**Economic Development Corporations**

**as a Tool for Advancing Municipal Economies in the Arab Community**

**The Background**

Approximately 20% of Israel’s residents are Arab citizens, of whom some 75% live in 85 Arab-only municipalities. As in many countries, municipal economies in Israel rely very heavily on the local tax base, but these Arab municipalities only generate approximately 1% of the total commercial tax revenue of the country, and only 2.4% of all “industrial zones” are located in Arab-only towns. These facts both reflect and aggravate the poor economic wellbeing of these communities.

**The Tool**

One extremely viable means by which Israeli municipalities advance their local economies is through the establishment of so-called **Economic Development Corporations** (EDCs). An EDC is a semi-autonomous hybrid entity that exists within a municipality and bridges the gap between the local government and the business sector. It is a business that is created for the express purpose of the generation of income and profit, while also benefitting the local community, but it is owned by the municipality, and all profits are retained by the locality. Additionally, all EDCs are overseen by a local board of directors that ensures that all operations and projects do in fact benefit the community.

 EDCs are extremely common in Jewish municipalities in Israel, and are a favored tool for boosting local economies. There are approximately 360 EDCs throughout the country, with Tel Aviv alone having approximately 35, with more being created all the time. Even so, in Arab-only municipalities there exist only ***two*** functioning EDCs, one in Um al-Fahm and one in K’far Qassem.

The Injaz Center for Professional Arab Local Governance believes strongly that establishing EDCs in Arab municipalities is essential for relieving local poverty, increasing the economic health of Arab communities, creating a culture of economic forward-thinking, and, ultimately, improving the lives of everyday citizens. Injaz knows that EDCs can work in Arab communities, because Injaz has been instrumental in establishing and developing the EDC in K’far Qassem, which has transformed the community into an Arab hi-tech center that is expanding rapidly, gaining attention from politicians, the press and philanthropists, both within Israel and internationally.

**The Benefits**

The benefits of establishing EDCs in Arab municipalities are both economic and *cultural*. Culturally, an EDC can effectively shift the local mindset from one of despair and desperation to one of optimism and future-oriented growth. Feeding this positive cultural change is the fact that the changes come from *within* the community, boosting collective esteem and creating an overall brighter vision for the future.

Economically, there are concrete benefits to having an EDC, most notably:

1. EDCs have all of their paid federal valued-added tax (VAT) refunded, representing a savings of approximately 17%.
2. Unlike municipal departments, EDCs can charge and retain both management and monitoring fees, each of which can be between 3-10% of the total cost.
3. Most municipal projects that occur outside of an EDC are priced according to the Dekel Pricing Index, which establishes "accepted industry standard" prices for goods and services.  It is known that the markup in this index is approximately 30% of the "real" costs, and a well-informed EDC can save tremendous sums simply by leveraging this knowledge.
4. EDCs can be granted projects directly by the municipality, without the usual legal requirement of opening up the process to bidding.

In the end, experts know that an effective EDC can **save a minimum of 20%** on projects undertaken as compared to what it would cost a typical municipal department. These savings are *in addition* to the economic benefits accrued when the EDCs are fully functioning, not to mention the cultural benefits described above. In this sense, there are both short-term and long-term gains. The short-term gains provide the foundation and momentum for sustainable future economic benefit.

Finally, the Bank of Israel and Israeli economic experts agree that the next frontier for economic growth for the country will come from within the Arab community. While the enormous economic boom that Israel enjoyed in the 1980s and 1990s from the immigration of two million highly-skilled Soviet Jews is now long past, and the “Start-Up Nation” only impacts the lives of a tiny portion of the population, economic growth from within the Arab community is an under developed opportunity that can no longer be overlooked, on both economic and moral grounds.

**The Plan**

Injaz will devote increasing amounts of its resources and expertise to the creation of functioning EDCs in Arab municipalities. The “template” guiding these activities will be the ongoing successes realized in K’far Qassem, a project in which Injaz has been deeply involved from the beginning. With adequate financial resources, Injaz believes that it can effectively transform the economic wellbeing of Arab towns, and that the engine of that growth can be EDCs. Injaz is particularly well-positioned to advance this work, due both to the credibility that it has established with Arab municipal leaders over the past ten years, and because Dr. Nili Schori, one of Israel’s leading experts on EDCs, works directly with Injaz and the municipalities on these groundbreaking projects.