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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A (A ADD, C CHANGE, D DELETE)

PP

2. DOCUMENT CODE: 3

3. COUNTRY ENTITY: Israel

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 digits): 271-HG-007

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7. PROJECT TITLE (Maximum 40 characters): Shelter Upgrading and Housing Program

8. ESTIMATED FY OF PROJECT COMPLETION: FY 80

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 80; B. QUARTER 4 (Enter 1, 2, 3, or 4); C. FINAL FY 80

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL	NA	NA	0	NA	NA	0
(GRANT) Hsg Guaranty *	25,000	0	25,000	25,000	0	25,000
(LOAN)						
OTHER U.S. 1 HG Fee-Funded						
OTHER U.S. 2 Tech. Assist.*	(75)	0	(75)	(75)	0	(75)
HOST COUNTRY Tech Assist.	0	75	75	0	75	75
OTHER DONOR(S) Downpayments		6,000	6,000		6,000	6,000
TOTALS	25,000	6,075	31,075	25,075	6,075	31,075

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. 1ST FY ___ F. GRANT	E. 1ST FY ___ G. LOAN	H. 2ND FY ___ GRANT	H. 2ND FY ___ LOAN	K. 3RD FY ___ L. GRANT	K. 3RD FY ___ M. LOAN
(1) ST	720	NA	860	0	25,000				
(2)									
(3)									
(4)									
TOTALS				0	25,000				

* HG Funds and HG fees are not appropriated. Do not add.

A. APPROPRIATION	N. 4TH FY ___ GRANT	N. 4TH FY ___ LOAN	P. 5TH FY ___ GRANT	P. 5TH FY ___ LOAN	R. LIFE OF PROJECT GRANT	R. LIFE OF PROJECT LOAN
(1) ST					0	25,000
(2)						
(3)						
(4)						
TOTALS					0	25,000

12. INTERFUND OBLIGATION SCHEDULED: MM YY

13. DATA CHANGE INDICATOR: ARE CHANGES MADE IN THE PROJECT FACESHEET DATA BLOCKS 12, 13, 14 OR 15 OR IN PRP FACESHEET DATA BLOCK 12? IF YES, ATTACH CHANGED PRP FACESHEET.

1

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: C. Richard Zenger

TITLE: Assistant Director for Near East
Office of Housing

DATE SIGNED: MM 07 DD 14 YY 80

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

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Shelter Upgrading and Housing Program

Israel

271-HG-007

July 1980

PART I. Executive Summary and Recommendations

A. Recommendations

A request for assistance from the Government of Israel attached as Annex C, the Foreign Assistance Act of 1979 mandate for a $25 million Israel Housing Guaranty, and an update of the Israel Shelter Sector conducted in March 1980 by the Office of Housing form the basis for the HG proposal described in this Project Paper. Based upon review of the proposal set forth, it is recommended that a Housing Guaranty of $25.0 million for a term of up to 30 years and at an interest rate to be negotiated with a private U.S. investor be approved.

The proposed project, seventh in the long term American-Israeli housing relationship meets all applicable statutory criteria (see Statutory checklist, Annex B). Shelter Sector goals enunciated by the GOI correspond very favorably with AID policy. The GOI has made recent policy changes to increase cost recovery in its mortgage program. With the physical rehabilitation and management upgrading now underway for public housing, the GOI hopes to increase its effective housing stock to serve the poorest Israelis.

In addition to the Housing Guaranty, the Office of Housing will provide technical assistance in the areas of shelter policy and housing management training.

The terms and conditions are set forth in the Guaranty Authorization attached in Annex E and specifically provide that none of the guaranteed funds shall be used to finance housing located outside the territory subject to the administration of the State of Israel prior to June 1967.

B. Description of the Project

The project goal is to assist the GOI to assure a supply of adequate shelter for all Israelis consistent with the requirements of its development objectives.

The project purpose is to finance portions of the GOI housing program for low income families and to demonstrate new policies in this sector. The Housing Guaranty will encourage the GOI to continue its focus on the shelter needs of its most needy citizens by financing rehabilitation and expansion of rental units for the poorest Israelis, mortgages for low-income families,

and by continuing to provide technical assistance in the areas of shelter policy and housing management.

The Loan will finance low-income shelter for the benefit of about 40,000 people as follows:

1. $13 million will be used to finance the rehabilitation and expansion of over 9,000 rental units in public housing.

2. $12 million will be used to provide mortgage financing to enable approximately 800 below-median income families to purchase newly constructed apartments and houses.

3. Concurrently with the HG loan, the Office of Housing will continue to finance jointly with the GOI a program of technical assistance. The GOI will match up to $75,000 in HG fees to be allocated for analyses of recent and proposed shelter policy changes, the expenses of a Joint GOI-Office of Housing Shelter Review, and the development of a new professional program to be implemented over a three-year period at the University of Tel Aviv to train 150 housing managers.

The borrower of the HG loan and the administrator of the program on behalf of the GOI will be the Ministry of Finance. The Ministry of Construction and Housing as the GOI agency with primary responsibility for implementing GOI shelter policy will have responsibility for the programs under which the new construction and rehabilitation will be accomplished. Public housing rehabilitation will be accomplished under MOCH's control by Amidar, Israel's largest public housing agency. New homes will be constructed by MOCH and by the private sector supervised by MOCH. Private mortgage banks will give mortgage financing to eligible applicants and will service the loans and will be financed directly by the government.

The policy technical assistance will be provided to the Ministry of Finance as the agency responsible for long term shelter policy and budget decisions for the government. The training assistance will be provided through Amidar to support development costs for the University of Tel Aviv curriculum for housing managers.

C. Summary Findings

1. General

The proposed project will assist the GOI to provide housing to needy Israeli families through two recently improved GOI shelter programs. It will support a new and difficult effort to train the required Amidar management staff and to rehabilitate and expand existing public rental units, now housing some of Israel's neediest and most overcrowded families. The project will also provide needed resources targeted to lower-income families to support the mortgage assistance program and will support recent policy decisions by the GOI to increase cost recovery in this program and to increase the involvement of the private sector. The cost-of-living-linked mortgages provided under the mortgage assistance program since July 1979 provide for greater cost recovery from beneficiaries and open the door to private banking participation. The MOCH's 1979 and 1980 construction programs also provide incentives for involvement of private risk capital. Over half of the government's 1979 housing units were started under its program to involve the private sector. In conclusion, this seventh Housing Guaranty loan supports significant improvements in the Israeli shelter sector, improvements previously recommended through technical assistance provided in earlier HG loans.

2. Technical and Environmental

Amidar and the MOCH have demonstrated technical capacity to carry out rehabilitation and new construction. The GOI continues to give attention to the scarcity of land and the cost of construction in site selection and design of new projects.

The GOI has a superior legal framework and effective institutions for environmental assessments and application of policy. An IEE recommending a finding of no significant impact has been accepted by the Near East Bureau.

3. Social Analysis

Amidar's rehabilitation program is a socially sound program designed to improve the living environment of its tenants while continuing to charge affordable rentals. For families wishing to buy, the Mortgage Assistance Program offers financing in which the monthly payments and mortgage amounts allowed are structured to favor the neediest families and are immediately affordable at least to the thirtieth percentile.

The social analysis performed for this project determined that flexibility through the option of self-help financing, block grants to minority communities, and the Amidar expansion program for large families assure that shelter acceptable to varying cultural needs is provided.

4. Financial

The Housing Guaranty will support new cost recovery policies which target GOI resources towards the neediest families. The program will provide reimbursement and long-term financing for rehabilitated or new shelter now under construction or recently completed. The system of mortgage financing, while significantly improved through the linkage of mortgage repayments, relies on proven institutions.

5. Implementation and Evaluation

The GOI shelter institutions have the competence to carry out and evaluate this program as they have earlier HG's. The GOI has initiated discussions with potential investors and hopes to negotiate the loan and implementation agreement in early August for an early disbursement.

D. Project Identification Document Review

During the review of the PID on June 6, 1980, the Near East Bureau requested that the following considerations be included in the Project Paper. A summary of the points covered in the paper follows:

1. Mortgage Finance Program - It was agreed that the PP should include a discussion of the relationship between housing costs/mortgages and income levels. The paper should aim at the lowest income group possible. It was noted that limiting the size of units could prove a more effective control than imposing a maximum mortgage amount.

The most needy families are offered the largest mortgages with the most generous repayment terms. Less needy families are offered smaller mortgages and must either provide much larger downpayments or find much less expensive apartments. The unit size maximum under the GOI mortgage assistance program has been 85 m², but the mortgage limit is usually controlling, i.e., the mortgage limits provide financing for much less space.

The GOI has agreed to allocate to the HG loan financing only their loans going to families with more than 800 points on a need-scale of 1400. This will assure that HG financing will help the most needy beneficiaries.

2. Renovation - The NEAC concluded that expansion was an acceptable element to support. Concern was expressed as to how the GOI-would finance this subproject. Would the same criteria for selection of tenants apply as under the mortgage finance program? The NEAC agreed that cost recovery should be pursued here through more realistic rents.

The GOI will finance the Amidar rehabilitation and expansion program from the annual Ministry of Construction and Housing budget. Amidar tenants are selected from the most needy category of families as measured by the same criteria used for the mortgage assistance programs. Increased rentals are part of Amidar's policy under the renovation program but the magnitude of increases permitted is politcally sensitive and closely controlled by the GOI.

3. Allocation of funds among programs - this subject area should be treated as part of the beneficiary analysis.

As Amidar houses those families who have not been able to afford to buy an apartment and who were originally selected as being most in need, the majority of the HG loan is now proposed for the Renovation subproject. Similarly, the estimated allocation of the HG loan among mortgage assistance categories reflects a balance of the objectives of targeting to the most needy, support for decentralization, and financing of housing for minorities.

4. Project justification - Inasmuch as HIC assistance to Israel is mandated, the PP need not dwell on the macro-economic justification. It was agreed, however, that a review of progress-to-date of previous HG's and the distressed neighborhoods program ought to be included in the PP.

A description of recent HG experience in Israel, is to be found in the Project Description, pages 7-11. Macro-economic analysis for the Israel shelter sector are to be found in the previous PP and in the Economic Report of 1980 completed for this project.

5. Decentralization - it was also agreed that it would be unrealistic to explicitly use the project to support GOI decentralization policies. However, the maximum price support units were likely to lead to greater decentralization.

The mortgage ceilings and the maximum price allowed under the mortgage assistance programs provide incentives for families to move away from urban centers to areas where GOI financing will provide for a more substantial portion of the total. In development towns, GOI mortgage assistance terms are significantly more generous relative to cost.

6. Socio/cultural - the NEAC agreed that the Socio/cultural aspects of renovation were not a major problem.

The expansions provided under the Amidar program are particularly responsive to the needs of households of recent and not-so-recent immigrants to Israel who tend to have extended families and many children. Tenants are consulted on expansion and other renovations to assure that the limited funding responds to locally-perceived needs.

PART II PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

The State of Israel with a 1979 population of 3.9 million is a comparatively new country faced with housing problems both unique and disproportionate to its size.

The State of Israel totaling 7,993 square miles in 1948 (about the size of New Jersey), was founded upon the concept, later formalized into law, that it would be the homeland, the refuge, for Jews without restrictions as to their respective countries of origin.

In accepting unrestricted Jewish immigration, the GOI has also accepted the responsibility to provide housing for its new citizens, regardless of their ability to pay, but the lack of immigration control makes the planning and allocation of resources difficult Net immigration since 1976 has been between 10,000 and 15,000 per year, with considerable variation from year to year.

In addition to the housing needs of immigrants, Israel is also faced with the necessity of dealing with the more typical components of housing demand found in other developing countries. The most pressing of these are the formation of new families, the increasing urbanisation of the country, the rehabilitation of deteriorated neighborhoods in the urban centers, and the progressive obsolescence of existing buildings into potential slums.

Because the State owns 92 percent of the land, it excercises tight control over all planning and development. Further growth in the densely populated cities of the coast, such as Tel Aviv, places heavy demands on the environment and infrastructure. Therefore, the GOI explicitly maintains a national policy of population and industry in the coastal strip by distributing it throughout the country.

To meet the housing requirements of a growing population, and in view of the limited resources of the State, the Israeli citizen shares in the burden by financing the purchase of his own home or apartment through a mortgage loan.

Between 1949 and 1980, over one million permanent dwellings were produced by both the public and private sectors to accomodate immigrants and Israel's growing population. Of this amount the private sector provided approximately 54 percent of the housing stock and the public sector provided the rest.

The government's role in housing has not been uniform and, in some years, public starts dropped as low as 35 percent of the total as the government adjusted its public housing programs most effectively to satisfy its perception of the changing needs of the population. Significant changes in the government's programs reflect its past success in providing units for new households. In the recent years, the GOI has achieved a substantial upgrading of living conditions throughout the country. Whereas 56.9 percent of the population was living at a density of two or more persons per room in 1959, it had dropped to 14.2 percent by 1978. (See Table III). The HG involvement in Israel has increasingly supported the upgrading of existing dwellings and increasing levels of cost recovery from beneficiaries.

B. Summary of HG Experience in Israel

In FY72 the first HG Program in Israel was a $50 million loan, channeled through Tefahot, the Israel Mortgage Bank Ltd., to provide mortgage financing to immigrants, newly married couples, slum dwellers, and minorities.

This was followed by five successive HG Programs, each $25 million loans to the Ministry of Finance, aimed at similar target groups.

The 1976 Israel shelter analysis, its updates, and technical assistance in the areas of finance and management have assisted the GOI in reevaluating cost recovery policy, more effective allocations of resources to emphasize existing stock, and the management of those resources. Each HG has been accompanied by significant revisions in GOI shelter policy and administration due in large measure we believe to the TA and studies offered in connection with each HG.

The GOI has increasingly taken advantage of the housing expertise and analytical talents available through the Housing Guaranty Program. Each HG project has nurtured a dialogue which has resulted in a net improvement in Israeli housing policies. The major impact of the Housing Guaranty Program lies in the GOI's new perception of housing finance and management of existing resources and the continuing sharpening of focus to apply limited resources to the neediest families and to improve cost recovery mechanisms.

GOI policy-makers have expressed their interest in institutionalizing this assistance so that they can continue the dialogue, with or without additional Housing Guaranties. The proposal for technical assistance responds to this request.

The Sixth Housing Guaranty financed $10 million of the old GOI mortgage assistance program, $8 million in construction of low-income rental units, $7 million of a slum upgrading program, the Distressed Neighborhood program, and a jointly funded Office of Housing - GOI $150,000 technical assistance and training program. All subprojects were successfully completed.

The technical assistance and training in the finance sector provided a basis for the changes now being implemented in the GOI mortgage assistance program. Training was also provided for managers of the Distressed Neighborhood Program and of public housing and has served as a basis for the success of these programs. Earlier technical assistance provided in 1977 and the training for managers of public housing catalyzed the Amidar program now underway to preserve existing public housing stock.

C. Recent Shelter Developments in Israel

1. Distressed Neighborhood Program

The training for six key planners for the Distressed Neighborhood Program held in Tel Aviv and in six U.S. east coast cities in 1978 emphasized practical experience. The GOI had already started on a small scale in 1976 to renovate and provide community infrastructure in selected neighborhoods. By late 1978, when the Israeli planners returned from the training seminar in the United States, the GOI was recognizing that the most difficult problems were not physical, but social.

The GOI expanded the program and its scope of the program to include inter-ministerial coordination of resources and the methodology to include a heavy emphasis on community development.

The initial success of the program in the eleven neighborhoods financed by the sixth housing guaranty has guaranteed a demand for program continuation. Originally, 160 neighborhoods were identified as being

in need (based on overcrowding, income, juvenile delinquency, school drop outs, vacancies etc), but under forty received initial funding. Now, not only the balance of the neighborhoods, but most localities are demanding expansion of the program while the original neighborhoods are crying for funding for the completion of the program.

GOI planners hope to be able to keep budgets for the program targeted to the Phase I list of sixty neighborhoods and to keep their boundaries intact. If they are not able to limit the program to its original target, the very success of the program may lead to its dissipation and failure. A 1980 evaluation by the GOI available at the Office of Housing provides a detailed description of the success of the program and its limitations.

Due to the success of the initial Distressed Neighborhood rehabilitation efforts partially financed under the previous housing guaranty, the availability of private U.S. resources, and the GOI budget commitment to continue this program, the proposed housing guaranty does not provide specific additional financing for the Distressed Neighborhood Program. A review of the program will be included in the Joint Shelter Review described below.

2. Focus on Existing Resources

Between 1976 and 1978, a change on GOI housing policy began to evolve. By 1978, for the first time since the inception of the State in 1948, the absolute shortage of housing for both immigrants and existing families was no longer the overriding determinant of GOI housing policy. For the first time attention could be given to making more effective use of the existing housing stock. Until then GOI policies had stressed the provision of an adequate supply of housing to satisfy national population growth, as well as the needs of new immigrants. Only minimum efforts had been directed at maintaining and improving existing housing. While it is an oversimplification, it is essentially true that the 30 years from 1948 to 1978 were devoted to housing production. Since 1978 increased effort and attention has been given to the role of the existing inventory in meeting the country's economic and social needs.

However, in assessing that role, the GOI has realized that major problems limit the ability of existing housing to provide long-term solutions. Much of the present stock was built to size and quality standards that are now outdated and no longer acceptable to the average Israeli family. Because of the characteristics of the GOI housing allocation system which discourages mobility, the existing stock is poorly distributed

in relation to the needs of the consumers. Thus while there is still a very significant degree of over-crowding, especially among larger families because of the tenure system, many other families are tied to larger apartments than they need.

In 1978, at the request of the government, the Office of Housing developed a housing management training program in the United States and in Israel tailored to Israeli needs. U.S. experts were used who had helped to turn around some of our worst public housing projects using concepts of decentralization and tenant involvement. Israeli participants in this program included the Directors of Amidar, and Amigur, the government public housing agencies, their top managers, and a variety of line supervisors down to maintenance foremen. Upon their return to Israel, their ideas were included in Israel's next budget. There is now an effective program underway on the long overdue replacements of major systems, the painting, and the maintenance required in all old buildings. Furthermore, there is now in recruitment and training the basis for a decentralized staff operation of the enormous public housing rental program. On a selective basis, overcrowded units are being expanded, allowing families to remain in the neighborhoods in which they have lived for many years.

3. Increasing the Efficiency of the GOI Investment in Housing

The GOI budget is one of the government's prime economic tools. A rate of inflation of over 100% despite successful export promotion and austerity efforts, and an increasingly important allocation of resources to defense have reinforced the cost recovery advice offered by the Office of Housing over the past several years. The GOI cannot anticipate that it will be able to budget indefinitely for increasing levels of subsidies in the housing sector. What subsidies and what financing is available must be carefully targeted to the most needy families and the private sector must be encouraged to provide for the rest.

The GOI housing program now incorporates policies which have been under discussion since our earliest technical assistance efforts. Subsidies are being more sharply targeted based on a point system. Private risk capital is now heavily involved. As described above, renovating what already exists rather than tearing down and starting totally new construction now dominates budget allocations. The mortgage instruments now encouraged by the government reduces the role of the government which in the past was responsible, at least indirectly, for virtually all finance in the shelter sector. Allocation of land for residential construction is now being planned more carefully to take advantage of the government's investment in existing infrastructure in roads, water and sewer, while promoting the effort to avoid population concentration

in the big cities. While the budget allocation for housing has been increased slightly, the obvious economic pressure on the Government has assisted in the implementation of politically unpopular measures to provide for much greater cost recovery from beneficiaries. A more complete discussion of the transformation of the Israeli long-term capital markets and the targeting of subsidies is given below.

D. Detailed Description

The GOI again is requesting A.I.D. support for the implementation of new policies adopted after assimilation of technical assistance provided by the Office of Housing under previous projects. The split between programs aimed at preserving existing housing and the production of new units represents a rational allocation of resources to needs in Israel's shelter sector.

The $25 million housing guaranty loan will provide $13 million to support the newly designed renovation/expansion housing program for rental units now occupied by Israel's poorest families and $12 million in mortgages for low-income families under a revamped housing program designed to increase cost recovery and the involvment of the private sector in the production of units. Technical assistance will be provided on a matching funds basis to continue to help Israel to sharpen its focus on subsidies for families with the most need, with more effective cost recovery from those who can afford to pay; to achieve lower cost and more efficient construction; to promote more involvement by the private sector in providing construction and long-term financing as well as an increasing role in the construction of new housing; and to support the institutional development required to manage a continuing effort to preserve the existing housing stock, especially publicly owned units.

GOI officials have requested that U.S. technical assistance be institutionalized so that it will not be dependent upon allocation of Housing Guaranty resources to Israel but could be counted upon as a continuing resource. Under the current program, therefore, it is proposed to initiate a relationship through the mechanism of a Joint Shelter Review, described more fully below.

Technical assistance provided with the previous housing guaranty emphasized preservation of existing housing, involvement of the private sector, and cost recovery. The proposed program supports the preservation of Amidar housing and the changes made in support of increased cost recovery through linkage of mortgage repayments and involvement of private risk capital in new construction.

1. Rental Rehabilitation Program - $13 million

Amidar will rehabilitate over 9,000 units of existing housing at an estimated average cost of under $2,000 per unit.

Amidar is by far the largest of Israel's public housing companies, providing management to approximately 150,000 units. The rehabilitation program undertaken by Amidar encompasses repairs required as the basis for a sound maintenance program, increases in the size of severely over-crowded units (either by expansion or by a recombination of smaller units in a way appropriate to the needs of each family), and by reconditioning of vacant units prior to reoccupancy. Where possible the total renovation program will remedy physical deficiencies in the quality of the building and its setting.

Renovations to the exterior of buildings provide for waterproofing and painting, provision of shutters and garbage containers, and plastering where required.

Infrastructural works and gardening in courtyards include new pathways and fences. In addition to an immediate improvement in appearance, the private enclosure of a maximum amount of space contributes to significantly improved maintenance and security by allowing each family to have individual control over outdoor spaces.

Overcrowded families are considered on a case-by-case basis for additional living space.

Where feasible, space is added to the apartment. Often it is possible to solve the internal mechanical problems in a building and the over-crowding problem of many families at the same time by creating a multistorey addition to the apartment building. Because most of the buildings are two to three stories, of simple design, and have adequate surrounding open space, there are relatively few technical problems or long delays

in carrying out this program. One of the attractive features of this program is its ability to provide a housing solution in a relatively short period of time and at low cost. The costs are lower than new construction ecause the existing investments in land, infrastructure, and construction are maximized. It is estimated that the expansion will cost about $30 per square foot of new area for a typical expansion per apartment from 150 to 200 square feet.

In some cases, especially where vacancies already exist because the small size of units makes them unsuitable, several very small apartments are combined into one standard apartment.

Amidar's renovation program for 1978-82 projects a Five Year Plan for reach every Amidar unit in that time period. Units to be addressed first are those with the most serious problems. The specific allocation of work under this program is given in Table I

The ambitious Amidar physical renovation program is possible due to an intensive overhaul, decentralization, and professionalization of Amidar staff. In each local area, Amidar has set up a separate maintenance unit responsible for the implementation of the rehabilitation program, reconditioning of vacated apartments for new tenancy, and a systematic maintenance program. The maintenance unit works under a regional manager who also has responsibility for rent collections, reduction of severe overcrowding, and tenant problems. Amidar is expanding and intends to professionalize its management staff in conjunction with the training program to be started at the University of Tel Aviv under the technical assistance program described below.

Amidar plans to follow the pattern successfully applied under the Distressed Neighborhood Program. First, initiate physical improvements to establish faith in the possibility of improvement and in the ability of newly decentralized management staff to deliver in each locality. Next, make a more strenuous campaign to involve residents in identifying

more deep-seated neighborhood problems and do something about them. Finally, involve residents in a serious dialogue on the limits to government resources and encourage self-help in volunteer maintenance of community facilities (especially for children), gardens, activities for teenagers, and prevention of vandalism. While the experience under the Distressed Neighborhood Program has demonstrated that better organized, healthier neighborhoods complain more, this new-found energy can also be directed towards specific local efforts to improve the neighborhood.

Increased rentals are a part of Amidar's policy under the renovation program. Initial rent increases have been collected from buildings where significant amounts of work have been completed.

A major overhaul of rental policy for all buildings is still under discussion. With current inflation and rentals still unlinked, Amidar must depend increasingly on the GOI budget for its operations. While all families meet a stringent need test to qualify for an Amidar unit initially, not every Amidar tenant is still low-income. Even lower-income families could afford to pay significant rent increases. While economic pressure to increase rental charges continue to build, this is a very politically sensitive issue and significant increases are unlikely to be approved at least in the short-run.

2. Mortgage Assistance Program: $12 Million

The HG will provide mortgage financing for 800 Israeli families.

The maximum price per unit financed will be IL 1,700,000 or $36,900 in Jerusalem and IL 1,200,000 or $ 26,100 in the rest of the country.

* May 1980 exchange rate ($1.00 equals IL 46.00)

A family qualifying for the maximum mortgage of IL 950,000 would be required to make a downpayment from zero up to IL 750,000 ($16,300) depending on the difference between the price of the house and the GOI financing allowed. Families qualifying with fewer points for a smaller mortgage would be required to provide a larger downpayment or to buy a less expensive house. The Rental programs are available to help those who are not able to come up with a downpayment.

a. Financing Innovations

The GOI Mortgage Assistance Program is now testing a major policy change recommended by A.I.D. First, instead of fixed interest rates, beneficiaries will be repaying both principal and interest in indexed currency. Mortgages will be linked to the cost-of-living index which is adjusted each month. No longer will the government indiscriminately subsidize lower income and extremely needy families by allowing repayments in inflated Israeli currency. Each family will repay the majority or all of its mortgage debt in real money, that is, currency which has been adjusted to reflect inflation. The amount of mortgage financing provided by the government without linkage to the cost-of-living index, the official Israeli measure of inflation, is targeted to the need of each family. The future impact of the increased beneficiary participation in financing of the family home will be felt in the increased resources which will be available in future years to finance the homes of other needy Israelis.

The second major innovation now being tested in the 1980 government mortgage assistance program is the involvement of private risk capital in the construction of new homes. In the past, government planners developed analyses of the need for new houses. The Ministry of Construction and Housing competitively bid the new construction and the houses were built where the government planners dictated.

Under the new system, GOI policy-makers require that private developers assume part of the risk. Construction contracts will be offered as a package with a requirement to build a given number of units, up to 50% as homes for sale at the risk of the developer and up to 50% to be sold to the government, the balance to be allocated for sale to the government at the option of the developer.

In areas like Jerusalem and Tel Aviv where land is at a premium, MOCH guarantees purchase of up to one-half of the new units by the government for use as public housing. In development areas, the proportions are negotiated depending upon the site. The developer must provide most of the construction financing, but purchasers may use any GOI mortgages for which they are eligible for the long-term financing.

Government planners are hopeful that the profit incentive provided by this arrangement will sharpen the accuracy of the allocation of new construction, speed construction, and reduce the government's commitment to construction financing. While the number of units unoccupied due to poor location is currently quite small, predicting demand in each locality and promoting population dispersion had been a problem in the past. Under the new system, a contractor who guessed wrong in responding to the Government's invitation to build would incur losses. Private developers participated in 60% of the government's 1979 program under these arrangements, with promising results. The provision of construction financing in large part by the private sector will again permit a large number of construction starts without placing enormous demands on the extremely tight 1980 budget.

b. Construction

The type of housing units to be financed under the Mortgage Assistance Program consists of three-to-four story walk-ups having two to four apartments at each level. Each unit would include from three to five rooms, a kitchen, and a bathroom with shower and tub. A small porch usually opens off the living room and a small porch (utility) from the kitchen. Construction is usually of reinforced concrete frame with concrete block curtain and interior walls. Exterior walls are usually plastered and painted. Hallway walls may be faced with unpainted rough gravel and encrusted concrete which

requires no maintenance. Floors are usually of cement tile. The ground floor is usually semi-open providing facilities such as bicycle and pram storage, trash room and entrance hall. Open balconies are favored as work (laundry) areas when adjacent to the kitchen, or sitting areas when on the living room side.

The projects are planned and will be executed in accordance with GOI national and municipal planning policies, the national and local master plans, GOI environmental standards, and will follow the GOI approved standards for contracting and construction. Social, commercial and other community facilites are integrated elements of the planning, especially in the new development areas.

c. Mortgage Assistance Categories

The proposed $12 million mortgage assistance program will be allocated among the following assistance categories:

Young Couples, New Immigrants, Large Families, Minorities, and Development Areas.

Annex G describes these assistance categories.

d. Allocation of Houses

The GOI has established a point system to determine an eligibility rating for all persons applying for assistance under the Public Housing Program. The lowest income group with the largest family will receive the highest numberical rating and, thereby, is offered the highest mortgage limits and most favorable mortgage terms. At the present time no preference is given to residents of areas designated as distressed neighborhoods, although a special rehabilitation loan program is under consideration. The point system also determines the maximum unlinked and linked loans. Total loan amounts range from IL 150,000* (for extremely overcrowded families who own an apartment which is substandard) to IL 950,000** for the neediest young couples (to finance an apartment in Jerusalem).

* $3,300
** $20,600

The provisions vary for each program and are given in detail in the 1980 Economic Report completed by the Office of Housing's financial consultant and available at the Office of Housing. In general terms, points are awarded based on income, family size, military service, and location of the unit to be financed (with more generous loans allowed as an incentive in development towns and in Jerusalem where costs are considerably higher). Under programs designed to help large families and under the Young Couples program, those couples married the longest without having been able to buy a home receive increased points. Overcrowded homeowners may qualify for loans to expand or renovate their unit, or to purchase a new apartment, or to pay key money required as a deposit. Families who cannot afford or do not choose to buy may benefit from rental assistance in specified locations or from public housing available at low rentals through the public housing companies such as Amidar.

The Point System

Under the point system the MOCH does not have a cut-off point which precludes assistance to families with more than the median income. On the other hand, an above median income family would have to score very high on other factors such as family size and overcrowding to qualify for any GOI help. MOCH also will not give assistance under the Housing Guaranty Loan to families with less than 800 points on a scale of 1400 points. The maximum monthly family income for which any points are given is IL 13,299 ($289) per month and that gets 50 points for the applicant as opposed to 400 points for a monthly family income less than IL 6,999 ($152) per month. Considering the present monthly urban median income as of May 1980 or IL 23,340($507) and the 800 point cut-off for GOI assistance it is possible that some very large families with above median incomes still might receive assistance. However, a MOCH analysis of applications shows that relatively few families fall into that category. Table V demonstrates this fact. AID might under this program require the GOI to exclude from HG financing those relatively few needy cases that have above median incomes, but this would require burdensome additional screening which MOCH does not normally do and experience shows that it is highly unlikely that more than 10% of applicants would be so categorized. (AID legislation requires that 90% of the funds go to below median income beneficiaries). The GOI point system clearly establishes need of the individual applicant. It is the judgement of the RHUDO that less than 10% of the beneficiaries will have more than median incomes.

3. Technical Assistance - $75,000

The GOI has effectively used past U.S. technical assistance. (See GOI reports on file at the Office of Housing and the HG-006 Annual Evaluation). The Ministry of Finance housing experts particularly value this advice and have requested that the relationship, which has previously been provided on a specific request basis, be institutionalized. The format planned for this effort will be the development of Policy Recommendations by the GOI, with Office of Housing direct-hire or consultant help if requested, followed by an evaluation of the Recommendations by a Joint Office of Housing G.O.I. Housing Review. The Office of Housing has set aside up to $25,000 from Housing Guaranty fees for the U.S. costs involved in this effort and for further U.S. involvement in technical studies expected to follow such a Review. The first Review will likely convene in the Spring of 1981.

The Office of Housing will also provide technical assistance to Amidar in its efforts to improve management of Israel's public housing resource.

To support a new curriculum in housing management, the Office of Housing will finance approximately $50,000 of U.S. expertise and other development costs of an academic program at the University of Tel Aviv over the next three years.

Amidar's modernization is well advanced in physical terms. As described above, staff engineers have been hired, priorities set, and the equivalent of over $40 million spent in the first two years of modernization. But Amidar's view of its responsibilities recognizes that its rent-payers are the most important element in sustaining a significant change in the adequacy of Amidar's resources to meet the needs of poor Israeli families.

Amidar's strategy is to hire 150 bright, energetic, and professionally trained managers in the next several years and to give them maximum responsibility at the local level for developing Amidar as a more effective housing resource. The new staff added to Amidar's existing staff will provide Amidar with approximately one employee for every 150 units. This compares with the New York City Housing Authority's 1:18 ratio. To accomplish the job, Amidar's staff will have to be self-directed and independently competent professionals.

In Israel at the present time, such a profession does not exist. Amidar intends to create one through providing a market for the graduates of a new program to be developed at Tel Aviv University and through direct financial assistance to the University for the costs of developing such a program. The Tel Aviv University program will be based on an excellent faculty in social work. It will emphasize equally management, accountability, control, supervision, and a general competence in technical services and contracting. While the U.S. public sector has had little success in developing such professionalism, some private managers of U.S. housing have developed a considerable reputation. Amidar expects to offer responsibilities similar to the U.S. private sector and commensurate salaries. The proposed salaries will be sufficient to create sustained interest in an Amidar career for the motivated people Amidar wants.

The development of a curriculum requires continuous feedback from Amidar on the success of the program in producing results at the level intended. The University of Tel Aviv will probably start its efforts at the undergraduate level with the intention of moving to a one-year post-graduate certificate program (or even a two-year master's Degree program if a higher level of education appears to be worth the investment).

The first undergraduate courses will be offered in September 1980 provided that the university authorities approve the curriculum. Graduate-level courses would be developed based on feedback from the effort at the undergraduate level. Students would be offered the opportunity to work part-time at Amidar to supplement the academic program and to let Amidar evaluate what they are learning.

Total costs for the development of the program are estimated at $150,000 or approximately $3,000 per student in a certificate program in which fifty students annually would be enrolled, for three years. The proposed HG financing of $50,000 might include contracts for U.S. or Israeli housing experts invited to teach in the first three years of the program or stipends for U.S. professionals on leave, costs of course preparation, expenses of developing a specialized library, costs of field research to tailor-make materials for courses, or other expenses related to a start-up effort during the first three academic years.

PART III PROJECT ANALYSIS

A. Technical Analysis

1. Suitable Technology

The Israeli construction industry, through past performance under the HG program, has demonstrated that it has the competence and technology to implement this $25 million program at a minimum cost to the target group. Designs for new apartments which MOCH is building for sale or rental under GOI assisted programs are the most enonomical units being produced in Israel at this time. The concept of upgrading basically sound existing stock is clearly consistent with AID policy directives and review of both planning practices and completed examples confirms that MOCH, the public housing companies, and contractors are fully capable of implementing the rehabilitation activities under the Amidar renovation program.

Major constraints which continue to impact upon the shelter construction industry are: (a) the limited supply of suitable land because of the GOI policy of utilizing land suitable for agriculture for that purpose only, leaving the most difficult sites for construction; (b) extreme climatic conditions and/or seismic problems requiring specialized construction techniques and facilities for heating or air-conditioning; (c) the required provision of a bomb shelter with all apartment units, adding from 3 to 10 percent to building costs; (d) elevators are required in all buildings taller than four stories. Land has already been acquired for all units to be financed with the HG loan and all buildings will be four stories or less.

It is estimated that less than sixteen percent of construction components are now imported, principally lumber, steel and white cement. The other components such as sand, stone, gravel, lime and common cement, etc., are produced locally. No special problems are anticipated with regard to the supply of construction materials for this program.

a. Expansion and Rehabilitation of Amidar Existing Units

The houses to be expanded or repaired are typically four family, two story buildings which were built by the public housing companies in the early 1950's. They are reinforced concrete frame with masonry filler walls and consist of about 36 square meters with two rooms, a bathroom, and a kitchen. Floors are reinforced concrete and roofs are usually clay tile. The structures and roofs of these buildings are generally sound. However, initial plumbing and electrical installations were of inferior quality as were doors, windows, and other finishing materials. Fixtures have simply worn out. In some cases families have vacated worn-out buildings and there is evidence of looting and malicious damage in vacant units. In many cases large families need more room if they are to continue to occupy an otherwise serviceable unit.

For either expansion or repair, an Amidar technical team makes an assessment of the existing conditions, recommends work to be done and estimates costs. Amidar sets priorities based on experience with the apartments, the needs of each family where expansion is proposed, and reports on current physical conditions in each building. Repair work typically consists of new bathroom and kitchen fixtures, new electrical wiring, switches, and outlets, doors, windows, floor and wall surfacing and painting inside and out. A typical addition is a single room of about 15-20 square meters added at the end of the building. There is no question about the technical capacity of Amidar

to execute this kind of work.

b. Mortgage Units

These units are typically in four story walk-up buildings of reinforced concrete frame construction with masonry filler walls. Construction standards are considered by MOCH as the minimum acceptable in Israel at this time considering desired longevity and maintenance factors. Designs are similar to those which have been financed under prior HG programs. DS/H has reviewed plans of past programs for technical adequacy and physical inspections have been conducted by DS/H contract engineers of completed and occupied units. Production of these units has been judged satisfactory in all respects. Construction is carried out on plans developed by private architectural firms under contract to MOCH. Bidding, contracting, and cost control procedures are closely controlled by MOCH and are similar to practices in the U.S. The time required to take a project from planning to completion is still longer than the Israelis would like. However, all units to be included in this HG program have been identified and construction is well advanced so that no problems are contempleted with regard to an adequate supply of completed units for this program.

2. Environmental Analysis

The Near East Bureau Environmental Coordinator approved a Negative Determination to be found at Annex F. This finding was based on the analysis, done in 1978 for the previous Housing Guaranty of the GOI legal framework and institutional structure for environmental controls and the national attitudes and organizational structures which support environmental conservation and upon the field work performed for the 1980 Shelter Sector Update.

B. Social Analysis

1. Family Income and Target Group

Between 1959 and 1972, the Israeli population registered significant gains in real income. However, from the mid-to-late seventies, the rate of inflation has limited real income gains. With respect to housing since the mid seventies, nominally fixed mortgage and rental terms have become increasingly favorable to households, since family incomes have been

adjusted to the cost-of-living index. With the annual rate of inflation running over 100%, unlinked mortgage payments quickly become insignificant for the mortgagor. Even for the 100% linked mortgages, the GOI provides that only 70% of the payments in the first year are to be linked, giving the family a one-year break to make it easier to pay moving and household expenses after having developed the down payment.

The GOI Bureau of Statistics has kept track of family income since 1965, considered by Office of Housing Economic cansultant to be highly accurate and comprehensive. Table VI shows for urban employees households the distribution of income. Median household income as of May, 1980 was estimated to be IL 280,080 ($6,089) annually or IL 23,340 ($507) monthly.

Table VII gives an example of the affordability analysis for the mortgage assistance categories performed by the Ministry of Finance. This table shows that while the loan amount increases with need (as measured by the number of points), the loan terms become increasingly generous as the number of points increase, resulting in decreasing monthly payments for larger loans. All monthly payments are immediately affordable to families at the median representing less than 25% of income. As the cost-of-living adjustments increase incomes the unlinked portion of the mortgage, being a fixed repayment, becomes increasingly affordable to families below the median.

For example, if a young couple at the thirtieth percentile (receiving IL 17,361 (or $377) per month) with 1000 points wished to buy a house in Jerusalem, they would pay 22.1% of their monthly gross income until the monthly cost of living adjustment. Assuming an annual rate of inflation of 100%, after six months, the linked portion of the payment would be 35% higher (only 70% linkage during the first year) and the unlinked portion would be the same for a new total payment of IL 4,724. But their income, being fully linked, would also have gone up to IL 23,437 so that the new monthly payments would only represent 20.0% of income. After two years, the payments would be IL 9,869 to be paid from their cost-of-living-linked income of IL 52,600, or only 18.8% of income. With inflation well above 100% as it is now, increased affordability will come much more quickly.

The point system provides for the portions of financing which shall be linked and unlinked, for variation in mortgage terms, and for the maximum mortgage amount. The most important function of the point system in targeting assistance to the neediest families is to determine the maximum loan to be provided. With lower loan amounts, families are required to make much larger down payments. Fifty per cent is not unusual. With the larger loans downpayments of 10% and 5% are possible.

The difference between the sales price and the loan amount is the down payment which the family must provide from other sources, usually savings or gifts or loans from the extended family. For families judged less needy as measured by a low number of points and consequently a lower loan limit, saving for a down payment may require a long time. For the most needy low-income families, the surveys demonstrate that housing is affordable with GOI financing which will cover most or all of the selling price.

Payments for rental housing, already low, are becoming more affordable, even for families living on the least generous GOI social welfare benefits. The benefits are linked to inflation, while the rental payments are not. Where rental increases have been implemented, the government has always limited the size of the increase to a level affordable by the poorest family.

2. Acceptability of Housing Solutions

Housing solutions designed and constructed under government programs are smaller than those sold in the private sector so as to assure a reasonable supply of affordable units to lower income families. However, whether built by the public or private sector, apartment design must respond to the market, particularly where some of the units are marketed privately by a developer under the program to involve private risk capital as described above. Under the Mortgage Assistance Program, each family makes its own choice of whether to continue renting and of where and when to buy.

For the rental program, the rehabilitation work has been requested by tenants. Apartment expansions, in particular, provided at the request of an overcrowded family, respond to the needs of larger families. As minority Jewish and Arab nuclear families often are very large and the household also includes the extended family, this program is extremely important to respond to their cultural needs.

3. Minority Participation

As mentioned in the State Department's Country Reports on Human Rights Practices (submitted to HIRC and SFRC on 2/4/80), "Israel is a parliamentary democracy with high standards of justice and human rights. These standards are applied in full inside Israel proper"

There is no apparent discrimination in the use of housing funds in terms of participation by minority groups such as Arabs, Druze, and refugees in the housing programs within the 1967 boundaries. Participation by minorities comprise approximately 15 percent of the total participation in the program which corresponds to their level of representation in the general population. Given the cultural differences between the minorities and the Jewish majorities, the GOI has found that the minorities are more receptive to block loans, similar to the United States' Community Development programs for shelter purposes. The GOI therefore operates a special loan program to respond to this preference, while at the same time assuring Israeli minority members their option to participate in publicly sponsored housing programs. GOI programs to expand living space are especially responsive to the larger families of Arabs and religious Jews living in urban areas. In rural areas, self-help construction financing permits Arabs to design their own homes (within the stringent cost and size limitations imposed on all beneficiaries).

As the construction industry remains labor intensive, it employs a portion of the unskilled labor force which is strongly represented by Israeli Arabs and Arabs from occupied territories.

4. Role of Women

The State of Israel is an egalitarian society. Women serve in all positions of the society, determinedonly by ability, desire and need. Women are prominent in the business community, government, and

labor organizations, as well as the professional and political life of the nation.

Women will benefit as equals with men in this project. For the mortgage assistance program, women have the same access to credit as men under the various categories. For the rental housing program selection is also based on need rather than sex.

C. Economic Analysis

Until 1973, Israel's economic growth was among the fastest in the world. Since then, serious inflation has prompted successively more austere government measures designed to reduce consumer demand. The Government has also promoted exports with moderate success. However, oil prices and the GOI's ambitious defense, housing, and domestic programs have continued to feed inflation, which based on the May 1980 cost-of-living increase, was estimated at 195% annually.

Until last year, salaries, welfare benefits, and savings were linked to the cost-of-living, protecting the consumer against the worst aspects of inflation. Effective July 1, 1979, most mortgages financed by the government became linked. The proposed program will support this move to bring fiscal responsability to the shelter sector. The long-term borrowing terms and foreign exchange which the HG will bring should also be considered as positive for the Israeli economy.

D. Financial Analysis

1. Housing Rehabilitation/Expansion Program

Financing would be provided based upon evidence to be provided of expenditures on completed rehabilitation or expansion work.

2. Mortgage Assistance

Construction funding has been provided, either from GOI or private sources under the GOI program, for all mortgages to receive long term financing from the HG loan. Under the mortgage program as units are completed and eligible buyers identified, the buyer will be referred by MOCH to one of the several mortgage banks who administer the mortgage loans for the GOI. The mortgage bank will arrange the loan according to terms established by MOCH. Each mortgage bank then gives the Ministry of Finance a list of all the loans it has completed including account number

and address of the unit, the sales price, mortgage principal amount, and outstanding balance on the date the list is compiled. The Ministry of Finance bases its disbursement request to the U.S. investor on the total outstanding balance of all eligible loans from the several participant banks.

Given the history of effective GOI performance and currently tight GOI funding it has been agreed that an advance will be provided. Documentation of mortgages provided to eligible beneficiaries will be provided to AID within a reasonable period.

3. Technical Assistance

Technical resources will be provided from HG fee income as required for studies leading up to a Joint Shelter Review based on agreed plan for the Review. Training resources will be made available over a three year period. Before expenditure of HG resources, the GOI will provide evidence of its 50% contribution.

PART IV. IMPLEMENTATION ARRANGEMENTS

A. Analysis of GOI Administrative Arrangements

On the basis of similar programs previously completed with AID assistance, DS/H has found that the participating GOI agencies have technical and managerial expertise to execute successfully the program in an effective and efficient manner. Based upon previous experience with GOI shelter related agencies it is confidently felt that sufficient technical and managerial capacity exits to carry out the project effectively. The MOF, the MOCH, and the Israeli mortgage banks have had a long-standing and effective involvement in HG projects and are fully familiar with AID procedures and requirements. Amidar, the public housing company, demonstrated on the previous HG program its competence in executing construction.

I. Public Institutions

Ministry of Finance

The Ministry of Finance (MOF) through its various departments is influential in the Ministry of Construction and Housing's development of its yearly budget, and in its reconciliation with and subsequent in-corporation in the overall National Budget. The MOF will be the borrower of the $25 million HG loan, as well as the administrator of the loan on behalf of the Government of Israel. The MOF, on behalf of the GOI, was the borrower on five previous housing loans, each a $25 million HG Program loan. The MOF has, therefore, contracted for a total of $175 million in prior programs and has the capability to manage this $25 million HG loan.

Ministry of Construction and Housing

The MOCH has the primary responsibility for implementing GOI policy and control over the public housing sector and also influences, to a large extent, the volume of construction activity in the private housing sector.

New housing projects, as well as the improvement and expansion of existing housing, are planned and executed in accordance with central and municipal planning policies, general and local master plans, and follow GOI approved standards which have previously been approved by AID. Social, commercial and other community facilities are integrated elements of planning, particularly in development of new communities and settlement.

The Ministry of Construction and Housing will be the implementing agency in this $25 million HG loan.

Amidar - Israel National Housing Corporation for Immigrants Ltd.

The Public Housing Company responsible for the management of about 150,000 of the 200,000 GOI rental units. Amigur is probably the next largest with about 20,000 units. The remaining GOI rentals are managed by Municipal companies such as Halamish in Tel Aviv. Amidar will manage the rehabilitation expansion construction funded under this program. Amidar is actively involved in decentralizing its operations to provide more responsible management at the project level and has already decentralized supervision of early rehabilitation efforts to a regional level.

2. Financial Institutions

The $12 million HG funds for the low-income Mortgage Assistance Program will be disbursed primarily through the four largest mortgage banks in Israel which together hold 85 percent of all assets of the Israeli mortgage banking industry.

These mortgage banks are listed below based on present assets. However, the percentage of HG funds to be disbursed by each will be determined by the GOI. The banks listed herein have been utilized in previous HG programs. DS/H contract auditors have found them financially sound and capable institutions.

Tefahot Israel Mortgage Bank, Ltd.

Tefahot was founded in 1945 with the aim of granting mortgages for the promotion of public housing projects throughout the country. The Bank's major resources are provided from sales of debentures and from government deposits which are used for granting mortgages to purchasers of residential housing. It is the principal source of mortgage credit to families eligible for government assistance.

Tefahot was the borrower of a $50 million HG Program Loan under 271-HG-001.

General Mortgage Bank, Ltd.

This bank, a subsidiary of Bank Leumi founded in 1921, is the oldest mortgage credit institution in the country. It extends medium and long-term credit for residential and hotel construction and, next to Tefahot, is the major institution financing public housing projects.

Housing Mortgage Bank, Ltd.

This bank, a subsidiary of Bank of Hapoalim, B.A., which is one of the major banks in the State of Israel, is also heavily involved in mortgage credit.

Mortgage Development Bank

This bank is the fourth largest mortgage development bank in Israel and will also be involved in the HG Program.

B. Implementation Plan

It is hoped that the project will be authorized by early August 1980. DS/H will then issue a letter of advice to the GOI. RHUDO/Tunis has drafted and delivered a draft Implementation Agreement (IA) to MOF. MOF has requested publication of an announcement seeking U.S. Investor proposals and would pick an Investor by mid-August 1980 if proposals are satisfactory. Draft Loan and guaranty agreements should be prepared by the Investor by the end of August at which time final negotiations of all agreements will take place. Present planning indicates that there will be a single disbursement which will occur by the end of FY80.

The MOCH will be responsible for project development and implementation procedures. Construction will be by private contractors under GOI established bid and tender procedures previously reviewed and approved by AID and under the MOCH's program to involve private developers.

C. AID Administrative Arrangements

There is no AID Mission in Israel, and AID affairs have traditionally been handled through the Economic Section of the American Embassy in Tel Aviv. This HG loan will be monitored by the AID Office of Housing's Regional Housing and Urban Development Office (RHUDO) in Tunisia.

In addition to the close coordination involving DS/H direct-hire employees, periodic reviews of the program will be conducted by DS/H contract staff, particularly in the areas of fiscal and management reviews of the program. Selective consultant services will also be utilized on as-needed basis; probable areas to be covered would relate to the technical assistance being provided concurrently with this HG Loan and could include such things as the simplification of the linked mortgage system, possibly the development of a savings and loan system, assistance in cutting construction costs, and advice on the development of the training program for housing managers at the University of Tel Aviv.

D. Evaluation

A Final Evaluation and periodic evaluations of fiscal and management operations consistent with Office of Housing world-wide standards will be conducted at the appropriate time by DS/H contract personnel under supervision of RHUDO/Tunis.

Under the previous housing guaranty, the GOI performed its own evaluation of the Distressed Neighborhood Program and of the training activities. The GOI made particularly good use of the Distressed Neighborhood Evaluation.

The GOI intends to use the same methodology to assist it in a fall 1980 evaluation of the Amidar rehabilitation and expansion program. Amidar expects that this evaluation will help it to define more precisely the specific objectives for the training program to be carried out at the University of Tel Aviv and the baseline information for the Amidar decentralization and staff upgrading effort. In three years, Amidar expects to perform an evaluation of the overall effort and to decide whether or not to continue the university training program.

Evaluation of the innovative aspects of the mortgage program, linkage and private sector involvement, will be specific subjects for discussion at the Joint Shelter Review planned for the Spring of 1981.

TABLES

I	Amidar Rehabilitation
II	Allocation Among Assistance Categories
III	Residential density of Jewish Families Distributed by Number of Persons Per Room.
IV	Annual Rate of Immigration to Israel
V	Incomes of Young Couple Applicants
VI	Urban Employee's households and Total Family Income
VII	Affordability of the Mortgage Assistance Program Example: Young Couples Category for Jerusalem
VIII	Mortgage Assistance Program: Terms of Linked and Unlinked Mortgages

TABLE I

AMIDAR - ISRAEL NATIONAL HOUSING CORPORATION FOR IMMIGRANTS LTD.

HOUSING GUARANTY - FINANCED RENOVATION PROGRAM
($1. equals 46.0 IL)

RENOVATION ITEM	No.of Units	Estimated Cost per Unit $	Total Cost (000's) IL	Total Cost (000's) $
1. Exterior renovation Plastering, painting stairwells, shutters garbage containers.	7,176	$1,090	358,800	7,800
2. Infrastructural works and gardening in courtyards (including pathways, fences, garden impr.)	1,840	$ 430	36,800	800
3. Transformation of 2 apts. in one (for use by large families)	172	$8,700	69,000	1,500
4. Extension of occupied dwellings	To be defined		133,400	2,900
	9,366	TOTAL	IL 598,000	$13,000

TABLE II

Allocation of Housing Guaranty 271-HG-007

Among Assistance Categories
($1.00 equals 46.0 IL)

It is estimated that the Mortgage Assistance Program will be allocated approximately as follows:

Category	Number	Average Mortgage (000's of IL)	Average Mortgage (000's of $)	Total (000's of $)
Young Couples	300	713.0	15.5	4,650
New Immigrants	100	782.0	17.8	1,700
Large Families	200	621.0	13.5	2,700
Minorities	100	552.0	12.0	1,200
Development Areas	100	805.0	17.5	1,750
	800			$12, 000
			TOTAL	$12, 000

TABLE III

RESIDENTIAL DENSITY OF JEWISH FAMILIES DISTRIBUTED BY NUMBER OF PERSONS PER ROOM FOR SELECTED YEARS FROM 1959 TO 1978

(Percentages)

End of Year	Number of Families (Thousands)	NUMBER OF PERSONS PER ROOM				
		Less than 1	1.0-1.9	2.0-2.9	3.0-3.9	4.0 plus
1959	449.6	6.1	37.0	34.0	10.7	12.2
1961	530.9	7.8	46.7	27.7	9.4	8.4
1963	577.2	9.3	49.0	25.1	9.2	7.4
1967*	613.6	14.8	53.9	21.1	6.1	4.1
1969	640.8	16.9	55.4	19.2	5.6	2.9
1971	683.2	20.0	55.1	17.9	4.6	2.4
1973	729.9	21.6	57.6	16.0	3.9	1.5
1975	772.8	24.5	56.7	14.6	3.0	1.2
1976	795.5	26.1	56.7	13.7	2.8	0.8
1977	820.1	27.4	56.3	13.4	2.7	0.6
1978	847.7	29.5	56.3	11.4	2.3	0.5

* As of 1967 Kibbutzim not included.

SOURCE: Central Bureau of Statistics

UPDATED: 1980 Budget Book, Page 146.

TABLE IV

ANNUAL RATE OF IMMIGRATION TO ISRAEL 1971 TO 1979 AND ESTIMATED IMMIGRATION FOR 1980

YEAR	POTENTIAL IMMIGRANTS	ACTUAL IMMIGRANTS	IMMIGRANTS FROM THE U.S.S.R.
1971	41,930	26,138	12,839
1972	55,888	43,372	31,652
1973	54,886	44,954	33,477
1974	31,979	24,223	16,816
1975	20,028	13,344	8,531
1976	19,754	12,016	7,279
1977	21,429	12,503	8,348
1978	26,394	16,439	12,192
1979	37,222	22,158	17,614
1980	34,000	22,000	N.A.

SOURCES: 1980 National Budget, The Housing Budget, P. 40

Estimate by consultants for 1980.

TABLE V

ANNUAL GROSS INCOME OF YOUNG COUPLES
WHO APPLIED FOR ASSISTANCE PROGRAM

(In May 1977 IL)

PERCENTILES \ POINTS	800-990	1000-1190	1200-1390	1400 plus
1	34,800	29,640	23,400	17,760
2	43,440	37,800	31,200	21,600
3	50,400	42,300	36,960	26,400
4	56,160	46,020	42,480	34,800
5	60,960	49,440	46,920	38,040
6	66,720	54,000	51,360	40,800
7	73,200	57,720	55,560	43,200
8	84,360	67,440	61,080	45,600
9	96,240	79,200	70,320	52,800
AVERAGE	62,920	51,500	46,600	35,600

Median Income for May 1977 was estimated at IL 71,500 or $5,720 ($1 = IL12.5)

SOURCE: Ministry of Construction and Housing, Department of Assistance Programs, May 1977.

TABLE VI

URBAN EMPLOYEES' HOUSEHOLDS AND TOTAL FAMILY INCOME [1/]

(1978)

Gross Annual [2/] Income Group (IL)	Percentage of Households	Cumulative Percent	Average Number of Earners	Average Size of Households
TOTAL	100.0		1.6	3.8
Up to 29,999	6.5	6.5	1.1	2.7
30,000-39,999	6.4	12.9	1.2	3.0
40,000-49,999	8.4	21.3	1.2	3.6
50,000-50,999	10.4	31.7	1.3	3.9
60,000-69,999	10.1	41.8	1.4	3.9
70,000-79,999	9.7	51.5	1.5	4.1
80,000-89,999	8.7	60.2	1.6	4.2
90,000-99,999	6.4	66.6	1.7	3.8
100,000-124,999	13.0	79.6	1.9	4.1
125,000-149,999	8.7	88.3	2.0	4.0
150,000 plus	11.7	100.0	2.1	4.0

1/ Annual median income as of May, 1980 is estimated to be IL 280,080 ($6,089).

2/ Income categories expressed in terms of 1977 prices

Sources: Statistical Abstracts of Israel, 1979

AFFORDABILITY OF THE MORTGAGE ASSISTANCE PROGRAM IN 000's IL

Example: Young Couples Category

	Point Group	0-599	600-799	800-999	1000-1199	1200-1399	1400+1
1.	Total Loan	400	500	600	700	825	950
	Unlinked	115	115	155	205	255	325
	Linked	285	385	455	495	520	625
2.	Monthly Repayments						
	Total	4110	4055	3930	3845	3705	3460
	Unlinked	2225	1510	1460	1335	1080	1375
	Linked	1885	2545	2420	2510	2623	2085
3.	Affordability - Repayments in the first year.						
	As a percentage of the monthly gross income of the household of an urban employee						
	a) At the thirtieth percentile (equals IL 17,361)	23.7	23.1	22.6	22.1	21.3	19.9
	b) At the median (IL 23,340)	17.6	17.4	16.8	16.5	15.9	14.8

TABLE VII

MORTGAGE ASSISTANCE PROGRAM: TERMS OF LINKED AND UNLINKED MORTGAGES

Category	Linked Terms	Rate of Interest	Unlinked Terms	Rate***	Proportion
Young couples	20 years	5%	12 years	19.3 per thousand	33-40%
Development* Towns	25 years	0%	20 years	5.00 per thousand	Originally 100%
Large Families					
a) To improve Living conditions.	20 years	5%	N/A	N/A	0%
b) 3 plus program (over 3 persons per room)	25 years	0%	N/A	~~N/A~~ **	0%**

*** Every three years, the rate for unlinked mortgage is adjusted upwards in accordance with Spitzer tables. The maximum interest is approximately 30%.

** 20 year available but only for families of 7 or more members.

* Only program for which a grant is available. It amounts to 25,000-85,000 and is conditioned on five years residence in specified development towns.

TABLE VIII

-40-

ANNEXES

A. Logical Framework

B. Statutory Checklist

C. Request for Assistance

D. Embassy Comments (to be added)

E. Guaranty Authorization

F. Environmental Determination

G. Housing Assistance Categories

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: [illegible]

Annex A

Total U.S. Funding
Date Prepared:

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: Assist the GOI to assure a supply of adequate shelter for all Israelis consistent with the requirements of development objectives	**Measures of Goal Achievement:** Significant improvement in census housing indicators for urban areas	Comparison of 1980 and 1990 census data, e.g. cf. numbers and locations of households and available housing units, density data	**Assumptions for achieving goal targets:** Shelter continues to be high GOI priority and GOI economy permits continued domestic capital investments
Project Purpose: Provide new or improved housing to below median families and to support new policies of cost recovery, involvement of the private sector and more effective utilization of existing housing stock.	**Conditions that will indicate purpose has been achieved: End of project status.** Numbers, locations, conditions of houses occupied by low income households	MOCH records, census data, Bureau of Statistics	**Assumptions for achieving purpose:** -GOI policy continues to favor the most needy people -net immigration remains relatively stable, permitting continued emphasis on improvement of existing shelter.
Outputs: - Mortgages to low-income families - Rental units renovated for poorest Israelis - Technical assistance to AMIDAR in design of training for new responsibilities of local managers. - shelter policy review	**Magnitude of Outputs:** -800 mortgages @ approx. $15,000 -9000 (est.) units renovated. - Curriculum developed and training program established - analysis of GOI shelter policy	- MOCH records - AMIDAR records - Curriculum and copy of training program - Joint Review written by GOI and Office of Housing.	**Assumptions for achieving outputs:** - MOCH and mortgages banks have technical and managerial capacity to implement program - AMIDAR can manage construction and required temporary relocation of families - AMIDAR is able to obtain budget for training program implementation and salaries are sufficient to attract graduates to work for Amidar.
Inputs: - GOI planning, construction financing - Beneficiary down payments - HG loan - Office of Housing/GOI 50/50 contributions to training program and shelter policy review.	**Implementation Target (Type and Quantity).** - 800 dwelling units built for sale to target group - 6,000,000 equivalent (est.) in beneficiary down payments - $25,000,000 HG -At least $150,000 contributed jointly towards training program and Joint Shelter Policy review.	MOCH records, site inspections, agreements with private contractors, mortgage and rental documents, disbursement records - AMIDAR and University records, AID contracts.	**Assumptions for providing inputs:** - Land and materials are available and housing can be produced at low cost by public and private sector - Beneficiaries can raise required equity - HG loan will be available.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

ISRAEL

	ANSWER YES OR NO PUT PP PAGE REFERENCES AND/OR EXPLANATIONS WHERE APPROPRIATE
A. General Criteria Under HG Statutory Authority.	
Section 221(a) Will the proposed project further one or more of the following policy goals?	
(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;	No
(2) is intended to assist in marshalling resources for low-cost housing;	Yes
(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and/or;	No
(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?	Yes
Section 222(a) Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of $1,555,000,000?	No
Will the guaranty be issued prior to September 30, 1982?	Yes
Section 222(b) Will the proposed guaranty result in activities which emphasize:	

(1) projects providing improved home sites to poor families on which to build shelter and related services; or	No
(2) projects comprised of expandable core shelter units on serviced sites; or	No
(3) slum upgrading projects designed to conserve and improve existing shelter; or	Yes
(4) shelter projects for low-income people designed for demonstration or institution building; or	No
(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?	No

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?	N.A.

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?	Yes

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?	Yes

Section 223(h)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?	Yes

Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country being furnished under Chapter 1 of part 1 of the Act?	N.A.
(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?	Yes

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country? Yes

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year? No

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million? No

Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued? Yes

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

(1) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? Yes

(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist? No

ANNEX C

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
וושינגטון

July 17, 1980

Mr. Peter Kimm
Director, Office of Housing
Agency for International Development
Room 625 - S.A. 12
Department of State
Washington, D.C. 20523

Dear Mr. Kimm,

On behalf of the Government of Israel, I am pleased to submit to you a formal request that the Agency for International Development guarantee a new loan of $25,000,000.00 to be used to finance public housing programs for low income families in Israel.

A preliminary projection for the uses of the funds is as follows:

Mortage Loans	$ 12,000,000.00
Rental Units	13,000,000.00

The Government of Israel is appreciative of the assistance rendered by A.I.D. in previous Housing Guaranty Projects and I look forward to working with you and with the Agency once again on this matter of great importance to us.

Sincerely yours,

Dan Halperin
Economic Minister

cc: Mr. C. Richard Zenger
Regional Housing and Urban
Development Officer
USAID/Tunisia
c/o American Embassy
Tunis, Tunisia

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY ANNEX E
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

DRAFT

GUARANTY AUTHORIZATION

PROJECT 271-HG-007

Provided From: Housing Guaranty Authority

For : State of Israel

Pursuant to the authority vested in the Assistant Administrator, Bureau for the Near East by the Foreign Assistance Act of 1961, as amended (FAA), and the delegation of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed twenty-five million dollars ($25,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans by eligible U.S. investors ("Investor") acceptable to A.I.D. made to provide mortgage financing for below median income families and to finance renovation/expansion of rental units for low income families.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement and may include a grace period of up to ten years (10) on repayment of principal. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term United States capital markets.

3. Government of Israel Guaranty: The Government of Israel shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount of one percent of the loan (1%) to be paid as A.I.D. may determine upon disbursement of the loan.

5. <u>Other Terms and Conditions:</u>

(a) None of these guarantied funds shall be used to finance housing located outside the territory subject to the administration of Israel prior to June 1967.

(b) The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Alfred D. White
Acting Assistant Administrator
Bureau for Near East

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

ANNEX F

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Peter M. Kimm, Director, DS/H, AID/W

DATE:

FROM : Steven F. Lintner, NE/PD/PDS, Bureau Environmental Coordinator, AID/W

SUBJECT: Israel - Housing Guaranty Project: 271-HG-007 Environmental Clearance

I have reviewed the environmental documentation for the subject project and recommend that it be given a Negative Determination in accordance with the requirements of 22 CFR 216.

cc: Mr. R. Fedel, NE/PD/SIJL
Mr. J. Mullen, GC/NE
Mr. M. Kitay, GC/H
Ms. L. Dennison, RHUDO/Tunis

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

5010-108

HOUSING ASSISTANCE CATEGORIES

a. Young Couples

This category includes all couples married after October 1, 1970, who have never owned an apartment or house.

This has become the most important single aspect of the mortgage assistance program as GOI policy now recognizes that all newly formed families should, as soon as possible, be able to establish their own households. In 1978, approximately 75 percent of all young couples interested in home ownership will require GOI assistance with mortgage financing.

b. New Immigrants

Since Israel has assumed the responsibility of providing adequate shelter for all new immigrants, each immigrant is eligible for government assistance in buying or renting a home to meet the requirements of his family. Immigration in Israel is estimated at 22,000 for 1980. Similar figures hold for 1979. Immigrants represent a serious, and at the same time, unstable aspect of planning for Israeli housing and finance institutions. Net immigration has remained high, particularly from the U.S.S.R. The GOI anticipates increasing numbers of immigrants through 1980 and decreasing numbers of emigrants from Israel. Table IV gives the figures for 1971-1980.

c. Families Living in Overcrowded Conditions

This program is focused on the special needs of families suffering from severe overcrowding. Three or more persons per room is the present criteria for eligibility in the program. Since overcrowding is usually the result of a lower level of family income and urban slum conditions, this program benefits those families whose marginal resources would otherwise make it impossible for them to become homeowners. To a large extent, the slum areas of urban centers are a result of continuous occupation of deteriorating temporary structures built to accomodate the flood of immigrants that followed World War II. In 1978, over 23,000 families had residential densities higher than three persons per room (See Table III).

d. Minorities

The Arabs constitute approximately 66 percent of Israel.s minority groups of which some 75 percent are Moslems, 17 percent Christians, 8 percent Druzes and others. At the beginning of 1975, minorities in Israel numbered 519,000, not including the population of the administered areas. Almost half live in about a hundred villages and two-fifths in the towns (including 82,000 in Jerusalem), the rest, about 44,000, are semi-nomadic Bedouin.

Programs for minorities as described on page have been designed to meet special needs. Minorities may also participate in any of the above categories of assistance. Much of the self-help housing is funded under the program for rural areas and many large families benefit under the Large Families assistance category designed to reduce overcrowding.

Under the Young Couples category, the mortgages made available to those who had not served in the military were limited to a maximum of IL 250,000 for a couple, IL 300,000 for a couple with two children. During 1979, the MOCH consulted with their legal advisor and agreed that the financing available for non-veterans would be raised to 70% of the amounts offered to those who had served, increasing the limit to a maximum of IL 665,000 (for a family with 1400 points buying a house in Jerusalem). The primary pressure for this policy decision came from those religious Jews who do not serve due to reasons of conscience. The GOI justified the former differential based on the earnings lost to the veteran during his or her three years of service. The adjustment was made upwards because it was felt that this economic calculation did not sufficiently take into account the need of families who often are very large and sould qualify for a large mortgage based on all the other factors selected as important for the point system (income, number of children, current living conditions, etc).

e. Settlers in Rural and Development Areas

This program is directly related to the GOI policy of population dispersion. The GOI is firm in its belief that a highly urbanized metropolitan area will be more costly to the government than an urban pattern based upon a more reasonable distribution of the population.

The GOI also maintains, for political and social reasons, the policy of growth in outlying and less developed parts of the country.

Development towns are divided into categories based on the quality of the living environment and financing available is varied with the attractiveness of the settlement and the employment opportunities that it offers. More isolated areas or those with more difficult living conditions receive higher financing for housing and unlinked mortgages as a means to attract new settlers. In addition, participants in this program are eligible for a grant of IL 65,000 (the only outright grant)offered by the GOI if they remain in their home for a minimum of five years.

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Memorandum

TO : A-AA/NE, Alfred D. White

DATE: July 28, 1980

FROM : Project Review Committee

SUBJECT: Israel HG 007 Project Paper Issues

The Project Review Committee meet on July 23, 1980 and discussed the following issues:

ISSUE 1

It was questioned whether the target income group (below median income) could afford the solutions being offered under the program.

The average mortgage to be financed under this program will be IL 69[illegible],000 or $15,000. Various forms of government subsidies will make it possible for low income households to afford the houses. A family qualifying for maximum mortgage may receive grant assistance for the downpayment which ranges up to the entire cash amount required. In addition, interest subsidies reduce monthly payments to an affordable level. Table VII of the PP illustrates payments required under the Young Couples Program showing that households assisted pay from 15 - 24% of their income for housing with the neediest households paying the smallest proportion of their incomes.

While we recognize that this entails a good deal of subsidization, the GOI is attempting to cut back on the amount of subsidy by introducing mortgages linked to the consumer price index. Nevertheless, political and social considerations in Israel make drastic cuts in subsidies difficult.

RECOMMENDATION

Accept sales prices and sales terms proposed in the PP as affordable to the below median income target group.

ISSUE 2

The PRC was concerned about the high cost of housing units which would benefit from the Housing Guaranty financing.

In response to a NEAC PID Review recommendation, RHUDO/Tunis discussed with the GOI an appropriate mechanism to assure that HG financing would assist the neediest families. The GOI was reluctant to apply unit cost

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

limits other than the ones generally in effect for their overall assistance program (PP page 14) arguing that cost limits would complicate administration. Nevertheless, it was agreed that HG financing would go only to families with more than 800 points on the GOI need scale of 1,400, thus assuring HG assistance to the neediest families.

The Office of Housing, as of this writing has been unsuccessful in reaching GOI officials to discuss the issue again. RHUDO/Tunis believes it may be worth another try to persuade the GOI to accept the IL 1,200,000 (U.S. $26,100) as the maximum cost of units to be financed. (Already applied in all areas of Israel except Jerusalem as the cost limit for the HG 007 program.)

RECOMMENDATION

Prior to negotiation of the Implementation Agreement RHUDO/Tunis will make a final effort to reach agreement with GOI on a unit price limit of IL 1,200,000.

Other Points of Discussion

1. The costs of AMIDAR rental unit expansions are noted as "to be defined" in Table I of the PP since cost estimates recently submitted by AMIDAR, the GOI implementing agency, differ substantially from those in a consultant report prepared for the Office of Housing. The Office of Housing has consulted the GOI on this issue and they have confirmed their intentions to hold unit costs to those previosuly agreed to with the consultant, but updated for inflation. Expansion will, therefore, be estimated at average costs of $30 per square foot and $6,000 per unit. Unit costs of the expansion program and total number of expansions will be defined prior to signing the Implementation Agreement for the project.

2. In relation to benefits for the Arab minority, the question was raised whether providing assistance in proportion to their representation in Israel (15%) was acceptable since more than 15% of the Arab population is probably below median income. The question of possible discrimination in the program was explored at the NSAC PID Review where it was noted that in addition to the mortgage assistance program, Israel also operates a special block grant program for self help construction by Arabs. Furthermore, RHUDO/Tunis is not aware of sound statistical information on Arab minority incomes which would give us a basis for argument to change the ratio proposed for this HG assistance. RHUDO/Tunis will consider examining the treatment of minorities generally during program evaluation.

3. The inflation rate which has been escalting constantly and rapidly has made it difficult to achieve data consistency between such things as prices of housing and income statistics. The PP figures are for May 1980 and represent DS/H consultants' estimates of relationships at that time having applied standard indicators such as cost of living index to adjust most recent price and income statistics.

PRC Members: NE/TECH:RMitchell (substance)
NE/JLS:RMischeloff (substance)
NE/PD:DMackell (substance)
NE/DP:SChernenkoff (substance)

Drafted:DS/H:HSchusgheim:SFBG:7/28/80