. Since the 1967 occupation, Israel has either confiscated or declared as closed areas over 55% of the West Bank and 25% of the Gaza Strip, thereby placing those areas out of Palestinian reach. Ceasingly, even under the Labor government of Yitzhak Rabin (1992 1996) on 28th of June, 1967, Israel unilaterally expanded the borders of east Jerusalem from 6.5 km^2 (the boundaries as designated by Jordan) to 70.5 km^2 to include lands from many West Bank villages while avoiding populated (Rodgers, "W.1996).

3.3.1. Israel Polices to Create A Suitable Climate for Settlements

Israel uses seized lands to benefit the settlements, while prohibiting the Palestinian public from using them in any way, which is forbidden and illegal under international law. Moreover, Palestinians are forbidden to enter these areas without authorization from the Israeli military commander. The frequent refusal of Israeli Authorities to grant construction permits to Palestinians who wish to build on privately owned land has left the latter with no choice but to take extreme risks in building regardless of the required Israeli approval. Hundreds of Palestinian houses are demolished every year. Last years, over 674 Palestinian homes were demolished and 282,000 trees have been uprooted in the West Bank alone, as a result of Israel's discriminatory policies (Islame online,2005). On the other hand, the settlers benefit from all the rights available to Israeli citizens living within the Green Line, and in some cases are even granted additional rights. Moreover, Israeli settlements are given a greater allocation of the superior water resources that typically lie beneath them. According to B'Tselem, an Israeli human rights organization, "the water consumption of the population of the Jewish settlements in the Jordan Valley – a population of less than 5,000 – is equivalent to seventy-five percent of the water consumption of the entire Palestinian population of the West Bank (approximately two million people) for domestic and urban uses." In the Israeli-Occupied Gaza Strip, among the most densely populated areas in the world, a settler population of approximately 6,500 controls more than 20% of the Gaza Strip's territory and has full freedom of movement. In order to facilitate freedom of movement for these settlers, the Gaza Strip's Palestinian population of more than 1,100,000 is subjected to checkpoints, curfews and military invasions (MEFTAH Organization, (2004).

3.3.2. Incentives for Living in Settlements

Israel has implemented a consistent and systematic policy intended to encourage Jewish citizens to migrate to the West Bank and Gaza. One of the tools used to this end is to grant financial benefits and incentives to citizens - both directly and through the Jewish local authorities. Government expenditure includes - besides high security costs - low purchase prices, mortgage grants (up to 95% of the cost), Priority 'A' categorization (for state-subsidized benefits and incentives such as tax breaks, free schooling and school busing, and business grants). On 5 May 2002, the Knesset approved NIS 30 million for settlement related purposes - NIS 17.5 million for agriculture in the Jordan Valley, NIS 8.5 million in grants to young people settling in the Jordan Valley and the Golan Heights and NIS 3.76 million for beefing up security (Ha'aretz newspaper).

The Ministry of the Interior provides increased grants for the local authorities in the territories relative to those provided for communities within Israel. In the year 2000, the average per capita grant in the Jewish local councils in the West Bank was approximately sixty-five percent higher than the average per capita grant in local councils inside Israel. The discrepancy in the grants for the regional councils is even greater: the average per capita grant in 2000 in the regional councils on the West Bank was 165 percent of that for a resident of a regional council inside Israel. Most settlements have been classified as "Area of National Priority--A," which entitles them to the most generous benefits, or "Area of National Priority--B," which confers a lower level of benefits. The list of incentives applicable to A- and B-status settlements includes subsidies for housing, education, teachers, and social workers (Aronson, G.1997).

Incentives for B-status settlements are in parentheses:

1) Housing: An $8,600 ($5,700) grant plus a soft loan of equal amount for new apartment purchases. 100 (75) percent state subsidy of development costs associated with the construction of multi-family housing; a 50 (25) percent subsidy for participants in the "build your own house" program. 75 (50) percent state subsidy of development costs for new housing in existing neighborhoods.

2) Education: 90 percent state subsidy for pre-school fees. Additional hours and computers for all schools. Gas masks for all students. A minimum state subsidy of $142 annually per child for school meals. 85 percent state subsidy of the cost of final high school exams.

3) Subsidies to Teachers: Four years seniority granted. 75 percent state subsidy of tuition for further study. 100 percent state subsidy of travel to and from school. 80 percent state subsidy for rental housing. Except for 50 settlements around Jerusalem and along the Green Line, where no subsidies are offered.

4) Subsidies to Social Workers: Four (three) years seniority granted. 100 (75) percent subsidy for travel.

5) Taxes: 5-10 percent income tax reduction. 40 (35) percent subsidy of the cost of new hot houses for vegetables and flowers. Citrus orchards and plantations in B locations are eligible for state subsidies of 25 percent of costs for new development. . Settlers will pay less income tax, and business people will receive grants equal to at least 20 percent of their investments (MEFTAH Organization, 2004).

3.3.3. Facts About Settlements

The establishment of settlements in the West Bank violates international humanitarian law and international human rights law. The Fourth Geneva Convention expressly prohibits an Occupying Power from deporting or transferring parts of its own civilian population into the territory. According to B'Tselem (a human right organization in Israel), there are 380,000 settlers in the West Bank and Jerusalem. In July 2002, the Israeli Interior Ministry reported that the settler population in the West Bank (excluding east Jerusalem) and Gaza had grown by 10,847 since June 2001 to a total of 218,862, constituting a 5.2% increase (2000: 7.8%), mostly due to ”natural growth.” Jewish settlers comprise less than 8% of the total Israeli-Jewish population. Israeli settlers constitute 9-10% of the total West Bank population, and only 0.6% of the Gaza population. About 50% of the settlers live in only 8 settlements. 42% of the West Bank settlers are of Israeli origin, 35% of European/US, 11% of Asian and 12% of African origin. The total figure of residential settlement sites in the West Bank is 174, excluding paramilitary and military installations. According to Peace Now organization there are 145 settlements in the West Bank and Gaza. FMEP organization counts 157 settlement locations, 130 in the West Bank, 11 in east Jerusalem, and 16 in Gaza (Aronson, G.1997).

3.4. Incentives Given for Jews to Immigrate to Palestine

The Zionist movement arose in the late 1800's; there had been many centuries of Jewish migrations, persecutions, and intermarriage with other people. At that date Zionist organizations tried to buy lands in Palestine and build small businesses then encourage Jews around the world to immigrate to these lands in Palestine but Ottoman Empire put end for this immigration by prevented them to stay at Palestine more than 3 months. The Zionists based their movement on the claim that Jews were god's "chosen people" and that Palestine was the land god promised them. They said that Jews could never assimilate into other societies and could only deal with anti-Semitism by having their own state. By 1918, there were 680,000 Palestinians living in Palestine, in contrast to 56,000 Jews, and Palestinians owned 97 percent of the land. But the imperialists had plans for this region. After World War 1, various imperialist powers scrambled to scoop up the lands ruled by the defeated Ottoman Empire, including Palestine. The British worked to "secure the establishment of the Jewish national home" by encouraging Jewish immigration, allowing the Jewish Agency to share the administration of Palestine, and by suppressing Palestinian resistance. Between 1933 and 1945, Britain, along with its U.S. imperialist ally, severely restricted Jewish immigration into their own countries. This policy, aimed at pushing Jews to immigrate to Palestine, was carried out while the Jewish people in Europe faced the Holocaust. (During World War 2, the U.S. and Britain also refused to bomb the tracks leading to the Nazi concentration camps.) Zionist leaders also cut deals with the Nazissuch as the Havara Agreement- -allowing some wealthier Jews to escape to Palestine and undercutting Jewish resistance in Nazi-controlled areas.

There was Palestinian resistance to the Zionist settlers as early as the turn of the twentieth century. In 1936 Palestinians launched an armed uprising against the British authorities and the Zionist settlers. The British brutally crushed the uprising in 1939 and passed emergency laws condemning to death any Palestinian found with a gun.

Through World War 2, the United States had emerged as the top imperialist power in the world; and the U.S. was eager to replace Britain as the main power in the Middle East.

In November 1947, the U.S. helped push through a UN resolution partitioning Palestine into a Zionist state and an Arab state. At that time, the Palestinians still outnumbered Zionist settlers two to one and owned 92 percent of the land. But the partition gave Israel 54 percent of the land.

On May 14, 1948after the Palestinians and the Arab countries refused to accept the UN partitionthe Zionists proclaimed the state of Israel and launched a war against Palestinians thirty seven members of the Provisional Council of the People signed a statement called an independence declaration:

[...] we, members of the people's council, representatives of the Jewish community of Eretz-Israel and of the Zionist movement [...] hereby declare the establishment of a Jewish state in Eretz-Israel, to be known as the State of Israel. [...] (Aldeeb,S.1995).

The State of Israel will be open for Jewish immigration and for the Ingathering of the Exiles

3.4.1. Israel Polices After Establishing the Zionist State

3.4.1.1. Replacement of non-Jews by Jews

The aim of the massive expulsion of non-Jews was to empty the country. After expelling non-Jews, the State of Israel forged panoply of legal devices to fill their place with imported Jews and secure their majority in the country. The Law of Return of 1950 allows each Jew the right to immigrate into Israel. An amendment of 1970 makes the following precision: "For the purposes of this law, 'Jew' means a person who was born of a Jewish mother or has become converted to Judaism and who is not a member of another religion".

3.4.1.2. Conversion to Judaism

The Jewish aimed to convert Christians to Judaism because the hysterical fear to see Jews adopt another religion as what they said (Aldeeb,S.1995).

3.4.2. Israel Encouraging Polices for Jews to Immigrate to Palestine

According to Israeli figures, some 46 percent of the world's Jewish population lives in North America, compared with 37 percent in Israel and 12 percent in Europe. Given the fact that North American Jews are, in the main, unlikely to emigrate any time soon, that leaves Sharon to seek his new immigrants mostly in Europe, the former Soviet territories and among the 350,000 Jews of Latin America and the 80,000 in South Africa (Israel forum.com, 2004). A detailed new map of the West Bank showed that Israeli settlers exert control over nearly half of the Palestinian territories through a strategic placement of a few Jewish colonial settlements (Nefesh b'Nefesh in the Montreal Gazette ,2003).

3.4.2.1. Incentive policies:

1. The U.S group Nefesh b'Nefesh offers economic assistance in the form of one-time grants of $5,000 to $25,000 to each new arrival or family

2. The group gave $10000 to $20000 as a mortgage loans, with the help of private donors, if people stay beyond three years, their loans become a one-time grains year

3. $3,300 grant -on average - given each immigrant, according to the Israeli cabinet's decision last November.

4. Once in Israel, Nefesh B'Nefesh provides employment services and helps prospective immigrants with bureaucratic issues.

5. Language classes and training programs for newcomers.

6. Finding temporary and permanent houses for each arrival or family

7. Sharon told the new immigrants that immigration is Israel's top priority, even ahead of peace and security.

3.4.2.2. Frighten polices:

1) Israel appealed that the Jews of Europe and especially who are in France belong in Israel and ought to get there as soon as possible lest they fall victim to anti-Semitism gone wild has opened a major diplomatic row between France and Israel. Recent actions happened in France such Jewish tombs damaged and Jewish synagogue bombing in Paris have been done by Mossad, these actions create a fear feelings to force Jews to immigrate to Israel

2) Naim Giladi, an Oriental Jew and one of the founders of the Black Panthers, has been working on the subject of Mossad operations in the Jewish-Arab community to "facilitate" Jewish-Arab immigration to Israel. One example of this campaign to "encourage" Zionist immigration were the bombs set off in Baghdad in 1950 to terrorize the Iraqi-Jewish community into fleeing their home of 2,500 years. This question is also the subject of Marion Woolfson's Prophets in Babylon where she argues, from an anti-Zionist Jewish perspective, that the Jewish Arabs were victims of Zionism. Israel destroyed Beirut's only Synagogue and 40 buildings by bombings during its invasion of Lebanon in 1982. Giladi (N. and Corrigan, c. E.2003).

3.4.3. Facts About Immigration

In the 1970s, groups of North and South Americans immigrated in small groups. There are a lot of Jews living in North America who are very Zionist and idealistic. Since the 1970s, thousands of young people and families have joined kibbutzim in an effort to help build the nation, Nefesh B'Nefesh co-founder Tony Gelbart said the organization aims to bring 100,000 American and Canadian Jews to Israel within the next five years.

Sharon's latest illusion is to fill the occupied territories with Jewish immigrants from France, Argentina, the U.S., and Russia, so that he will not have to remove a single settlement. According to Sharon, "Netzarim in Gaza is the same as Tel Aviv." Netzarim is a tiny settlement of 50 families in the Occupied Territories. Tel Aviv is the largest city in Israel. That millions of Jews will immigrate to Israel and live on the West Bank is sheer fantasy. Last year Nefesh B'Nefesh, founded by Rabbi Yehoshua Fass in November 2001, brought 519 North Americans to Israel. The organization is sponsoring the moves of about 940 North American Jews this year, About 10 per cent are Canadian. By the end of 2003 the number of immigrants from North America was reached to 2,400, compared to 2,040 in 2002.

The increase in new immigrants are seen by the immigration staffers in New York as reflecting a feeling of commitment to Israel at a time of crisis and plight. The number of children of Israelis - aged 18 to 30 - who decided to return to Israel has also increased and make up 30 percent compared to 18 percent last year. The number of Conservative immigrants has also grown and they are now 22 percent of the immigrants, compared to 11 percent last year, while orthodox Jews have dropped from 70 percent to 55 percent this year.

Nefesh B'Nefesh statistics among the immigrants of the past year are very encouraging. Some 93% have found meaningful employment, 30 babies were born, and three marriages took place. Only one of last year's 519 immigrants has left Israel. Of 2003 arrivals, 65% are Orthodox, 15% Conservative, and 5% are Reform. In a country where one in five is foreign-born, immigration is crucial. In 2001, 33565 people immigrated to Israel, according to Israel's Central Bureau of Statistics. That's 10,000 less than the previous year and less than half of the 76,766 people who moved there in 1999.

CHRONOLOGY - Ethiopian immigration to Israel

LONDON, Feb 1, 2005 (Reuters) - Israel said on Tuesday it would double the pace of Jewish immigration from Ethiopia in order to bring out the remaining 20,000 members of the Falasha Mura group by 2007.Here is a short chronology of attempts to bring Ethiopian Jews to Israel. -- 1973: Status of Ethiopian Jews is formally decided by Israeli chief rabbis who determine they are descendants of the Jewish biblical tribe of Dan and entitled to immigrate. -- 1984: Under tight military censorship, Israel brings 12,000 Ethiopians to the Jewish state in a secret airlift through Sudan known as Operation Moses. -- 1985: Israeli magazine breaks censorship in interview with Israeli immigration official. The story appears worldwide. Sudan, a Muslim country, responds angrily, halting airlift. -- 1989: Israel and Ethiopia restore diplomatic relations, bringing hope to those awaiting stranded relatives. -- 1990: Under a family re-unification programmed, then- president Mengistu Haile Mariam allows Jewish emigration but interrupts it several times. About 3,500 arrive in the year. -- 1991: Planeloads of Ethiopians arrive several times a week with about 350 passengers each in what Israel dubbed "Operation Solomon." About 2,000 Ethiopian Jews arrive in Israel by February. In March, immigration stops abruptly. Concern in Israel for fate of 15,000 to 18,000 Jews waiting to leave Addis Ababa. In May, Mengistu flees to Zimbabwe. Israel airlifts out more than 15,000 Ethiopian Jews. -- 2003: Ethiopia blocks a plan by Israel to move the Falasha Mura to Israel, arguing that a mass migration was unnecessary when everyone was free to leave Ethiopia in the normal way. -- 2004: Following a visit by Foreign Minister Silvan Shalom, Israel says it plans to start moving the remaining 20,000 Ethiopians of Jewish origin to Israel.

-- 2005: Prime Minister Ariel Sharon approves the decision to allow 700 Falasha Mura a month to fly to Israel.

4. Other Incentives in Israel System

4.1.1. Research and Development (Grant Aid)

The Office of the Chief Scientist at the Ministry of Industry and Trade administers various forms of grant aid to encourage innovation all the way from pre-industrial academic research to beta-site testing of new products. Rates of grant range from 20% to 66%. The definition of approved expenditure attracting grant aid is reasonably wide. If an R&D program results in a commercial product, the grant becomes repayable by way of a royalty payment. Other conditions include a stipulation that products resulting from government supported R&D be manufactured in Israel, and restrictions on the transfer of know-how to third parties.

4.1.2. R&D Tax Benefits

Accelerated amortization rates apply to R&D expenditure.

4.1.3. R&D Funds

R&D Funds are discussed here in terms of the State financing available through them. For a more complete guide to agencies promoting international R&D cooperation, Israel has agreements with several countries for joint R&D financing. The Israel-United States Binational Industrial Research and Development Foundation (known as BIRDF) promote partnerships between Israeli and US companies. This typically means a US company utilizing or distributing an Israeli company's innovative technology. BIRDF is administered by the Chief Scientist in conjunction with the US Standards Institute. It will contribute up to 50% of the cost of R&D projects over one to three years. The grant becomes repayable if the project succeeds. Projects cannot obtain BIRDF funding and Office of the Chief Scientists support at the same time. The Canada-Israel Industrial Research & Development Foundation (CIIRDF) operates on similar lines. Israel also operates bilateral funds with Germany (GICT) and Singapore (SIIRD). In addition, Israel has signed memoranda of understanding on R&D co-operation with several countries.

4.1.4. R&D Co-operation with European Union

Israel is a member of the European Union's Fifth Framework Programmed of scientific research and technical development. Israel also has a Public Procurement Agreement with the EU, which provides, among other things, that the EU will not apply preferences to EU companies against Israeli companies in telecommunications tenders, and that the Israeli government act similarly vis-à-vis EU companies (Sunil, M.2001).

4.2. Promoting Incentives for Environmental Self Policy

The authorities charged with the enforcement of Environmental Legislation are acting as guardians of the public well-being, health and safety. In order to enable these authorities to carry their tasks on the better side, the Legislator gave those powers of supervision that often compromise interests and constitutional rights of individuals. Balanced against each other are the individual's property rights, rights to privacy and freedom of occupation, on the one hand, and the public interests in health, property and the environment, on the other hand. Supervision activities can take different forms: Obtaining an account of activities from an individual; Monitoring and surveying premises from without; and Entering premises. The more probing an intervention in an individual's life and the longer its duration, so much graver is the infringement of individual constitutional rights. The Legislator made monitoring, as well as the accumulating of evidence alleging commission of offenses, easier for authorities by placing an onus on individuals to report on certain aspects of their activities. The individual's constitutional rights are curbed in Environmental Legislation: A person's right to freedom of occupation is limited to the extent that occupation is the source of serious environmental hazards. The Israeli Ministry of the Environment currently provides no rewards to Israeli companies that monitor their environmental compliance through environmental audits. Instead, if an Israeli company discovers a problem with its environmental compliance, it must turn over that information to the Israeli Ministry for the Environment and is penalized according to the nature of the violation. With the adoption of such a safe-harbor provision for environmental audits, Israeli companies would have incentive to police their own environmental compliance, without fear of penalty. Currently, however, an Israeli company has great disincentives to engage in environmental audits, under a system where no good audit goes unpunished (Ady, T. and Dror, G.2004).

5. Conclusion

After the 1948 war Israel began systematically destroying Palestinian society its towns and villages, its historical and cultural sites, its social infrastructure. By 1988, Israel had destroyed 385 of the 475 Palestinian villages inside the 1948 borders. In 1967 the Israelis launched the so-called "Six Day War," aimed at grabbing more land and establishing Israel as a regional power. Israel seized the remaining 23 percent of historic Palestinethe West Bank, Gaza, and East Jerusalemalong with Egypt's Sinai Peninsula and Syria's Golan Heights. Since that date Israel was planning and implementing its plans to empty Palestine from Palestinians and replacing them by Jews from around the world. These plans had two ways to achieve it : First, frightening policy: 1)Against Palestinians which includes killing people, destroying their lands and villages, uprooting their trees and crops, closing their economies and making their economies a consumer market for Israeli products, all of these to push Palestinian to leave their homeland. 2) Against Jews out of Israel by bombing their building and synagogue and damaging Jews tombs to force them to immigrate to Palestine. Second, incentive policy: 1) To Palestinian refugees to forget their lands and to accept the resettlement policies in foreign countries. 2) To Jews to migrate to Palestine and to live in settlements by Money incentives or by investment encouraging laws. But the Palestinians determination failed 70% of Israeli plans, they root Palestine's love in their hearts and Palestinian refugees preferred to live in refugee camps in a bad conditions than resettlements in foreign countries and declared the Palestinian revolution in 1965 and Independence Intifada (uprising) in 1987 and 2000 which force many Jews to go away from Palestine which called reverse immigration and recently the Israel government to withdraw from Gaza and to leave their settlements.

References

Aronson, G.(1997), “Report on Israeli settlements in Occupied Territories”, Foundation for Middle East Peace, November-December, **http://www.fmep.org**

Ady, T. and Dror, G.(2004), “Promoting Incentives for Environmental Self-Policying: Environmental Audit in Israel”, July 7, **Globes Israel's Business Newspaper**.

Giladi, N. and Corrigan, c. E.(2003), “Evidence of Zionist bombing Jewish neighborhoods in Arab countries to get them to migrate” , July 5, **http://www.sf.indymedia.org**

Manski, Charles f. And Mayshar, J. (2002), **“Private and Social incentives for fertility: Israel Puzzles”**, May, Institute for Policy Research, Northwestern University, http://www.northwestern.edu

Masalha, N.(2003), **“The Palestinian refugee problem: Israeli Plans to resettle the Palestinian refugees 1948-1972”** Birzeit University, http://www.birzeit.edu

Rodgers, “W.(1996), Israel offers incentives to expand Jewish settlements”, Dec.13, **World News-CNN**, USA, http://edition.cnn.com

Sunil, M.(2001),“Working with the market: The Israeli experience of promoting R&D in the Enterprise sector and lessons for Developing Countries”, December, UN University/Institute for New Technologies, Maastricht, Netherlands, **http://www.intech.unu.edu/publications/discussion-paper/2001-9.pdf**

Zell,L. and Show, K.(2003) **“Investment incentives in Israel”**, Zell Goldberg co., Jerusalem and Tel Aviv, http://www.fandz.com

Israel forum.com (2004) **“Where do Frances Jews Belong”**, Sep.8, http://israelforum.com

U.S. Department of commerce, **“Market Assessment”**, STAT-USA on the internet, http://www.arabchamber.com

Nefesh b'Nefesh in the **Montreal Gazette** (2003), “Incentives for Jews to move”, July28, http://www.nbn.org.il

Islame online(2005), “German President Calls for Halt to Israeli settlements Building”, Dec.13, **Islam Online wibe site, http://www.islamonline.net**

Aldeeb,S.(1995), **“Discriminations against non-Jews in Israel**, http://www.lpj.org

MEFTAH Organization, (2004), **“Israeli settlements”**, Feb.13, Ramallah, http://www.miftah.org.