NE/PD/PDS 12/14/79
FY80

UNCLASSIFIED

UNITED STATES INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE PAPER
FY 1980

ISRAEL: FY 1980 PROGRAM CASH TRANSFER

UNCLASSIFIED

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.
NE 80-2

2. COUNTRY
Israel

3. CATEGORY
Cash Transfer

4. DATE

5. TO:
Robert H. Nooter
Acting Administrator

6. OYB CHANGE NO.

8. OYB INCREASE

7. FROM: Joseph C. Wheeler
Assistant Administrator
Bureau for Near East

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF
$ 785,000,000

10. APPROPRIATION - ALLOTMENT 72-110-1037 (Appro.)
L-037-62-298-00-58-01 (Allotment)
G-037-62-298-00-50-01 (Allotment) E.S.F.

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
[X] LOAN [X] GRANT	[ ] INFORMAL [ ] FORMAL [X] NONE	N/A	N/A

15. COMMODITIES FINANCED

N/A

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $785,000,000	Other: $785,000,000

18. SUMMARY DESCRIPTION

This assistance is part of a continuing U.S. assistance program to Israel and is intended to give Israel greater economic flexibility for easing some of the pressure on its economy.

It is recommended that you approve a cash Grant in an amount of not to exceed Five Hundred Twenty-Five Million United States Dollars ($525,000,000) and a cash Loan in an amount not to exceed Two Hundred Sixty Million United States Dollars ($260,000,000) on the following terms and conditions:

Interest and Terms of Repayment: Israel shall repay to AID in United States Dollars the Loan within forty (40) years from the date of first disbursement of the Loan. Israel shall pay to AID in United States Dollars interest from the date of the first disbursement of the Loan at the rate of a) two percent (2%) per annum during the first ten (10) years, and b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

Other Terms:

A.I.D. will release the proceeds of the ESF Cash Transfer loan/grant as follows:

19. CLEARANCES	DATE
NE PD:SATaubenblatt	
NE DP:BLangmaid	
GC NE:JMullen	
NE EI:GKamens	11/14/79
NEA IAI:JSpillane	11/14/79
PPC PDPR:BSidman	
AA PPC:AShakow	
DAA/NE:ADWhite	11-14-79

20. ACTION

[X] APPROVED [ ] DISAPPROVED

/S/ Robert Nooter 11/14/79

AUTHORIZED SIGNATURE DATE

Acting Administrator

TITLE

1. $200 million ($65 million loan and $135 million grant) pursuant to the Continuing Resolution, upon execution of the loan/grant agreement and satisfaction of Conditions Precedent.

2. $585 million ($195 million loan and $390 million grant) pursuant to the Appropriations Act when it becomes law, on a quarterly basis after execution of an amendment to the loan/grant agreement and satisfaction of Conditions Precedent.

ISRAEL

FY 80 PROGRAM ASSISTANCE PAPER

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PREFACE

The Foreign Assistance and Related Programs Act, 1980 (The Appropriation Act) under consideration by Congress would provide for an Economic Support Fund (ESF) Cash Transfer in the amount of $785 million for Israel. Of this amount, $260 million and $525 million are to be provided on a loan and grant basis respectively.

Pending consideration of the Appropriations Act, the Congress passed a Continuing Resolution authorizing obligations by A.I.D. for "Continuing Projects or Activities." The Resolution was effective October 12, 1979 and extends through November 20, 1979, or until the Appropriations Act is enacted, whichever first occurs.

The following FY 1980 Program Assistance Paper provides the justification for the $785 million package. We propose that the full amount of the Cash Transfer be approved. However, we propose that only the same amount obligated in the First Quarter of FY 1979 for the same purpose - $200 million ($65 million loan and $135 grant) - be obligated now pursuant to the Continuing Resolution covering FY 1980 funding with disbursement upon execution of the loan/grant agreement and satisfaction of Conditions Precedent. A draft loan/grant agreement for the $200 million is included as Annex A.

We propose that at such time as the Appropriation Act is passed the loan/grant agreement be amended to permit obligation of the remaining $585 million and disbursement thereafter of $195 million ($65 million loan and $130 million grant) on December 28, 1979 and April 1, 1980 and July 1, 1980. A draft of the proposed amendment is included as Annex F.

Program Assistance Committee

NE/PD: D. J. Mackell (Chairperson)
NE/EI/I: R. Misheloff
GC/NE: S. Carlson
NE/DP: S. Chernenkoff
SER/COM/NE: R. T. Looper

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I. POLITICAL AND ECONOMIC CONSIDERATIONS

Israel's political and economic stability have been deemed essential to achieving a comprehensive peace in the Middle East. U.S. assistance programs, both military and economic, tangibly reflect U.S. support and help give Israel the confidence it needs to take the risks necessary to reach a peace settlement with its Arab neighbors. The U.S. Economic Support Fund (ESF) directly supports Israel's civilian economy, and helps Israel to manage its large balance of payments current account deficit.

A. Recent Background

Since its inception, Israel has had to struggle with the problem of limited resources. This challenge became particularly acute in the mid-70's as a result of its burgeoning defense expenditures; worldwide price inflation, and economic recession in countries with which Israel trades. As a consequence, Israel became dependent upon large capital and aid inflows to meet its financial deficit. U.S. assistance rose to $2.5 billion in FY 1976 and the transition quarter. Israel's short-term debt spiraled nearly fourfold from its pre-1973 level of $200 million. Medium and long term debt grew 127 percent in the period between January 1973 and the end of 1976.

As a result of: (1) Government-imposed austerity measures designed in part to curb import demand, (2) rapid growth in export receipts, (3) U.S. assistance and (4) private resource transfers, Israel's balance of payments picture showed marked improvement in 1976 and 1977. Thus, the trade (goods and services) deficit declined from $4.1 billion in 1975 to $2.6 billion in 1977. In the latter year, Israel's civilian balance of payments was in surplus by over $400 million despite the fact that borrowing on commercial terms was much reduced from the level of the previous year. It must be added, however, that these improvements were achieved at the price of continued economic stagnation. The Gross National Product rose by only 1.6 percent in 1976 and 1.0 percent in 1977, i.e., by less than the rate of population growth.

By late 1977, the Government of Israel had come to feel that Israel's balance of payments problem was under control, and that accordingly it could safely turn its attention to the problem of stimulating a more rapid rate of economic growth. It expected that much of the impetus for growth would come from a continued buoyancy of exports. Thus, it did not anticipate a serious, adverse impact on the balance of payments.

In furtherance of its growth objective, the Government relaxed the tight monetary and fiscal policies of previous years. The result was a reversal of the steep downward trend in gross domestic capital formation

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which took place in 1976 and 1977 and a sharp rise in private and public consumption. 1/ The rate of economic growth accelerated to 4.7 percent in 1978.

As the pace of economic activity quickened, Israel rapidly approached full utilization of resources. Inflationary pressures -- which had been strong since the 1973 war despite a slack economy -- intensified. For the year 1978, the cost of living index rose by about 50 percent.

3. Current Situation

The rate of increase in the price level has continued to increase in 1979 fueled by the sharp increase in the prices which Israel must pay for imported oil and continued domestic economic expansion in the 4 to 5 percent per annum range in the face of full employment. It is likely that inflation will be about 80-90 percent for 1979.

Economic activity associated with the redeployment in the Negev of Israeli personnel and installations currently in the Sinai Peninsula carries with it the threat of further overheating an economy which already has little slack, 2/ thus driving up the rate of inflation to still higher levels. This is true despite the fact that a substantial part of the work is being financed by military assistance from the United States and actually carried out using imported materials and foreign labor.

The upsurge in economic growth in 1978 and 1979 has also contributed to a deterioration in the current account of the balance of payments. In 1978 the goods and services deficit rose to $3.4 billion (from a $2.6 billion level in 1977). A further deterioration in 1979 is likely.

The U.S. Government continues to sponsor a broad program of assistance in response to Israeli economic requirements. In addition to the Economic Support Fund program, economic aid to Israel in FY 1979 included relatively small amounts of PL 480 Title I, immigrant assistance, and American Schools and Hospitals Abroad (ASHA) contributions.

1/ The increase in public consumption (actually a reversal of real declines which took place in 1976 and 1977) is largely accounted for by a 40 percent increase in defense imports (in real terms). We presume that factors other than the Government's resolve to promote more rapid economic growth figured prominently in determining the level of these imports.

2/ unless, of course, Israel curtails activity in other economic sectors,

II. U.S. ECONOMIC ASSISTANCE PROGRAM

A. Recent Economic Programs

Since fiscal year 1972, AID has been providing assistance from the Economic Support Fund 3/(grants and loans) to finance non-defense commodity imports and to meet Israel's needs for cash. Initially, obligations were fairly modest ($50 million in FY 1972, FY 1973 and FY 1974). By FY 1976, they had increased to $700 million in response to Israel's growing economic problems -- a $550 million CIP loan and grant program and a $150 million cash grant. The following year the program reached $735 million, of which $300 million was in the form of a cash grant, and in FY 1978 it was increased to $785 million -- $485 million in commodity import financing and a $300 million cash grant. Since FY 1976, approximately two-thirds of the ESF program has been provided on a grant basis and the remainder has been on concessional loan terms.

The program level remained at $785 million. However, the nature of the program changed in that, for the first time, the total amount was provided as a cash transfer. The commodity import financing element was eliminated to alleviate difficulties which the Government of Israel had encountered in utilizing available funds. Despite the high volume of Israel's non-military imports from the United States -- $900 million to $1.2 billion a year for the past few years -- Israel had considerable difficulty in collecting the necessary documentation on a sufficient volume of transactions to ensure timely disbursement of all available CIP funds. The problem arose because of Israel's traditional lack of government control over private sector transactions. The result was that undisbursed CIP Funds totaled approximately $300 million as of September 30, 1978.

In discussing the shift to a completely cash transfer ESF program with the Government of Israel, AID noted its concerns that the shift not impact adversely on the aggregate level of Israel imports from the U.S., or disadvantage U.S. firms in terms of their access to Israeli markets. The Government of Israel indicated that it understood our concerns, and provided written assurances covering both points.

In addition to ESF, the U.S. has been providing PL 480 Title I food for several years and has authorized several housing guarantee programs. Under other legislation, assistance has been provided to help Israel settle new immigrants from the Soviet Union and other countries. During FY 1975, a $20 million grant for a Joint U.S.-Israel Desalination Project was obligated; the engineering design for the project is well underway, with site preparation virtually complete and procurement of materials and equipment underway.

The following amounts of military assistance have been provided: FY 1976, $1.5 billion; TQ, $200 million; FY 1977, FY 1978, and FY 1979, $1 billion in each year.

3/ Formerly Security Supporting Assistance

B. FY 1980 ECONOMIC PROGRAM

For FY 1980, Congress has under consideration an appropriation of $785 million for the Economic Support Fund. The two-thirds Grant/one-third Loan ratio of the past few years will be maintained.

As in FY 1979, the entire FY 1980 program will be in the form of a cash transfer. The change made in FY 1979 in the form of the program - from CIP to cash transfer - was to alleviate difficulties which the Government of Israel had encountered in utilizing available CIP funds. When Israel shifted to all cash transfer in FY 1979 the undisbursed balance in CIP funds was $301.9 million which was disbursed in the first 9 months of 1979.

Prior to the shift in FY 1979 to a completely cash transfer ESF program AID noted its concerns in discussions with the GOI that the shift not impact adversely on the aggregate level of Israel imports from the U.S., or disadvantage U.S. firms in terms of their access to Israeli markets. The GOI indicated its understanding of the concerns and provided written assurances covering these points (Annex C). The GOI undertook a review, in the summer of 1979, of the experience under the cash transfer procedures and submitted a report of its findings in an October 2, 1979 letter (Annex D). These findings are addressed in Section IV A below.

For the FY 1980 cash transfer ESF program the concerns of AID remain the same, and the GOI has again given its written assurances concerning these points (Annex E) indicating that the GOI will undertake another review of experience under the cash transfer procedures providing a report of findings to the U.S. by September 1, 1980.

In addition to the ESF program, Israel is expected to receive $1 million in PL 480 Title I assistance in FY 1980.

III. LOAN AND GRANT JUSTIFICATION

Economic Support Fund assistance has been a key factor in enabling Israel to maintain economic stability. In order to maintain economic stability, Israel must run a civilian trade deficit of $1.5 - 2 billion. Its civilian sector financing shortfall was about $2.2 billion in 1977 and $2.9 billion in 1978. Over the past few years, approximately one-half of this amount was covered by private transfers from abroad. The remainder was financed by revenues realized from bond issues, commercial borrowing and U.S. economic assistance. 1/

The acceleration in the growth rate of the Israeli economy which began in 1978, while obviously welcome, adds to the need for imports and

1/ Foreign investment in Israel has not been significant in the post-1973 period. Nevertheless, it has been increasing and may become an important factor in years to come.

thus creates additional financing difficulties. Of course, strengthening the economy also makes it possible for Israel to cover more of her financing requirements by borrowing on nonconcessional terms.

The loan and grant cash transfer program proposed herein will assist Israel by providing foreign exchange needed to help meet the country's civilian foreign exchange financing requirements.

A. Balance of Payments

Following the 1973 war, world recession, dramatic increases in import prices (particularly for petroleum products) and the need to rearm combined to strike an economically devastating blow to a society that had been accustomed to steady growth, stability and general improvement in the quality of life.

Beyond the psychological and emotional impairment experienced by many Israelis following the 1973 Israel-Arab war, the financial costs of replacing and upgrading a modern, high technology military inventory posed serious problems of resource allocation and ability to pay. The military drain on the civilian economy was staggering in terms of both human and financial resources. In recent years defense expenditures have claimed 30 to 45 percent of the national budget and 15 to 20 percent of the total resources available to the economy.

Coupled with substantial diversion of resources to defense, the prosperity of the civilian economy was further undermined by the general slowdown of the world economy in 1974 and 1975 and a surge in oil prices. These factors led to a massive trade deficit in 1975 of $4 billion, while economic growth came to a virtual standstill.

The worsening balance of payments became the principal focus of decision makers and prompted the GOI to introduce policies ultimately designed to slacken demand for imports and stimulate production for export. Devaluation and economic slowdown were selected as the principal modalities to arrest the payments deficit. Additionally export profitability was enhanced by subsidies, special investment incentives and liberal credit.

In November 1974, Israel announced a 43 percent devaluation. Subsequently, monthly mini-devaluations were utilized to keep Israeli exports competitive in international markets (despite high rates of inflation) and to curb non-essential imports. Other specific austerity measures taken included raising prices of subsidized goods (including such essentials as bread, milk, and eggs), increasing taxes to very high levels, and reducing real public consumption.

In 1976 and again in 1977, significant progress was made toward the goal of reestablishing balance of payments equilibrium. The goods and

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services deficit which had reached $4 billion in 1975 was reduced to $2.6 billion in 1977. More importantly in terms of assessing the need for concessional financing, the civilian financing requirement 5/ dropped by over $500 million to a 1977 level of $2.2 billion. These changes were the result of a substantial increase in total exports (48 percent over the two year period) and much slower growth (19 percent) in non-defense imports.

In 1978, the current account of the balance of payments took a turn for the worse, with the goods and services deficit rising to $3.4 billion, an increase of over $800 million. Almost two-thirds of the increase resulted from a 50 percent surge in military imports. 6/ The acceleration in the pace of economic activity which took place in 1978 also contributed to the deterioration as non-defense imports rose by 12.7 percent in real terms (18 percent overall). On the other hand, export growth -- although still impressive due to favorable price movements, particularly for diamonds -- declined from 24 percent in 1977 to 17.3 percent in 1978. In the latter year, real growth dropped to 2.8 percent as buoyant domestic demand coupled with declining export profitability induced some producers to shift their focus to the Israeli market.

The civilian financing requirement reached $2.9 billion in 1978, up from $2.2 billion the previous year. Nevertheless, Israel had little difficulty in attracting the necessary financing as evidenced by the fact that foreign exchange reserves increased by approximately $1 billion. In addition to traditional sources of financing, i.e. private transfers from abroad, sale of bonds, medium and long-term borrowing on commercial markets, and -- to a lesser extent -- foreign investment, Israel also attracted a large volume of short-term funds in the latter part of 1978 and beginning of 1979 as Israelis borrowed abroad to circumvent domestic credit restrictions imposed to moderate inflation and foreigners were attracted by relatively high Israeli interest rates. 7/

On the basis of preliminary data for the first part of 1979, it appears that Israel's non-defense, merchandise trade deficit is growing significantly. Exports for the first eight months of the year increased by 14.4 percent in terms of current dollar value, a sharp reduction from the 27.2 percent rate achieved during 1978. The chief problem has been a decline in the value of polished diamond exports. Other export industries

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5/ Civilian trade gap (goods and services) plus external debt maturities.

6/ Since payments for FMS financed imports are not necessarily made when the goods arrive in Israel, these data are not entirely suitable for assessing the impact of imports on Israel's external financial position.

7/ These inflows sustained the value of the Israeli pound in the face of rampant inflation, thus eroding the profitability of exports on the one hand and helping to finance the resultant trade gap on the other.

have performed well. The metals, machinery and electronics sector has been particularly strong. Chemicals, plastics and agricultural products have also shown impressive growth.

On the other hand, non-defense imports grew by 24.4 percent during the first half of 1979 relative to the corresponding period in 1978. Excluding diamonds, the import of which fell percipitously during the first months of 1979 as the industry worked off inventories at a time of sluggish demand, imports were up by 40.4 percent. All sectors (diamonds being the exception), i.e. consumer goods, production inputs and investment goods, showed sizeable increases. Strong domestic demand coupled with surging oil prices are the principal contributing factors.

Overall, the merchandise deficit for the January to June 1979 period increased by 45.6 percent over the same months of the previous year.

Capital account data for 1979 are sketchy and information about private unilateral transfers is not yet available. Nevertheless, since foreign exchange reserves increased by approximately $300 million during the first quarter of this year, it is clear that these inflows were more than sufficient to offset the growing trade deficit.

In the immediate future, the balance of payments outlook is clouded by factors which are difficult to predict. Thus, for instance, both exports and imports will continue to be influenced in the coming months by the rate of change in the exchange rate relative to increases in domestic costs. Towards the end of 1978 and the first part of 1979 short-term capital inflows sustained the value of the Israeli pound, thus cheapening imports and eroding the profitability of exports. Although the pound has depreciated more rapidly in recent months, exports are still not as profitable as they were a year ago.

Another factor which may be impacting adversely on the current account is a shortage of labor. The surge in economic activity in 1978 eliminated virtually all unemployment. New demands imposed on the economy by the Sinai redeployment may induce some shifting of labor away from export-oriented industries. It may also strengthen overall demand, including demand for imported goods and services.

Perhaps the most important factor impacting upon the balance of payments outcome is and will be the Government of Israel's response to increasing inflation and a growing trade deficit. The timing and nature of measures which it decides to take to reduce the level of aggregate demand are particularly important in a resource-poor country like Israel which must import many productive inputs and investment goods in order to sustain the momentum of its domestic economy.

In summary, the economic measures taken by Israel in the years immediately after the 1973 war which were designed to curb import demand and stimulate export growth were remarkably successful. Renewed emphasis on econmic growth during the past two years, together with the surge in oil prices and the requirements of the Sinai redeployment have reinforced inflationary pressures and contributed to a deterioration in the balance of payments current account. So far, increasing unilateral transfers and capital imports (including U.S. aid) have more than offset the current account deficit, resulting in an increase in reserves to comfortable levels. Whether or not the current account deficit deteriorates further will depend in part on factors which are difficult to project, e.g. competitiveness of exports and imports and also on the degree to which governmental policy supports or restrains rapid economic growth.

The following table sets forth estimates of Israel's 1978 civilian balance of payments accounts.

ISRAEL: CIVILIAN BALANCE OF PAYMENTS

	CY 1978 (Millions of US $)
A. Financing Requirements	
Imports (civil only)	-8,432
Exports	6,644
External Debt Maturities	- 987
Subtotal	-2,775
B. Sources of Finances	
Unilateral Transfers	1,276
Net Foreign Investment	180
Bond Borrowing	400
Long and Medium Term Loans	860
Total Sources	2,716
C. Financing Gap	59
D. U.S. Economic Assistance	857
E. Surplus/Deficit on Civilian Account	798

Source: Published GOI statistics

B. Debt Service

Israel's foreign debt increased by 14 percent in 1978 to a level of $12.2 billion. This represents a decline in the rate of increase from the past few years. However, the Government of Israel currently estimates that outstanding foreign debt will reach $14.3 billion by the end of 1979, up 17 percent from the previous year.

While the overall amount owed continues to rise, the Government of Israel has succeeded in improving the term structure of its debt. This improvement arrested a disturbing trend which saw short-term debt rise from 3.7 percent of total foreign debt in 1973 to 12.2 percent in 1975. At $927 million at the end of 1975, short-term debt was equal to about 84 percent of Israel's foreign exchange reserves. By the end of 1978 it had declined to 5 percent of the total, equal to 37 percent of reserves.

A large portion of Israel's foreign debt consists of long-term obligations of the Israeli Government. Much of it is owed to Israeli bond holders and the U.S. Government, and is on terms not available from commercial lenders. The U.S. Government is now Israel's biggest creditor, with outstanding loans of approximately $5.5 billion. Israel bond obligations outstanding are over $2.5 billion, about 19 percent of total debt.

Israel's future economic prospects appear to be favorable and, thus, the prospects for repayment of the $260 million loan appear reasonable.

Earlier this year, Congress, in authorizing a $2.2 billion supplemental FMS program to assist Israel meet the costs of redeployment of military facilities in the Sinai, took note of Israel's debt burden and wrote into the legislation a provision requiring the Executive Branch to submit a report by January 15, 1980 and annually thereafter which will examine prevailing economic conditions in Israel as they affect its ability to service the debt which it would undertake as a consequence of the supplemental program. It is highly unlikely that that report will reach a conclusion which contradicts that of the preceding paragraph.

C. Loan Terms

The terms recommended are 40 years maturity including a 10 year grace period on repayment of principal with a 2 percent interest rate during the grace period and 3 percent thereafter. The FY 1980 Appropriations Act does not contain ceilings or limitations on ESF loan terms.

Unlike Development Assistance accounts, where loan terms have been linked to the per capita GNP of recipient countries, the Executive Branch has maintained that the Middle East countries (Egypt, Israel, Jordan, and Syria) for political reasons be accorded equal terms. The

Executive Branch has traditionally given AID's most concessional terms to the Middle East countries, except where legislation required stricter terms, and the terms recommended for the loan portion of the Israel cash transfer program are consistent with this practice.

IV. Loan and Grant Administration

A. Procedures

Prior to FY 1979, AID provided both commodity import financing and cash grants for Israel. The CIP was on a reimbursable basis. To obtain reimbursement, the Government of Israel submitted to AID certain documentation evidencing the foreign exchange costs of the eligible imported commodities. Such documentation became an administrative burden to AID and the GOI in accounting for private sector procurement under the CIP, particularly after the GOI further relaxed its internal economic controls. The result was a serious lag in the rate of expenditure of available CIP funds. This interfered with achievement of the purposes of the assistance, i.e., to help finance a balance of payments deficit. To alleviate this problem, a decision was taken to provide all economic assistance (PL 480 and ASHA excepted) on a cash transfer basis linked at the aggregate level to U.S. non-defense exports to Israel.

The Government of Israel agreed with this approach and assured AID, in a letter dated August 19, 1978, that it would take all necessary steps to ensure, during U.S. FY 1979, that the dollar level of Israel's non-defense imports from the United States would be at least equal to the level of U.S. economic assistance obligations (estimated at approximately $790 million), and that U.S. suppliers would not be disadvantaged by the termination of the CIP. (See Annex C).

Regarding Israeli Government procurement of large capital equipment items which U.S. suppliers might furnish, we were assured that special measures would be taken by the GOI as necessary to assure that U.S. suppliers could compete on terms at least as favorable as those offered by prospective third country suppliers. Additionally, the GOI agreed to continue importing from the U.S., corn, wheat, soybeans and other agricultural products purchased on government account at levels approximating those of the past few years, with due allowance for Israel's requirements for such goods and capacity to store them.

Concerning the transportation of goods imported from the U.S., the GOI gave assurances that it would continue to follow present procedures for bulk shipments of grain on dry-bulk carriers. These procedures were worked out with GOI, AID and Maritime Administration participation to assure a fair share of the market for American carriers.

In the summer of 1979, the Israeli Government undertook an analysis of experience with U.S. imports under the cash transfer procedures. A report of its findings was presented to AID in a GOI letter of October 2, 1979 (Annex D).

From the partial year data of Israel's imports from the U.S., which are attached to the October 2, 1979 letter, and which have been endorsed by the U.S. Department of Commerce, it is reasonable to conclude that (1) Israel's non-defense imports from the U.S. were at least equal to the level of U.S. economic assistance obligated during FY 1979; (2) Israel continued to import corn, wheat, soybeans, and other agricultural products, purchased on GOI account at levels approximating those of the past few years; and, (3) U.S. exporters were not disadvantaged by the shift to a cash transfer only program.

Regarding transport of bulk shipments of grain, the following summarizes the procedures agreed to by the Israel Supply Mission (ISM), Maritime Administration (MARAD) and AID:

Without being obligated to accept proferred tonnage, the ISM is free to negotiate for U.S. flag vessels as frequently as necessary. However, if a given month's bulk carrier requirements have not been met through negotiation, ISM will issue a freight tender during the first seven days of the month. AID will be advised of issuance of the tender and will review and obtain MARAD's concurrence on fairness and reasonableness of U.S. flag rates offered. ISM will be expected to accept all U.S. tonnage determined to be offered at fair and reasonable rates.

At the end of each shipping month, ISM will submit a detailed report to AID with an explanation of any discrepancy. Also, ISM will submit two rated bills of lading for each U.S. flag vessel accepted. After review, AID will confirm its acceptance of ISM's report in writing.

The Israelis have regularly canvassed the U.S. market in an attempt to charter U.S. bulk carriers. AID has monitored this procedure and is confident that the Government of Israel is accepting all U.S. carriers which offer at fair and reasonable rates. The GOI, in a letter dated October 1979, renewed the assurances for FY 1980 that it made in FY 1979 (Annex E).

In the summer of 1980, the GOI will undertake another review of experience under the cash transfer procedures and report findings to the United States by September 1, 1980.

There is no AID Mission in Israel and implementation and monitoring of this program will be the responsibility of AID's Near East Bureau.

B. Utilization of Previous CIP and Present ESF Assistance

From FY 1975 through FY 1979 AID has made available to the GOI $3.4 billion in ESF (formerly SSA) and it has all been disbursed as of the end of FY 1979.

FY 1975 through FY 197.
(Billions of Dollars)

Commodity Import:	
Grant:	$1.1
Loan:	.755
Program Cash Transfer:	
Grant:	1.290
Loan:	.260
TOTAL	$3.405

C. FY 1980 Program Cash Transfer Obligation and Disbursement

The obligations in the loan/grant agreements and A.I.D.'s release of the proceeds of the FY 1980 ESF Program Cash Transfer loan/grant will be as follows:

1. $200 million ($65 million loan and $135 million grant) pursuant to the Continuing Resolution, upon execution of the loan/grant agreement and satisfaction of Conditions Precedent, and

2. $585 million ($195 million loan and $390 million grant) pursuant to the Appropriations Act when acted on by Congress, on a quarterly basis (December 28, 1979, and April 1, 1980, and July 1, 1980) after execution of an amendment to the loan/grant agreement and satisfaction of Conditions Precedent.

V. RECOMMENDATION

It is recommended that the following financing for the State of Israel be authorized -- program cash loan, $260 million and a program cash grant $525 million -- on the following terms:

A. Loan Interest and Terms of Repayment

The Borrower shall repay the loan to AID in United States Dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay AID in United States Dollars interest on the total loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the loan and on any due and unpaid interest.

B. Other Terms and Conditions

1. A.I.D. will release the proceeds of the ESF Program Cash Transfer loan/grant as follows:

a. $200 million ($65 million loan and $135 million grant) pursuant to the Continuing Resolution, upon exectuion of the loan/grant Agreement and satisfaction of Conditions Precedent, and

b. $585 million ($195 million loan and $390 million grant) pursuant to the Appropriations Act when acted on by Congress on a quarterly basis after exectuion of an amendment to the loan/grant agreement and satisfaction of Conditions Precedent. Disbursement of $195 million ($65 million loan and $130 million grant) will be made on December 28, 1979 and April 1, 1980 and July 1, 1980.

2. The loan and grant shall be subject to other terms and conditions as A.I.D. may deem advisable.

C. Disbursement

The assistance will be disbursed as outlined in B.1 above.

ANNEX A

A.I.D. Grant No. 271-K-614
A.I.D. Loan No. 271-K-147

AGREEMENT

BETWEEN

THE GOVERNMENT OF ISRAEL

and

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

acting through

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Dated: November 15, 1979

AGREEMENT, dated the 15th day of November, 1979 between the Government of Israel ("Israel") and the Government of the United States of America, acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties".

WHEREAS, A.I.D. intends to provide a total of Seven Hundred Eighty-five Million United States Dollars ($785,000,000) as cash assistance to Israel during Fiscal Year 1980, subject to the funds being made available by the Congress and the mutual agreement of the Parties to proceed, and

WHEREAS, Congress has not made the entire amount of such funds available at this time,

NOW THEREFORE, the Parties hereto agree as follows:

ARTICLE I

The Assistance

To support the economic and political stability of Israel, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to Israel under the terms of this Agreement not to exceed One Hundred Thirty-five Million United States Dollars ($135,000,000) (the "Grant") and to lend to Israel under the terms of this Agreement not to exceed Sixty-five Million United States Dollars ($65,000,000) (the "Loan").

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The aggregate amount of disbursements under the Loan is referred to as "Principal". The Loan and Grant together are referred to as the "Assistance".

ARTICLE II

Loan Terms

SECTION 2.1. Interest

Israel will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten years following the date of the first disbursement of the Loan and at the rate of three percent (3%) per annum thereafter on the outstanding balance of the Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 4.2) of each respective disbursement, and will be computed on the basis of a 365-day year. Interest will be payable in semiannual installments beginning no later than six (6) months after the first disbursement of the Loan hereunder, on a date to specified by A.I.D.

SECTION 2.2. Repayment

Israel will repay to A.I.D. the Principal of the Loan within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) semiannual installments of Principal and interest. The first installment of Principal under the Loan will be payable nine and one-half (9½) years after the date on which the first interest payment of the Loan is due in accordance with Section 2.1.

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A.I.D. will provide Israel with amortization schedules in accordance with this Section after final disbursement under the Loan.

SECTION 2.3. Application, Currency and Place of Payment

All payments of interest and Principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, and will be deemed made when received by the Office of Financial Management.

SECTION 2.4. Prepayment

Upon payment of all interest and any refunds then due, Israel may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 2.5 Renegotiation of Terms

(a) Israel and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Israel which enable Israel to repay the Loan on a shorter schedule.

(b) Any request by Israel or A.I.D. to so negotiate will be made pursuant to Section 6.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 6.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at the office of the Ministry of Finance in Israel.

SECTION 2.6. Termination on Full Payment

Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of Israel and A.I.D. relating to the Loan provision of this Agreement will cease. However, with respect to any obligation arising out of the disbursement of Grant funds, this Agreement will remain in full force and effect.

ARTICLE III

Conditions Precedent to Disbursement

SECTION 3.1. Conditions Precedent

Prior to the disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant

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to which disbursement will be made, Israel will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, Israel, and that it constitutes a valid and legally binding obligation of Israel in accordance with all of its terms; and

(b) A statement of the name of the person holding or acting in the office specified in Section 6.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 3.2. Notification

When A.I.D. has determined that the conditions precedent specified in Section 3.1 have been met, it will promptly notify Israel.

SECTION 3.3. Terminal dates for Conditions Precedent

If all of the conditions specified in Section 3.1 have not been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Israel.

ARTICLE IV

Disbursement

SECTION 4.1. Disbursement of the Assistance

Within thirty (30) days after satisfaction of

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conditions precedent, A.I.D. will deposit in a bank designated by Israel the sum of Two Hundred Million United States Dollars ($200,000,000) of which (1) One Hundred Thirty-five Million United States Dollars ($135,000,000) will be Grant funds; and (2) Sixty-five Million United States Dollars ($65,000,000) will be Loan funds.

SECTION 4.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the dates A.I.D. makes deposits to the bank designated by Israel in accordance with Section 4.1(a).

ARTICLE V

Special Covenants

SECTION 5.1. No Use for Military Purposes

It is the understanding of the Parties that the Assistance will not be used for financing military requirements of any kind, including the procurement of commodities or services for military purposes.

SECTION 5.2. Use Only Within Pre-1967 Boundaries

Program uses of the Assistance shall be restricted to the geographic areas which were subject to the Government of Israel administration prior to June 5, 1967.

ARTICLE VI

Miscellaneous

SECTION 6.1. Communications

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To Israel: Economic Minister
Embassy of Israel
1621 22nd Street, N.W.
Washington, D.C. 20009

To A.I.D.: Director, Office of Project Development
Bureau for Near East
Agency for International Development
Washington, D.C. 20523

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of written notice.

SECTION 6.2. Representatives

For all purposes relevant to this Agreement, Israel will be represented by the individual holding or acting in the Office of Economic Minister, Embassy of Israel, and A.I.D. will be represented by the individual holding or acting in the office of Director, Office of Project Development, Bureau for Near East, each of whom, by written notice, may designate additional representatives for all purposes.

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The names of the representatives of Israel, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 6.3. Amendment

This Agreement may be amended by the execution of written amendments by the authorized representatives of both parties.

IN WITNESS WHEREOF, Israel and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF ISRAEL

By: Dan Halpern

Title: Minister (Economic affairs)

UNITED STATES OF AMERICA

By: Joseph C. Wheeler

Title: Assistant Administrator

FY 1980 ISRAEL

CASH TRANSFER

5C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Asistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

It cannot be so demonstrated. The Department of State has not so determined.

2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the United States unlawfully?

It has not been so determined.

3. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

The Secretary of State has so determined.

4. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

Israel is not known to be in violation of this section.

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

Israel is not known to be in violation of this section.

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6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 108, 114 and 606. Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola?

Israel is not a Communist country. Assistance will not be so provided.

7. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

The President has not determined that Israel is engaged in such conduct.

8. FAA Sec. 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

No.

9. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

There is an investment guaranty program between the U.S. and Israel.

10. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters:

a. has any deduction required by the Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

Israel has not taken any such actions.

11. FAA Sec. 620; FY 79 App. Act, Sec. 603. (a) Is the government of the recipient country in default for more than 6 months on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?

(a) No.

(b) No.

12. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the

Yes, as reported in annual report on implementation of Section 620(s).

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A.12.

amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo: "Yes, as reported in annual report on implementation of Sec. 620(s)." This report is prepared at time of approval by the Administrator of the Operational Year Budget and can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

13. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

14. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?

To the best of our knowledge, Israel is not in arrears in its UN obligations.

15. FAA Sec. 620A, FY 79 App. Act, Sec. 607. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

No.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No.

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?

We have no knowledge that Israel has delivered or received such items or detonated such a device.

B. FUNDING CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

Not applicable since this is Economic Support Fund Assistance.

a. FAA Sec. 102(b)(4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy?

B.1.

b. FAA Sec. 104(d)(1). If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development, and assistance to urban poor?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights?	No. Program is in accordance with policy of 502B.
b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Mozambique, Angola, Tanzania, or Zambia? If so, has President determined (and reported to the Congress) that such assistance will further U.S. foreign policy interests?	Not applicable.
c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	Not applicable.
d. FY 79 App. Act, Sec. 113. Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No.
e. FAA Sec. 620B. Will security supporting assistance be furnished to Argentina after September 30, 1978?	No.

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Included in FY 80 Congressional Presentation.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

Yes.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No knowledge that such action is required.

3. FAA Sec. 209. . Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

As the funds are being provided to promote the economic and political stability of Israel, it is anticipated that they will assist Israel's imports and generally assist its economy.

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5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private trade and investment with Israel will presumably benefit from this assistance indirectly.

6. FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Not applicable.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

(a) The purpose of this assistance is to support the economic and political stability of Israel. Yes.

b. FAA Sec. 531(c) Will assistance under this chapter be used for military, or paramilitary activities?

(b) No.

2. Nonproject Criteria for Development Assistance

Not applicable. This is Economic Support Fund assistance.

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

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(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance Loans [illegible] — Not applicable .

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress — Not applicable.

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(3). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

1. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Not applicable.

2. FY 79 App. Act Sec. 603. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? — Not applicable.

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EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
וושינגטון

August 29, 1978

Mr. Joseph C. Wheeler
Assistant Administrator for Near East
AID
Department of State
Washington D.C. 20520

Dear Mr. Wheeler,

Pursuant to our conversations on the shift of a portion of your Government's economic assistance to Israel from a commodity import program (CIP) to one of cash transfer, and the concerns you raised about the possible impact of such a change on the level of U.S. exports to Israel and access to Israeli markets by U.S. firms, my Government wishes to assure you that it will take all necessary steps to ensure that, during U.S. fiscal year 1979, the dollar level of Israel's non-defense imports from the United States will be at least equal to the level of U.S. economic assistance obligations during that year, and that U.S. suppliers will not be disadvantaged by the termination of the CIP.

We have considered what steps will be necessary to fulfill these commitments and have reached certain decisions. For example, with respect to Israeli Government procurement of large capital equipment items which U.S. suppliers might furnish, special measures will be taken as necessary to assure that they can compete on terms at least as favorable as those offered by prospective third country suppliers. Additionally, the Government of Israel has decided to continue importing from theUnited States, corn, wheat, soybeans, and other agricultural products purchased on government account at levels approximating those of the past few years, with due allowance for Israel's requirements for such goods and capacity to store them. Regarding the carriage of goods imported from the United States, my government will continue to follow present procedures for bulk shipments of grain on dry bulk carriers. As you know, these procedures were worked out with A.I.D and the Maritime Administration with a view toward assuring a fair share of the market for American carriers.

In the summer of 1979, the Israeli Government will undertake a review of experience under the cash transfer procedures. A report of our findings will be provided to the United States by September 1, 1979.

My government anticipates an increase in the level of non-defense imports from the United States, and is prepared to discuss with appropriate U.S. Government officials what reasonable steps it could take to make American sources of supply more attractive to Israeli importers.

Sincerely yours,

Dr. Zvi Dinstein
Economic Minister

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ANNEX D

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

October 2, 1979

Mr. Joseph C. Wheeler
Assistant Administrator
for Near East
Agency for International
Development
Department of State
Washington, D.C. 20523

Dear Mr. Wheeler:

As indicated in our letter of August 29, 1979, the Government of Israel agreed to review its experience under the cash transfer program and provide A.I.D. with a report thereon. We are pleased to provide you with the report in this letter.

Pursuant to the assurances that were given to A.I.D., the dollar level of Israel's non defense imports from the United States during FY 1979 will exceed the level of U.S. economic assistance obligations during that year. U.S. suppliers were clearly not disadvantaged by the termination of the Commodity Import Program. This can readily be seen from the tables attached hereto as Tables I and II. Table I shows the comparative imports of 21 separate items (including grains). Table II shows comparative imports of 5 grains. Both cover the years 1974-1978; January-April 1979.

As a result of the measures taken by the Government of Israel to assure the competitiveness of U.S. capital equipment suppliers, we call your particular attention, by way of example, to the success of U.S. exporters of vehicles and aircrafts. In 1976, exports to Israel of these products equaled $82.2 million. In 1977, they were $119.1 million. They went up substantially in 1978 to $146.1 million. In the first four months of 1979 they equaled $89.2 million.

This singular success was exceeded by the exports of machinery and electric equipment to Israel. The value of these exports in 1977 was $202.1 million. They went up by 35% in 1978 to $274.3 million. In the first four months of 1979 they equaled $110.0 million.

Likewise, the importation of grains from the U.S. continues to grow. Imports in 1978 exceeded those in 1977 by approximately $5 million and are expected to grow substantialy . Present estimates indicate that the total value of grain shipments in 1979 will reach $317 million.

Overall, exports to Israel for 1979 should approximate $1.4 billion, or an increase of approximately $275 million over 1978.

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EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

These figures underscore the effectiveness of the cash transfer program in terms of increased opportunities for U.S. suppliers.

U.S. bulk carriers have benefitted as well. Procedures were worked out with A.I.D. transportation experts and the Maritime Administration for employing U.S. bulk carriers of grain to Israel. Suitable American-flag vessels were used to the extent available; the government of Israel, however, continues to study means to maximize the use of such vessels.

In conclusion, our experience under the cash transfer program has demonstrated the effectiveness of the program, vis-a-vis the CIP, in terms of providing opportunities for U.S. suppliers of exports to Israel. We are pleased that these results bear out the confidence that A.I.D. placed in us in shifting from the CIP to a cash transfer program. You may rest assured that the Government of Israel will continue to take the necessary measures so that U.S. suppliers will not be disadvantaged by the termination of the CIP.

Sincerely yours,

Dan Halperin

Dan Halperin
Minister
Economic Affiars

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Table 1

IMPORTS FROM THE U.S. (U.S.Millions of $)
CIF PORT

	1974	1975	1976	1977	1978	1979 J--A
Animals & products of animals	4.4	11.5	4.9	4.9	4.2	4.8
Plants & products thereof	270.9	361.0	327.8	336.7	315.2	120.7
Oils	8.9	6.9	4.5	2.2	4.2	10.3
Processed foods, bev-erages, tobacco	6.6	12.1	10.2	16.4	12.3	4.1
Minerals	4.6	6.6	3.0	3.4	2.9	0.9
Chemical products	36.3	43.0	53.5	52.2	61.3	24.2
Rubber & plastics	14.9	15.2	12.9	13.6	21.4	9.3
Leather & products	4.0	5.1	4.1	4.1	3.4	1.8
Wood & products	6.0	21.7	3.3	1.4	1.5	0.8
Paper & cardboard	23.1	34.1	33.4	26.1	21.4	7.8
Textiles	22.9	21.2	24.4	25.6	31.3	12.3
Footwear	0.3	0.3	0.4	0.6	0.6	0.2
Construc-tion mat.	3.3	3.9	3.7	3.7	6.3	2.3
Precious metals	44.3	41.7	49.7	83.4	91.7	13.9
Metals	57.2	69.7	45.4	40.9	59.1	17.9
Machinery & electric equipment	147.9	196.5	139.2	202.1	274.3	110.0

(More) 40

Table 1

IMPORTS FROM THE U.S. (U.S.Millions of $)

	1974	1975	1976	1977	1978	1979 J--A
Vehicles & aircraft	59.6	106.5	82.2	119.1	146.1	89.2
Opticals, photography, medical equipment	25.5	28.7	27.7	32.4	45.9	17.6
Misc.	2.1	2.8	2.6	2.1	3.8	1.4
Works of art	0.9	1.8	2.2	1.5	7.1	0.2
Unclassified commodities	9.2	8.9	3.7	4.4	4.8	3.3
	752.9	1001.2	888.8	981.1	1125.6	458.8

Table II

IMPORTS FROM THE U.S. - GRAINS
(000's ommitted)
F.O.B SHIP

	1974	1975	1976	1977	1978	1979
Wheat	53706	82303	60826	46994	63724	23203
Corn	25004	32253	31094	40582	42786	3323
Soybeans	74888	94930	91271	112534	95601	35029
Sorghum	79888	77838	76321	68772	64393	17260
Soyail	13635	7836	3864	1878	4195	5406
	247121	295160	263376	270763	275699	84221

ANNEX E

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
וושינגטון

Mr. Joseph C. Wheeler
Assistant Administrator for
Near East
Agency for International
Development
Department of State
Washington, D.C. 20523

October 31, 1979

Dear Mr. Wheeler:

You will recall that last year, in conjunction with the shift of a portion of the U.S. economic assistance program to Israel from commodity import financing to a cash transfer, the Government of Israel provided certain assurances regarding the impact of the shift on U.S. exports to Israel, bulk shipments of grain from the United States, and access of U.S. suppliers to Israeli markets.

In particular, the Government of Israel undertook to:

a) take all necessary steps to insure that, during the U.S. fiscal year 1979, the dollar level of Israel's non-defense imports from the United States would be at least equal to the level of U.S. economic assistance obligations during that year, and that U.S. suppliers would not be disadvantaged by the termination of the CIP, and

b) regarding the carriage of goods imported from the United States, continue to follow procedures which had been followed up to that time for bulk shipments of grain on dry bulk carriers.

In conveying these assurances, we also indicated, in an illustrative way, steps which we had decided to take to fulfill our commitments. In this regard, we indicated that:

a) regarding Israeli Government procurement of large capital equipment items which U.S. suppliers might furnish, special measures would be taken as necessary to assure that they can compete on terms at least as favorable as those offered by prospective third country suppliers, and

b) the Government of Israel would continue importing from the United States corn, wheat, soybeans and other agricultural products purchased on government account at levels approximating those of the past few years, with due allowances for Israel's requirements for such goods and capacity to store them.

EMBASSY OF ISRAEL
WASHINGTON, D.C.

שגרירות ישראל
ושינגטון

On behalf of my government, I would like to take this opportunity to renew the aforementioned commitments for U.S. fiscal year 1980 and to indicate that we will continue to implement the illustrative measures for carrying out these commitments as enumerated above.

In the summer of 1980, the Israeli Government will undertake another review of experience under the cash transfer procedures. A report of our findings will be provided to the United States by September 1, 1980.

Over the past year, the level of Israel's non-defense imports from the United States has grown as indicated in the report we submitted to you on October 2, 1979. My government anticipates additional increases in the coming year, and, as before, is prepared to discuss with appropriate U.S. Government officials what reasonable steps it could take to make American sources of supply more attractive to Israeli importers.

Sincerely,

Dan Halperin
Minister
(Economic Affairs)

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FIRST AMENDMENT

TO

AGREEMENT OF NOVEMBER , 1979

BETWEEN

THE GOVERNMENT OF ISRAEL

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Dated: December , 1979

AMENDMENT, dated the ______ day of   1979, between the Government of Israel ("Israel") and the Government of the United States of America, acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties."

WHEREAS the Parties have heretofore entered into an assistance Agreement dated November   , 1979 (the "Agreement"), pursuant to which A.I.D. agreed to grant Israel One Hundred Thirty-five Million United States Dollars ($135,000,000) and to loan Israel Sixty-five Million United States Dollars ($65,000,000), and

WHEREAS A.I.D. intended to increase the amount of such assistance during 1980 subject to the funds being made available by the Congress and the mutual agreement of the Parties to proceed,

NOW THEREFORE, the Parties hereto agree that the Agreement shall be and hereby is amended by making the following changes:

1. The monetary provisions in Article I, "One Hundred Thirty-five million United States Dollars ($135,000,000) (the "Grant")" and "Sixty-five Million United States Dollars ($65,000,000) (the "Loan")," are deleted and substituted therefor, respectively, are "Five Hundred Twenty-five Million United States Dollars ($525,000,000) (the "Grant")" amd "Two Hundred Sixty Million United States Dollars ($260,000,000) (the "Loan";" and

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2. The paragraph under Section 4.1 is designated "(a): and below it is inserted paragraph "(b)":

> "Thereafter, on December 28, 1979, April 1, 1980 and July 1, 1980, A.I.D. will deposit in the bank designated pursuant to Section 4.1 (a) the sum of One Hundred Ninety-five Million United States Dollars ($195,000,000) of which (1) One Hundred Thirty Million Unided States Dollars ($130,000,000) will be Grant funds; and (2) Sixty-five Million United States Dollars ($65,000,000) will be Loan funds."

Prior to the disbursement of the additional Assistance provided by this Amendment or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, Israel will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. an opinion of counsel acceptable to A.I.D. that this Amendment to the Agreement has been duly authorized and/or ratified by, and executed on behalf of, Israel, and that it constitutes a valid and legally binding obligation of Israel in accordance with all of its terms.

Except as specifically amended hereby, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Government of Israel and the Government of the United States of America, each acting through its respective duly authorized representative, have caused this Amendment to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF ISRAEL

By:________________________

Title:_____________________

UNITED STATES OF AMERICA

By:________________________

Title:_____________________

ANNEX G

EMBASSY OF ISRAEL
WASHINGTON D.C.

Mr. Joseph C. Wheeler
Assistant Administrator
for Near East
Agency for International
Development
Department of State
Washington, D.C. 20523

November 14, 1979

Dear Mr. Wheeler:

The following is the requested amendment to our letter dated October 31, 1979. Section a. of the second paragraph should read as follows:

"In particular, the Government of Israel undertook to:

a) take all steps to insure that, during the U.S. fiscal year 1979, the dollar level of Israel's non-defense imports from the United States would be at least equal to the level of U.S. economic assistance obligations during that year, that U.S. suppliers would not be disadvantaged by the termination of the CIP, and that the level of cash transfers made to Israel does not cause an adverse impact on the total amount of nonmilitary exports from the United States to Israel."

Sincerely yours,

Dan Halperin
Minister (Economic Affairs)