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Self-Employed Arabs in Israel

Third report in a series

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Arab Economic Forum

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The Arab businessmen's and businesswomen's club founded by the Arab Economic Forum is a practical-implemental translation of the Arab Economic Forum's research – out of an understanding that Arab businessmen and women are the main driving force for strengthening and boosting the economy in Arab society. The Club is intended to empower the economic abilities of Arab society, through empowering Arab business people and helping to develop their abilities and skills. Within its operations, the Club, in cooperation with the Israel Securities Authority, the Tel Aviv Stock Exchange, the Israel Directors' Union, the economic newspaper Globes and others, offers courses and workshops in the financial field to Arab business people, holds economic-professional conferences, and even manages a professional team of volunteers who advise Arab businesses in times of crisis, including during the COVID 19 crisis.

This document is part of a series of reports by the Arab Economic Forum. As part of the Forum's work to strengthen the socio-economic condition of the Arab population in Israel, quarterly reports will be published on macro-economic topics which are of crucial importance to Arab society. A short report will be published every quarter, focused around the central developments in a defined field, with broad ramifications on the standard of living.

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Table of Contents

1. Abstract	3
2. Characteristics of Self-Employed Arabs	4
2.1 Distribution by Economic Sector	5
2.2 Distribution by Region	7
3. Percentages of Survival	8
3.1 Survival by Economic Sector	8
3.2 Survival by Region	9
4. Appendices	11

Self-Employed Arabs in Israel

1. Abstract

- Between 2006-2021, there was a rise in the rate of Arabs among those actively self-employed in Israel, from about 15% to about 18%. This rate continued to grow even after the outbreak of the COVID crises, slightly offsetting the sharp impact on employment among Arabs which arose from the crisis.
- The present rate of Arabs out of the total of self-employed people is greater than their share of all employees in the economy (13%), but is still smaller than their share in the population.
- In addition, being self-employed is less common in Arab society: only about 4.8% of the total of Arab employees in 2019 were self-employed, as opposed to a rate twice as high in Jewish society.
- An inspection of sectors reveals that the greatest increase of Arabs' share was in sectors in which the total number of self-employed had the slowest growth: transportation, industry, and hospitality and food; i.e. the increased share of Arabs was supported by a decrease in non-Arabs' self-employed activity in those sectors.
- In contrast, self-employed Arabs' share remained almost unchanged in the IT services sector, the information and communications sector, which in recent years has been significantly increasing its product share, and the professional, scientific and technical services sector.
- The geographical distribution of self-employed Arabs is similar to the distribution of the Arab population in Israel. Therefore, self-employed Arabs constitute a majority among the total self-employed in the northern region, whereas in the Tel Aviv region the share of self-employed Arabs comes to only 1.3% (of the total self-employed in the Tel Aviv region).
- The percentage of survival of independent Arab businesses born in 2006 is lower than that of their Jewish counterparts. The gap already opened in the second year of operation, and 15 years after the business's founding (2021) only 22.8% of self-employed Arabs survived, compared with 26.8% of self-employed Jews.
- There is a strong connection between the survival percentages of self-employed people and the economic sector in which they operate. For example, in the health, welfare and nursing services sector, the survival percentages of Jews and Arabs after 15 years are higher than 40%, while in the hospitality and food sector the survival percentages come to only about 10%.
- However, the gaps in survival percentages between Arabs and Jews are not uniform over the various sectors. The survival percentages of Arabs are especially high in the professional, scientific and technical services sector, but significantly lower compared to Jews in the agriculture sector.
- The gap in survival percentages between Arabs and Jews is greatest in the Tel Aviv region, while the northern region is the only one in which the survival percentages of Arabs do not fall below those of Jews.
- No support was found for the fact that the gap in survival percentages between Arabs and Jews reflects a tendency among self-employed Arabs to practice in riskier sectors or regions.

2. Characteristics of Self-Employed Arabs

The purpose of this report is to describe the current situation and the development over time of self-employed businesses with Arab owners in Israel. The report focuses on the self-employed since these are businesses who have a single owner who can be identified and classified by population group (Jewish/Arab/Other). For analysis purposes the Central Bureau of Statistics provided us with data specific to the years 2006-2021 of annual frequency of self-employed people¹, active², births³, self-employed businesses and survival percentages⁴, divided by regions and by the business owner's population group.⁵

Out of about 650,000 businesses which were active in Israel in 2021, about 445,000 (68%) are owned by self-employed people.⁶ However, about two thirds of self-employed people do not employ employees, and out of about 4 million employee positions on the market only about 9% are with self-employed⁷. In Arab society, self-employed work is even less prevalent. Only about 4.8% of Arab people employed in 2019 were self-employed, compared with almost double that rate in Jewish society.⁸

Self-employed Arabs are younger and less educated in comparison with their Jewish counterparts, and only 13% of them are women, as opposed to about 30% among self-employed Jews. Moreover, self-employed Arabs tend to hire more employees: the share of Arabs among the self-employed who hired for employee positions stood at about 17%, compared with 12% in businesses which did not hire employee positions.⁹

From 2006-2021 the number of actively self-employed Arabs grew from about 43.5 K to about 79K, and their rate within the total active self-employed people in Israel rose from about 15% to about 18%.¹⁰ This increase mainly reflects an acceleration in births of businesses by self-employed Arabs: these increased their share in this period from 17% to 26% (Appendix 1). The present rate of Arabs among the total self-employed is larger than their share of total businesses in the market (1.3%), but is still smaller than their share in the population (21%).

Up to 2011, the share of Arabs in the total of self-employed people rose very slowly, but since then the rate of growth has accelerated as part of the trend of economic growth of Arab society in employment up to the outbreak of the COVID crisis. Following the crises, employment of Arabs was impacted more than that of Jews and this trend halted; nevertheless, the share of self-employed Arabs continued to grow (Figure 1), and slightly offset the general decrease in Arabs' share in employment which stemmed from the termination of many employee's jobs.

[1] A self-employed person's business is one where the business ID number is identical to the business owner's ID number.

[2] A business unit was defined as active in the calendar year of activity if positive activity was registered for it in at least one month of that year. Positive activity can be registered in positive proceeds or positive inputs, including a positive number of workers employed.

[3] The birth of a business in year 1 is defined for businesses found in the active business population (businesses with VAT reports or employment reports) in year 1, but were not found in this population in year 1+1 or year 1+2.

[4] A business born in year 1 is considered to be surviving in year 1+1, if during year 1+1 it had positive data of proceeds and/or employing employees. Note that a business born in year 1 is only considered a "survivor" in year 1+2 if it is also diagnosed as active in year 1+1 as well as in year 1+2.

[5] The data source is a special processing of the Business Registry in the business-economic sector, combined with data from an improved administrative file from the demographic sector created by a combination of a Population Registry file with other administrative files.

[6] 27% of active businesses were companies (private, public and foreign) and about 5% of the remainder are of other types (partnerships, NPO's, government institutions etc.).

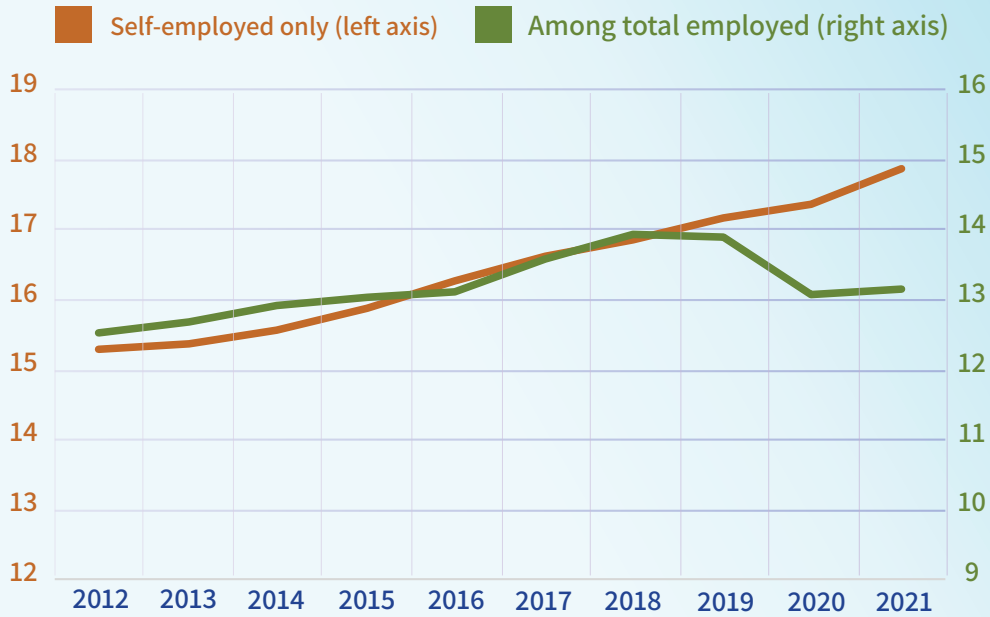
[7] The Central Bureau of Statistics (2022), demography of businesses – survival and movements of businesses 2019-2021, press release.

[8] According to data from a human resources survey by the Central Bureau of Statistics for 2019.

[9] The Central Bureau of Statistics (2021), the demography of self-employed businesses in 2019 and characteristics of business owners, press release.

[10] Note that according to data from a human resources survey, the rate of self-employed among total Arab employees fell during that period, therefore this is not about a turnover of self-employed at the expense of employees.

Figure 1: Rate of Arabs in Employment

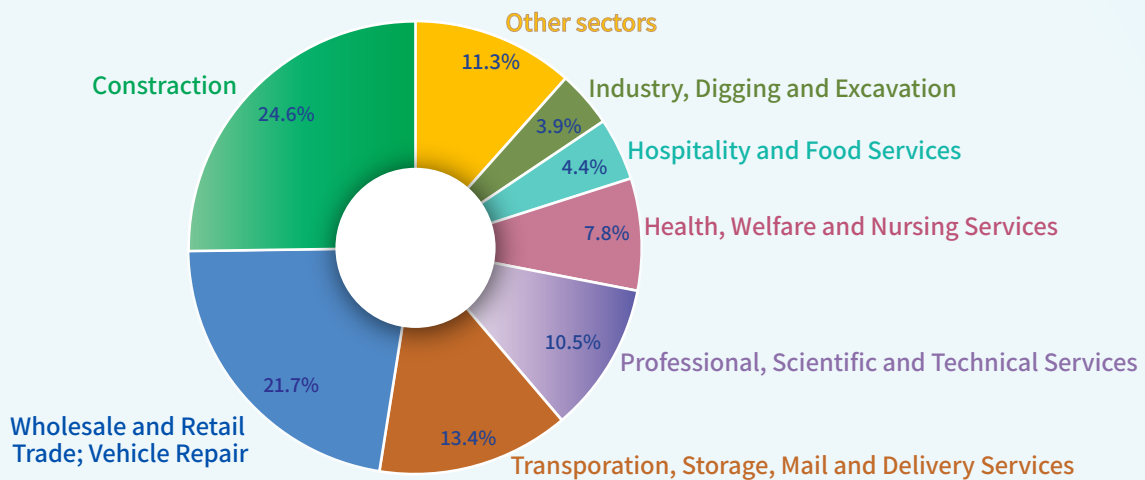


Source: Human resources survey and special processing by Business Registry sector, Central Bureau of Statistics

2.1. Distribution by Economic Sector

Figure 2 presents the distribution of self-employed Arabs by economic sector and shows that almost half of self-employed Arabs are classified into two sectors – construction and trade (including vehicle repair) – these are also the leading sectors in hiring Arab employees. Additional central sectors employing Arabs which are expressed among self-employed Arabs are health and industry, although at a lower rate compared with their share among Arab employees. In contrast, in the education sector – the third in size in employing Arabs – the rate of self-employed Arabs is only about 2%. In addition, the transportation sector and the professional, scientific and technical services sector are characterized by the fact that a large percentage of total employees in these sectors are self-employed, therefore despite their not being included with the leaders in total employment of Arabs, they are central in the employment of self-employed Arabs.

Figure 2: Self-Employed Arabs by Economic Sector (2021)



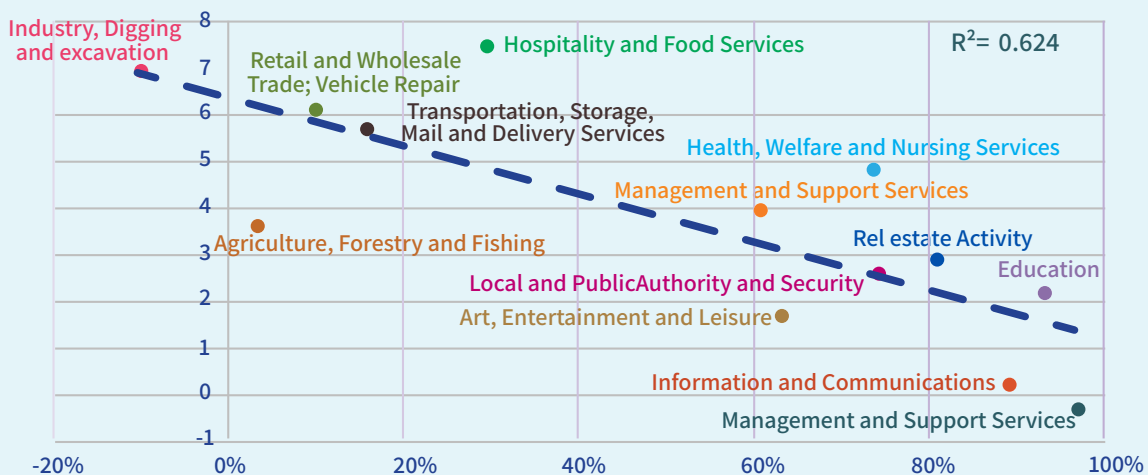
Other Sectors include the following: information and communications, financial services and insurance services; art, entertainment and leisure; real estate activity; education, management and support services; local, public and security authorities; compulsory national insurance; other services; domestic as employers; overseas organizations and entities.

Source: special processing of Business Registry sector, Central Bureau of Statistics

The growth in Arabs' share among the total active self-employed embraced almost all sectors in the market and was especially substantial in the construction, transportation, trade, industry and hospitality and food sectors (Appendix 2). In these sectors, with the exception of construction, Arabs tend to integrate more as self-employed – their share among the self-employed is larger than their share in the total employed in the sector. In addition, in these sectors the number of self-employed non-Arabs has had the slowest growth (Figure 3), and in most of these sectors the number of births of self-employed businesses has actually declined (with the exception of transportation); i.e. the rise in Arabs' share is supported by the decreased activity of self-employed non-Arabs in those sectors.

On the other hand, the share of Arabs has remained unchanged in the sectors of IT; information and communications and professional, scientific and technical services. The lack of growth in these sectors is conspicuous given that these are the sectors in which the average salary for self-employed people is the highest.¹¹ In the information and communications sector, which has significantly increased its product share in the last years, the situation of self-employed Arabs is especially serious and their rate in the sector stands at only 2.3%.

Figure 3: The Link between Rate of Change in number of Self-Employed and change in Arabs' Share, by Economic Sector (2021 versus 2006)



The construction sector is an anomalous observation and has therefore been eliminated from the figure.
 *The change in Arab's share in the agriculture, forestry and fishing sector relates to 2019 (versus 2006) due to restricted data.
 **in this figure local, public and security authorities also include compulsory national insurance; other services; household as employees; overseas organizations and entities.
 Source: special processing of Business Registry sector, Central Bureau of Statistics

[11] Survey of household expenditures 2019, Central Bureau of Statistics

2.2. Distribution by Region

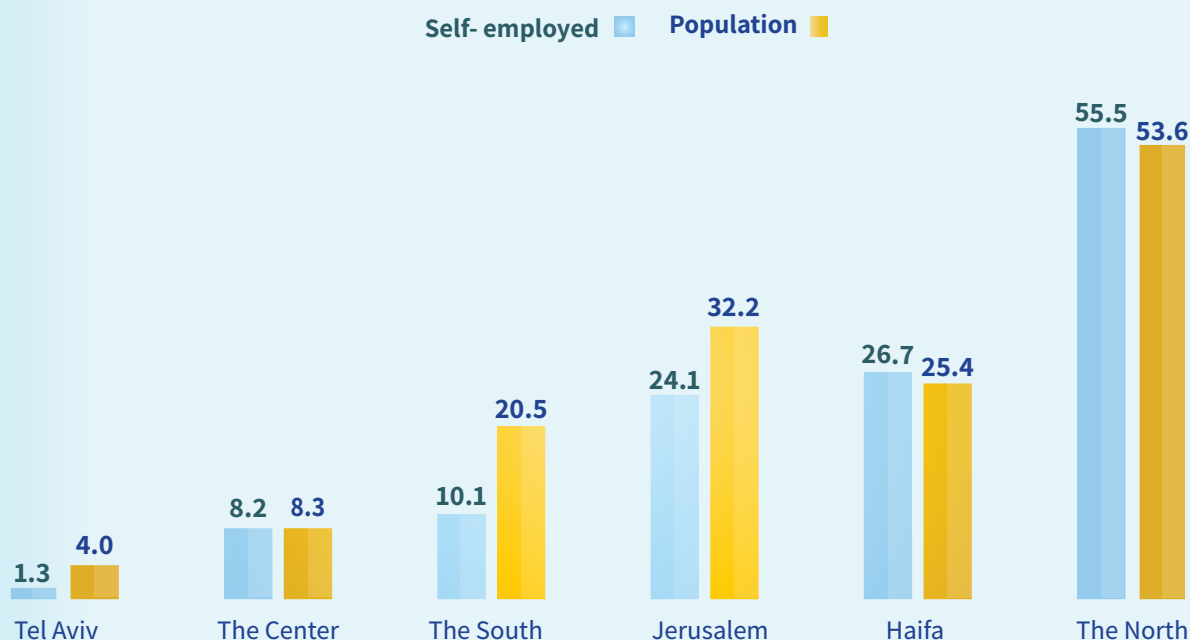
The geographical spread of self-employed Arabs is similar to the spread of the Arab population in Israel; therefore about half of self-employed Arabs are found in the northern region (51%), the second largest region. After the north by a large margin is the Haifa region (17%), while in the Tel Aviv region there are only 2% of self-employed Arabs (Appendix 3). Accordingly, the Arab presence among the self-employed is prominent in the Northern region, where they constitute the majority, while in the Tel Aviv region the rate of self-employed Arabs comes to only 1.3% (Figure 4).

However, there is no full correlation between the spread of population and the self-employed situation, since in the northern and Haifa regions the share of self-employed is larger than their share in the population, while in the Jerusalem, southern and Tel Aviv regions, the share of self-employed Arabs is noticeably lower than their share in the population.

The low share of self-employed Arabs in Tel Aviv may stem from the makeup of sectors in this region, where there is more weight, compared with other regions, to sectors in which Arabs tend to participate less: art, entertainment and leisure; information and communications; and real estate activity.

The rise in Arabs' share among the actively self-employed embraces all sectors (Figure 4) and the most rapid growth was noted in the southern region (from 6% to 10%), where Arabs significantly increased their share in the population (from 15% to 20%), while in the remaining regions the population makeup remained almost unchanged. In the Tel Aviv region too, the share of Arabs grew with relative speed, but has still remained very small and far below their share in the population, while the slowest growth was noted in the central region.

Figure 4: The Share of Self-Employed Arabs in the Population, by Region (2021)



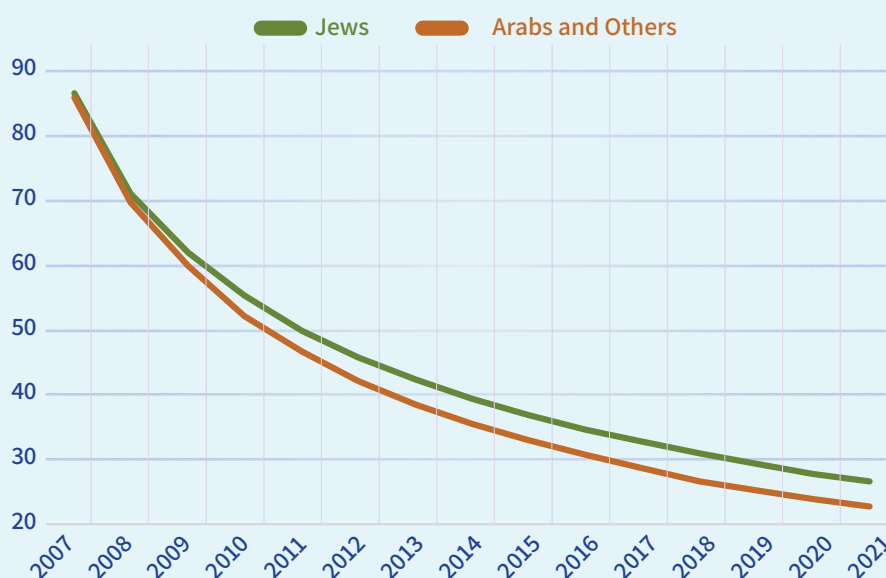
Source: The Statistical Yearbook for Israel (2022) and a special processing of Business Registry sector, Central Bureau of Statistics

3. Percentages of Survival

The typical pattern of businesses’ survival indicates a relatively large rate of businesses which close down in their first years of operation, after which a percentage of the businesses which survive becomes increasingly moderate accordingly, and this is the survival pattern existing among self-employed Jews as well as among self-employed Arabs, who present the largest decrease in survival percentages between the second and third years of operation.

The survival percentages of businesses born in 2006 which were owned by self-employed Arabs are lower in comparison to their Jewish counterparts. The gap already opens in the first year of operation, reached by 85.9% of Arabs compared with 86.5% of Jews, and from there it continues to grow until it reaches about 4 percentage points in the third year, subsequently remaining almost unchanged. 15 years after the founding of the business (2021), only 22.8% of self-employed Arabs survived, compared to 26.8% of self-employed Jews (Figure 5).

Figure 5: Percentages of Survival of Self-Employed People by Population Group (Businesses born in 2006)



Source: special processing of Business Registry sector, Central Bureau of Statistics

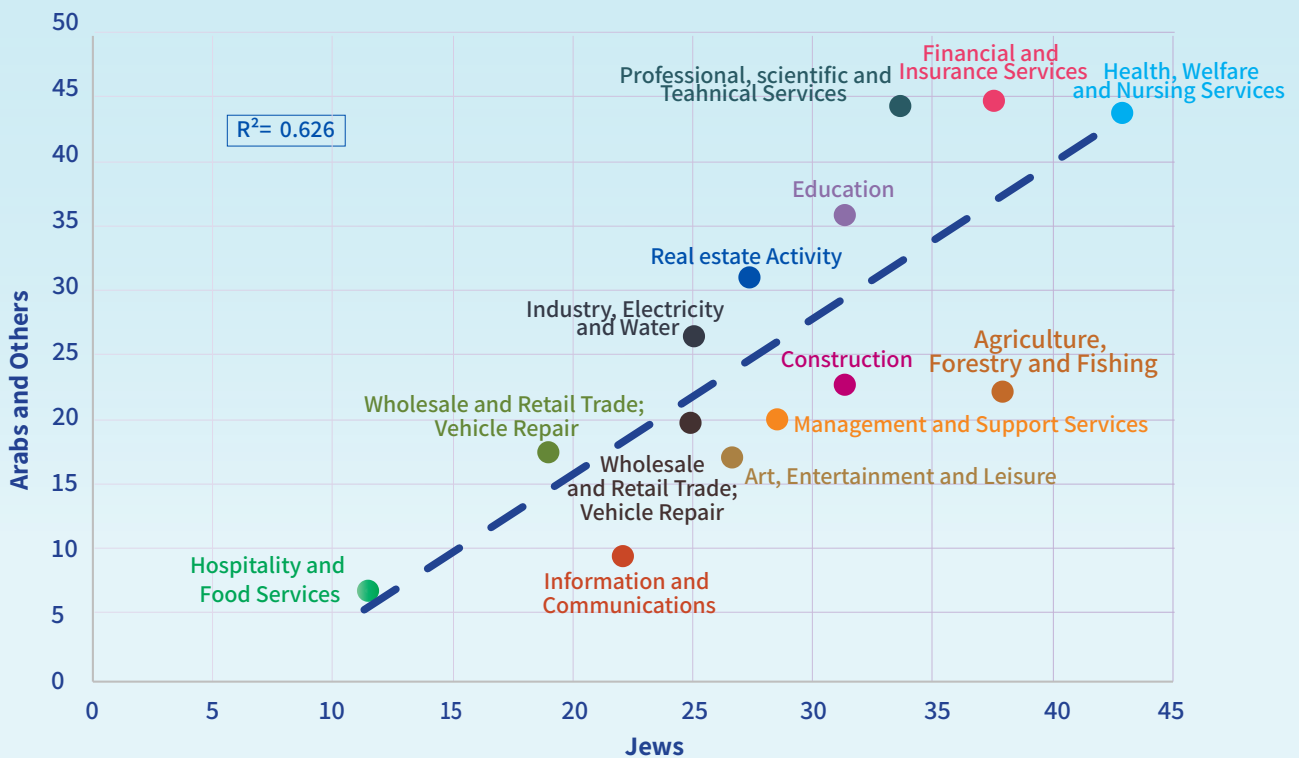
3.1. Survival by Economic Sector

There is a strong link between the survival percentages of the self-employed and the economic sector in which they operate, whether they are Arabs or Jews. High survival percentages were noted in the health, finance and professional, scientific and technical services sectors. On the other hand, in the trade, information and communications and especially in the hospitality and food sectors, low survival percentages were noted (Figure 6).

However, the gaps in survival percentages between Arabs and Jews are far from uniform across the various sectors. Although the survival percentages of Jews are higher on average, in 6 sectors (out of 14 from which data was obtained) it was found that the survival percentages of Arabs were higher after 15 years. The leader among these sectors is the professional, scientific and technical sector, followed by the financial services and insurance sector. Conversely, the survival percentages of Arabs are significantly lower compared with Jews in the agriculture and information and communications sectors.¹²

[12] It should be taken into account that in the finances and information and communications sectors, in 2006 there were only a few dozen self-employed Arabs; therefore there is doubt regarding the statistical validity of the findings regarding survival percentages in these sectors.

Figure 6: The Link between Survival Rates of Self-Employed Jews and Arabs, by Economic Sector
 (Survival rates in 2021 for businesses born in 2006)



Source: special processing of Business Registry sector, Central Bureau of Statistics

3.2. Survival by Region

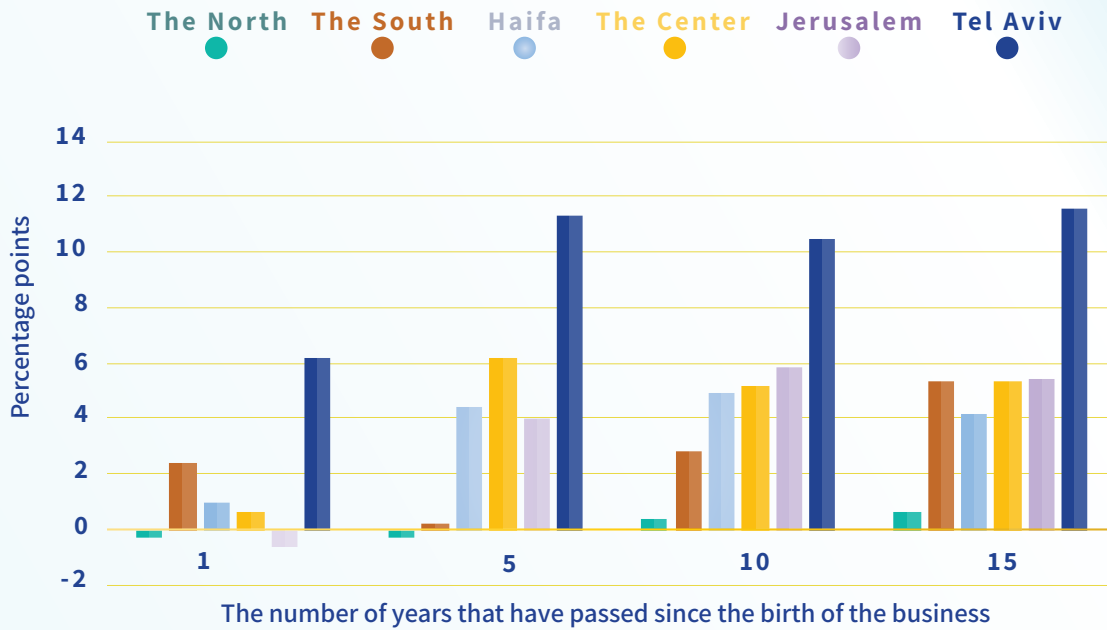
As in the distribution by economic sector, survival percentages by region also have similar characteristics for self-employed Arabs and Jews: both survive at a higher rate in the central and Jerusalem regions, compared with the Haifa region and especially when compared to the southern region. In addition, the highest survival percentages after the first year among all the regions were noted in Jerusalem.

On the other hand, there are great differences between Jews and Arabs in the Tel Aviv and northern regions: self-employed Arabs in the northern region survive at the highest rate, while in Tel Aviv, their survival rate is the lowest (Appendix 50), while the survival rate of self-employed Jews is the highest in Tel Aviv among all the regions. Thus, the gap in survival percentages between Arabs and Jews is greatest in the Tel Aviv region, while the northern region is the only one in which the survival percentage of Arabs does not fall below that of Jews (Figure 7).

One of the reasons for the low survival percentages of self-employed Arabs in the Tel Aviv region is their high rate in the hospitality and food sector, in which the survival percentages are the lowest among all the sectors, especially in Arab society – only 7% of self-employed Arabs survive in the sector after 15 years (and only 11% of self-employed Jews). In the Tel Aviv region, the number of self-employed in the sector was the third in size (after construction and trade) totalling 13% in 2021 – the highest among all the regions. Moreover, relatively high rates of self-employed Arabs in the Tel Aviv region are in the information and communications sector and in the art, entertainment and leisure sector, in which the survival percentages are low, especially among Arabs.

Regarding the sectorial makeup of the self-employed in the northern region, there are no significant differences between it and the sectorial makeup of self-employed Arabs in the rest of Israel. It therefore appears that the uniqueness of self-employed Arabs in the north is their large number and their being a majority in the self-employed population in the region. This reality may be what affords them the benefits of a network and mutual assistance which reinforce their ability to survive long-term.

Figure 7: The Gap in Survival Percentages between Self-Employed Arabs and Jews (Businesses born in 2006)



Source: special processing of Business Registry sector, Central Bureau of Statistics

The analysis above indicates low survival rates of self-employed Arabs compared to Jews, but there is no evidence that this gap reflects a tendency among self-employed Arabs to practice in riskier sectors or regions. There is zero correlation between self-employed Arabs' share of a sector and their survival percentages in it (Appendix 6). Self-employed Arabs are concentrated in the northern sector, where their survival percentages are the highest.

Thus, it appears that the low survival percentages stem from blocks unique to small businesses in Arab society, among them problems with raising funds and credit, which are particularly acute in Arab society,¹³ a lack of awareness of tools for assistance, and difficulties working with state institutions.

[13] Economy of the Nation: the Distress of Small Businesses in Arab Society in Israel – the Credit-Raising Block/
 Lena Zarour <https://forum.vanleer.org.il/2p=1379>

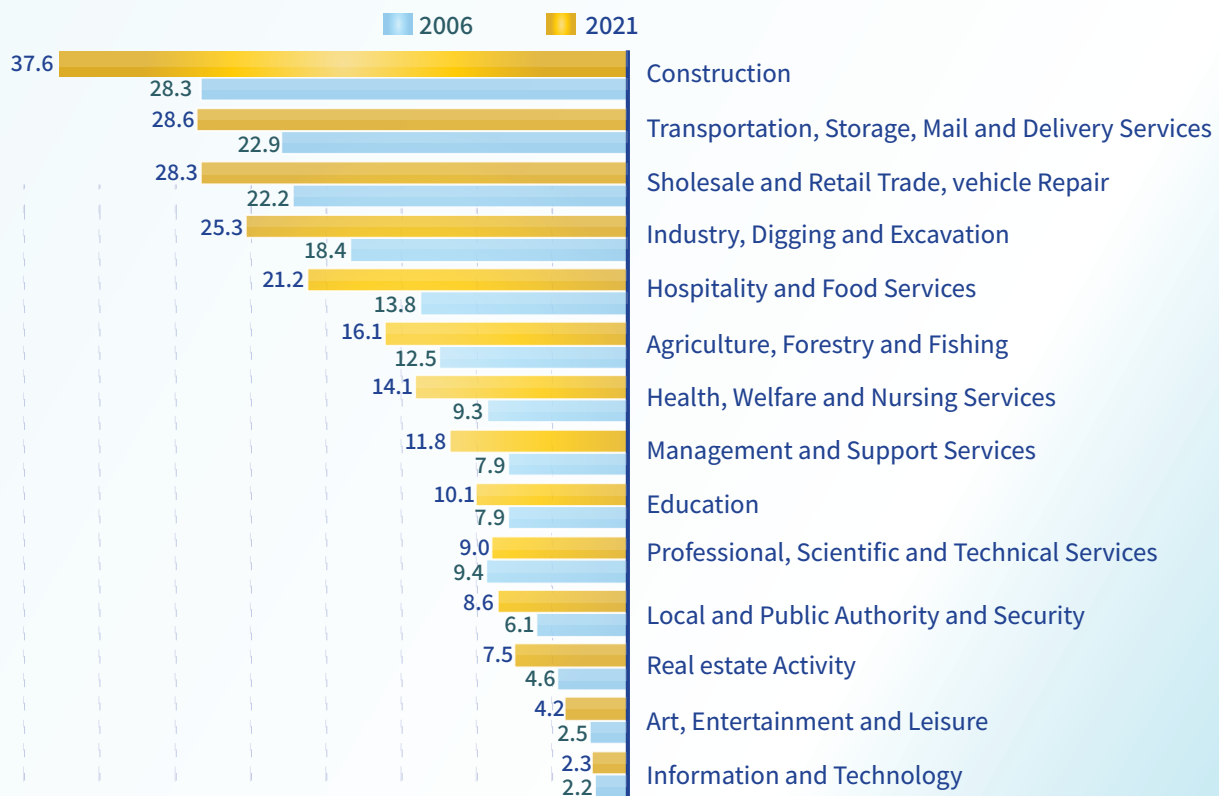
4. Appendices

Appendix 1: The Share of Arabs among Births of Self-Employed Businesses



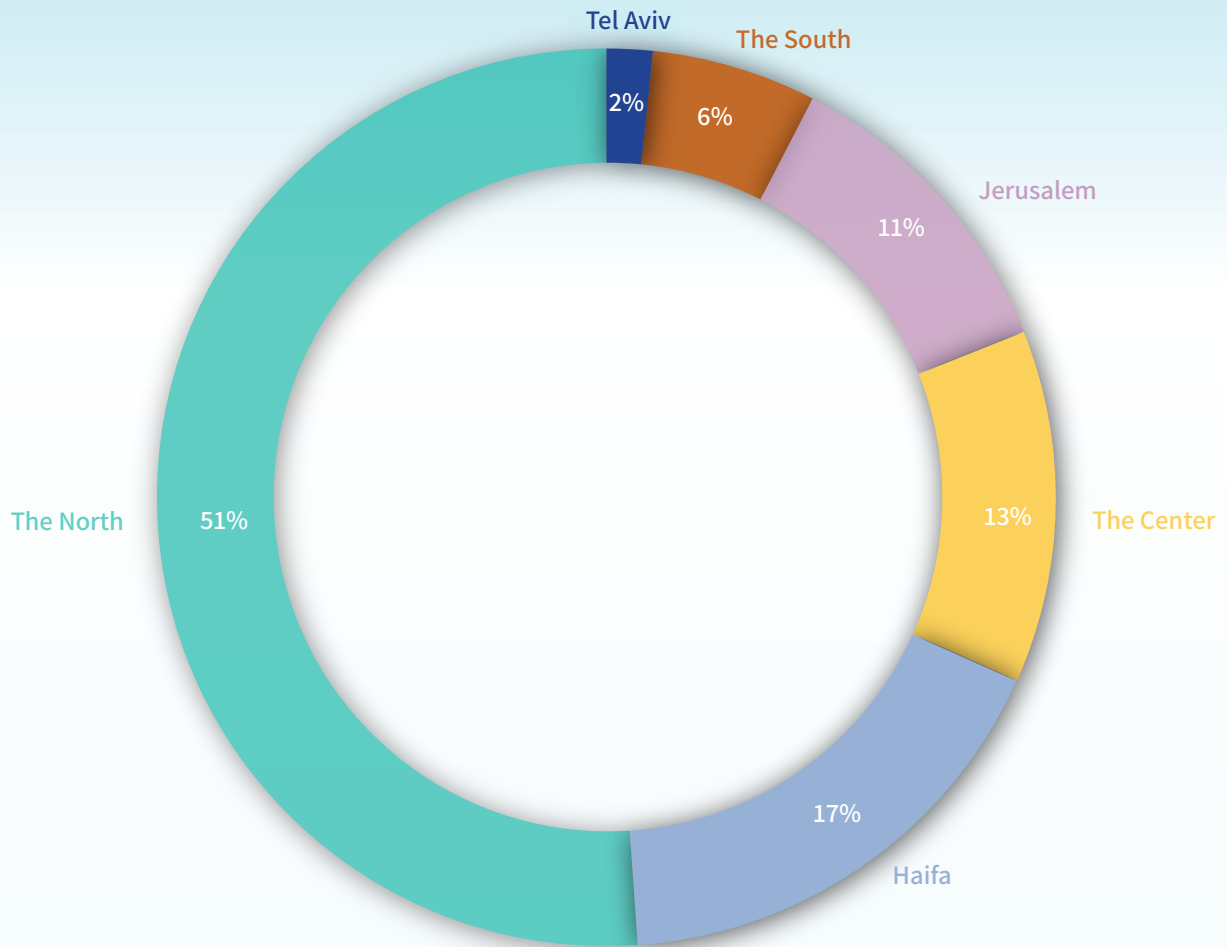
Source: special processing of Business Registry sector, Central Bureau of Statistics

Appendix 2: The Share of Arabs among the Actively Self-Employed, by Economic Sector



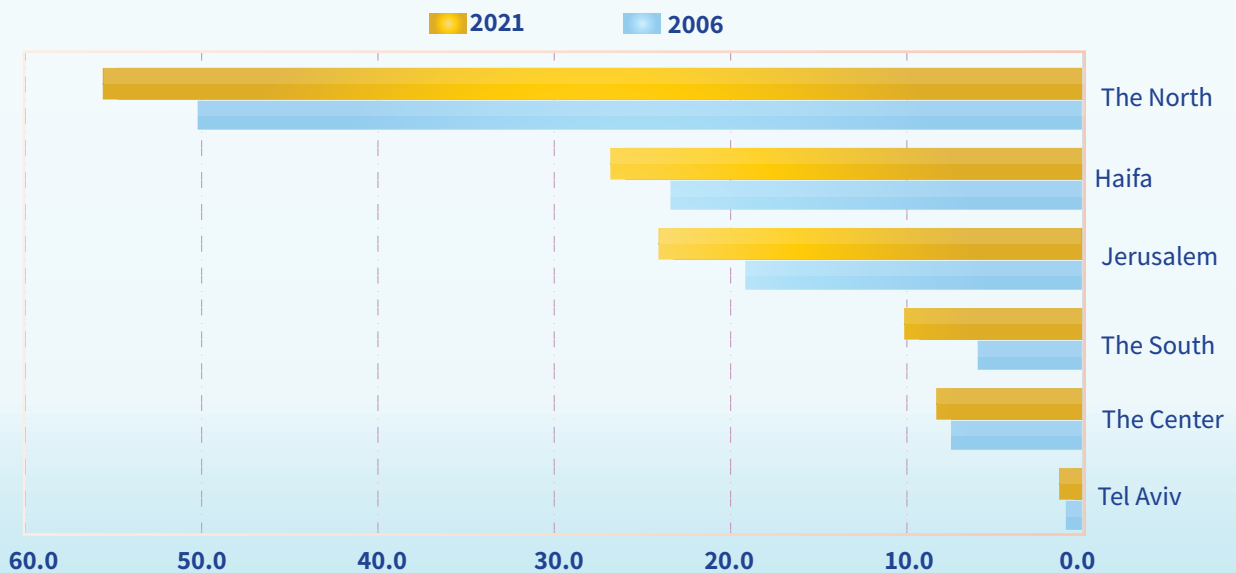
Source: special processing of Business Registry sector, Central Bureau of Statistics

Appendix 3: Distribution of Self-Employed Arabs by Region



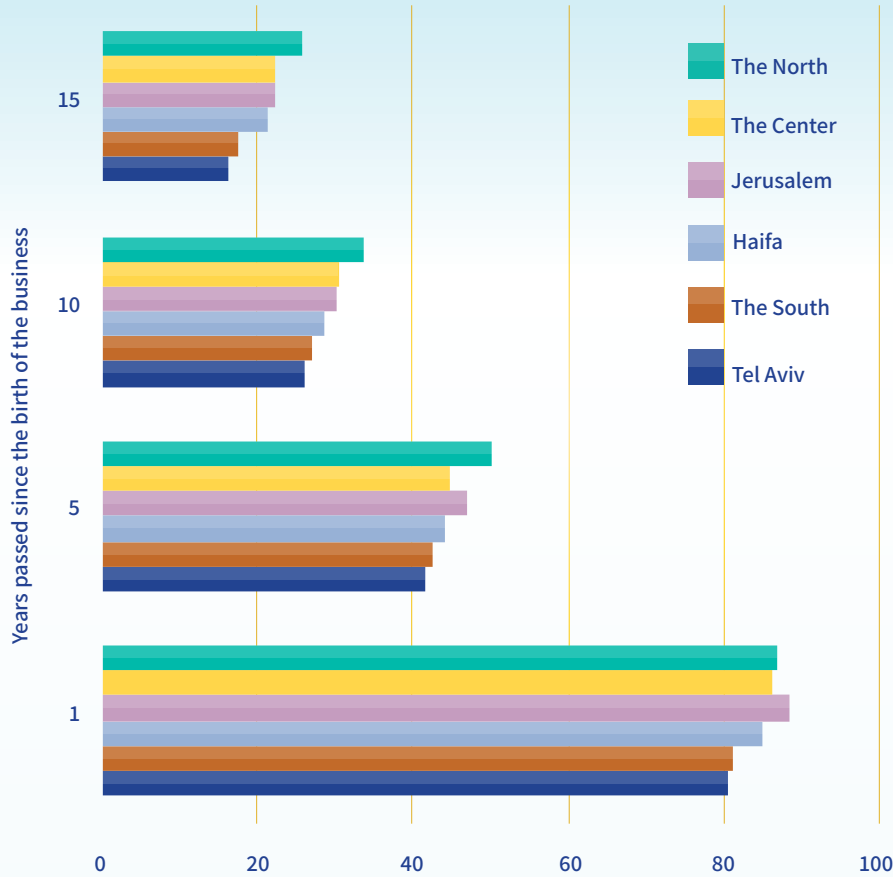
Source: special processing of Business Registry sector, Central Bureau of Statistics

Appendix 4: The Share of Arabs among the Self-Employed by Region



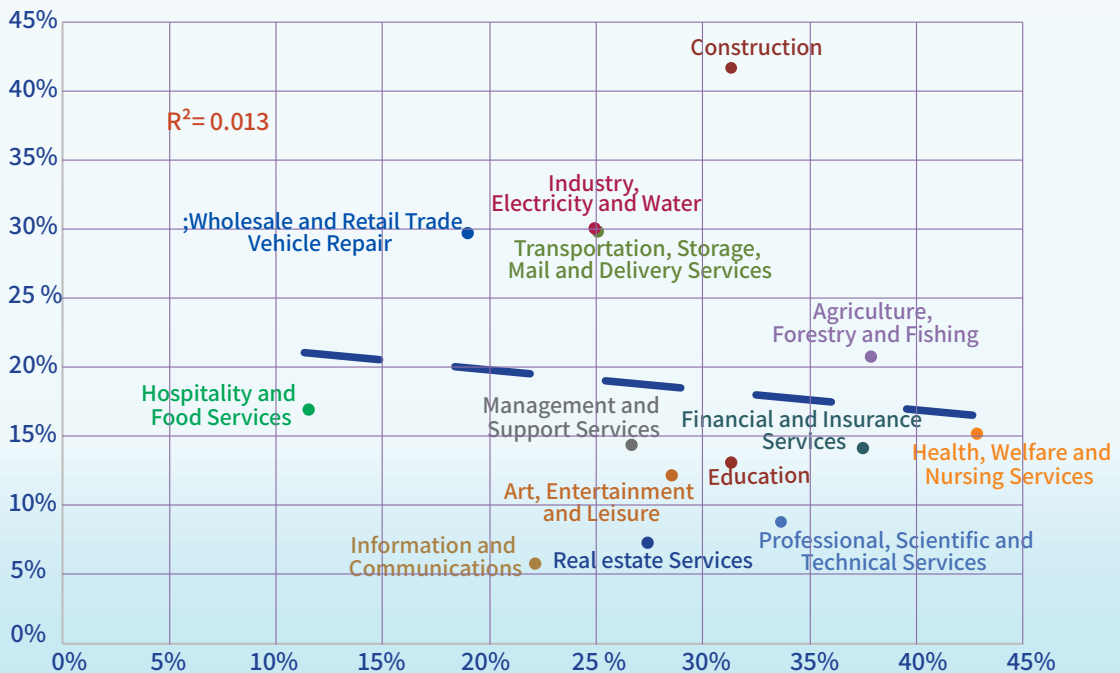
Source: special processing of Business Registry sector, Central Bureau of Statistics

Appendix 5: Survival Percentages of Self-Employed Arabs by Region (Businesses born in 2006)



Source: special processing of Business Registry sector, Central Bureau of Statistics

Appendix 6: The Link between Survival Percentages of Self-Employed Non-Arabs and the Arabs' Share, by Economic Sector (2021)



Source: special processing of Business Registry sector, Central Bureau of Statistics