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Mid-Term Evaluation of Operation Independence, Inc.

Prepared by:

Management Systems International
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Submitted to:
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Basic Project Identification Data

1. Country: Israel (Administered from New York, NY)
2. Project Title: "Alternative Economic Policies for the State of Israel" (Operation Independence)
3. Project (Grant) Number: PDC-0095-G-00-0026-00 DO-10
4. Project Dates:
 - a. First Agreement: April 25, 1990
 - b. Amendment No. 1: April 25, 1991
 - c. Amendment No. 2: August 19, 1992
 - d. PACD: April 24, 1995
5. Project Funding:
 - a. Total A.I.D. LOP: \$2,450,000
 - b. Other Sources LOP: \$2,149,600
 - c. A.I.D. Obligations to date: \$1,750,000
6. Mode of Implementation: Grant to Operation Independence, Inc.
7. Project Designers: Unsolicited proposal from Operation Independence, Inc. and the Council of Jewish Federations.
8. Responsible A.I.D. Officials: Mr. Bert Porter
AID/NE/ME
9. Previous Evaluation: None

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EXECUTIVE SUMMARY

I. INTRODUCTION

This report constitutes a mid-term evaluation of the work of Operation Independence (OI), which operates under a grant managed by A.I.D.'s Near East Bureau. The original Grant Agreement was signed with PPC/EA in April 1990, and transferred to NE/ME early in 1991. Total A.I.D. funding for the grant is \$2,450,000 over a five-year period, with planned funding from other sources totalling \$2,149,000. A.I.D. obligations for the three years to date have totalled \$1.75 million; other funding has totalled to \$961,000. Total OI expenditures under the Grant Agreement amounted to approximately \$1.96 million through the end of CY 1992.

The purpose of OI's grant is to "...assist the financing, first, of research regarding the liberalization of Israeli economic policies and, second, of publications, seminars and other meetings that will communicate these research results to Israel's general public and to its opinion leaders and policy makers."

Among the specific tasks assigned the Evaluation Team were assessments of OI's performance to date in accomplishing the objectives and purposes of the Grant Agreement, with special attention to the policy dialogue in Israel; OI's performance in accomplishing the objectives and purposes set out in its Annual Work Plans; the adequacy of OI's financial records and reporting to A.I.D.; identification of proposed measures that might be undertaken to correct any shortcoming in OI management; and recommendations regarding the remainder of the five-year authorized period.

The evaluation was conducted by two specialists from Management Systems International during the period, February 22 to April 15, in Washington, D.C., New York, Tel Aviv and Jerusalem.

II. FINDINGS AND CONCLUSIONS

A. OI Organization and Management

OI is a non-profit organization based in New York City. In addition to the main office, which manages the A.I.D. Grant Agreement, it maintains separate offices in New York and Tel Aviv, primarily for the purpose of promoting business networking. OI's President, Mr. Howard Cohen, reports to a Board of Directors comprising businessmen, economists and lawyers familiar with private sector development and policy reform issues in Israel. OI also recently established a Business Advisory Board in Israel.

Under the terms of the Agreement, OI is to submit a Work Plan at the start of each Grant year; and annual and quarterly reports summarizing accomplishments for the reporting period. The Agreement does not require that A.I.D. review and approve specific subgrant proposals.

B. OI Activities

Important OI areas of activity have included reform of the business management schools; housing; capital markets, venture capital and taxation; Knesset education; privatization; and industry studies, with emphasis on the software industry. The principal forms of activity are the holding of conferences and seminars, and the publication of research papers, usually carried out through subgrants to Israeli organizations and individuals; and an informal dialogue process conducted by OI itself, i.e. board members, the President, and the staff of the Tel Aviv office.

Based on Team interviews in Israel, OI is believed to be most effective at networking and the holding of conferences and seminars. OI has conducted successful major conferences in the areas of capital markets; budgetary reform; and reform of the management schools. OI research papers are generally regarded as being of high quality, but questions were raised as to their relevance and their distribution. There was some feeling that more attention should be paid to the translation of existing documents and their distribution to a wider audience than to the production of new ones.

OI's contribution to economic reform has been notable in the areas of the business schools, which with OI assistance have adopted more practically oriented curricula; and taxation, where OI assistance has led to the introduction of reform legislation. Some progress has also been made in housing, despite a major setback to reform caused by the upsurge in immigration from the former Soviet Union, and ensuing reversion to a control-oriented policy course by the government. Knesset education appears to be going well. However, the Team could identify little else as having occurred in the general area of "Changing Economic Perceptions." For the most part, economic education has been confined to opinion leaders.

Problems with OI follow-up were noted in two of the above areas. The problems had to do with a long overdue paper (housing); a committee formed but not activated (business schools); and a long delayed start on the production of case studies at the business schools.

In the important area of privatization, OI influence has been confined to informal approaches and its sponsorship of a major conference dealing, in part, with the subject. Otherwise, although OI workplans have contained numerous proposals for undertakings in the area, and at least some work has been started (i.e. a paper more than two years in the making), nothing properly includable in this category has actually been produced. Israelis with whom the Team talked generally felt that it would require the full weight of public opinion to move the government on privatization. A few felt that privatization could not properly be considered apart from the broader problem of cartelization of the Israeli economy.

Two other OI activities, with which A.I.D. expressed disapproval, were shifted from A.I.D. to non-A.I.D. funding; namely, business networking in the U.S. and a study of the Israeli software industry. The latter became a particular point of contention in the wake of

the Lautenberg Amendment (Section 599 of the FY 1993 Foreign Appropriations Act), which prohibits the obligation of funding approved in 1993 for activities that could result in the loss of U.S. jobs. A.I.D. counsel expressed the view that the Software Study could be construed as being in conflict with at least the spirit of Section 599. A.I.D. also felt that the recommendation embodied in the Software paper for formation of an advisory board with government representation to promote the industry ran counter to the free market philosophy underlying OI.

The Team was impressed with the quality of the principal OI subgrantees - the Israeli Democracy Institute (IDI), the Israeli Center For Social and Economic Progress (ICSEP), and Dr. Steven Plaut of the University of Haifa.

C. OI Reporting and Budgeting

OI Workplans have been generally late in submission, and are of poor quality. Proposals are frequently repeated, often in identical language, from one year to the next. Some appear in more than one section; some appear in sections to which they do not appear to belong; and some are simply dropped without explanation. The effect is less that of a workplan than of a rambling account of projects underway and under consideration.

No annual progress reports and only four quarterly reports have been submitted, two of these in the last half of 1992. Budgets were submitted on a line item basis only until late 1992, following amendment of the Grant Agreement to provide for reporting in seven program areas. The first such breakdown provided did not fully conform to the breakdown requested. OI is awaiting A.I.D. reaction to a new proposed reporting format submitted for consideration early in 1993.

III. RECOMMENDATIONS

Following is a summary of recommendations for modification of the Grant Agreement to cover the remainder of the five-year period.

Privatization: OI should give high priority to the area of privatization, to include the question of how to deal with cartelization. Actions to be taken would include: completion of papers on privatization, and circulation of papers in advance of proposed conferences; sponsoring public debates, and other public forums, in order to widen the constituency for privatization.

Advancing Economic Perceptions: The Team had two sets of recommendations in this area. The first was that OI should consider designing and carrying out a nation-wide survey on public attitudes to public reform, in order to identify social/economic groups most in need of targeting. The second was that OI should undertake to expand the publication and distribution of existing works of scholars and researchers active in the reform area, to include sponsorship of conferences and seminars where appropriate.

Subgrant Proposal and Review: OI should standardize a format for preparation of proposals to be funded under the Grant Agreement. The format would contain basic information as to background, rationale, purpose, description of proposed activities, and an itemized budget.

OI Management of the Grant Agreement: OI should appoint a Project Administrator whose responsibilities would include: timely preparation of all programmatic reports; regular contact with sub-grantees and monitoring of their activities; and timely preparation of workplans. This position should be filled by reconfiguring existing staff resources, not by creating an additional position.

I. PURPOSE OF THE EVALUATION

This report constitutes the mid-term performance evaluation of the work of Operation Independence (OI) under A.I.D. grant number PDC-0095-G-00-0026-00. The Grant is currently managed by A.I.D.'s Near East Bureau. The original Grant Agreement was signed with the Office of Policy Planning and Coordination/East Asia (PPC/EA) in April 1990; management of the Grant was transferred to NE/ME in early 1991.

A. Overview of OI Grant Agreement

The purpose of OI's grant is to:

"...assist the financing, first, of research regarding the liberalization of Israeli economic policies and, second, of publications, seminars, and other meetings that will communicate these research results to Israel's general public and to its opinion leaders and policy makers." ¹

To achieve this purpose, OI management is supposed to:

"...maintain close liaison with members of the Knesset and of the government, with leading scholars versed in policy research, and with directors of research institutions to identify priority research needs. [In addition, OI is supposed to] work with other international economic policy development organizations, such as the International Center for Economic Growth, [and] participate in the international economic policy development dialogue. OI or those to whom it makes grants or with whom it contracts, [shall] produce newsletters, publish studies, sponsor seminars, forum discussions, and symposia to communicate research results to opinion leaders, to policy makers, and to the general public in Israel." ²

B. Evaluation Tasks

The following tasks were performed as per the terms of the evaluation scope of work:

1. A full review of all relevant documents and reports related to the grant and interviews with appropriate individuals in A.I.D., Operation Independence and in Israel.
2. Assessments of:
 - a. OI's performance to date in accomplishing the objectives and purposes set out in the Grant Agreement, including those contained in its November 1989 proposal to A.I.D. The Team gave special attention to assessing the

¹ Attachment 2, "Program Description" Page 1 of Grant Agreement, 25 April 1990.

² Ibid, Page 2.

- overall contribution of OI to economic policy dialogue in Israel.
- b. OI's performance to date in accomplishing the objectives and purposes set out in the approved Annual Work Plans.
 - c. OI's overall impact/contribution to economic policy reform dialogue in Israel.
 - d. The adequacy of OI's financial records (including supporting documentation) and reporting to A.I.D.
 - e. The availability and amount expended (by fiscal year) of non-A.I.D. funds available for activities under this grant.
 - f. Vulnerability of OI activities to legislative restrictions incorporated in Section 599 and 521a (Bumpers and Lautenberg amendments) of the FAA.
3. Identification of proposed measures that might be undertaken to correct shortcomings, if any, observed in OI management.
 4. Recommendations to A.I.D. and OI management regarding continuation of the grant for the remainder of the authorized 5-year period and/or necessary modifications in implementing the agreement.

II. TEAM COMPOSITION AND STUDY METHODS

The evaluation team was comprised of two specialists from Management Systems International (MSI), Mr. Richmond Allen and Mr. Russell Webster, whose services were procured under Evaluation IQC No. AEP-0085-I-00-3001-00. The work was carried out from February 22 to April 15, 1993 in Washington, New York, Tel Aviv and Jerusalem.

Document reviews and meetings were begun in Washington on February 22. The team travelled to New York for a meeting with Mr. Howard Cohen, President of Operation Independence, on February 25. During this visit, the Team also met the other members of OI's staff in New York. The week of February 28 to March 6 was spent meeting with U.S. Embassy staff, government officials, business leaders, academicians, business association leaders, and other individuals in Israel who are involved and interested in policy reform issues. The Team received the fullest cooperation from the OI President and staff during its visit to OI headquarters in New York, including invaluable assistance in identifying potential interviewees. (A list of those interviewed appears in Annex I.)

Further document reviews, analysis, and report writing were undertaken between March 8 and April 1, the submission date for the draft report. After AID/NE review, the evaluation report was submitted in final on April 15.

III. ECONOMIC, POLITICAL AND SOCIAL CONTEXT OF THE PROJECT ³

A. Background; Government Involvement in the Economy

Israel is a nation of some five million people with a GDP of \$47.5 billion. The per capita GDP of \$9,500 is roughly one half the OECD average. Although lacking in natural resources, the country has a well-educated and trained labor force that provides the potential for rapid economic growth based on advanced manufacturing and agricultural technologies. In fact, the longer-term trend has been toward progressively slower rates of growth. For the period 1980-92, virtually all of the country's economic growth was accounted for by population increase; per capita GDP grew at about 1.0 percent per annum. Stagnation has been attributable to excessive government control of and interference in the economy.

From its inception in 1948, Israel has maintained a strong welfare state orientation featuring a system of subsidies and price controls for many essential foods and materials. The country's geopolitical situation, reflected in two wars and the need to maintain a huge defense establishment against the Arab threat, has created a perpetual air of crisis management, and reinforced the tendency toward government involvement in the economy. The ratio of defense expenditures to GDP, averaging about 20 percent annually, is perhaps the world's highest, but defense spending is largely offset by U.S. aid (virtually fixed at \$3.0 billion annually), and the ratio of overall government spending to GDP, averaging 6 to 7 percent during the past few years, is not exceptionally high. The hindrance to growth arises, therefore, not so much from the level of government spending as from the extent of government intervention in the economy.

Government (or quasi-government) involvement may be considered as having three aspects: government intervention; the public sector companies; and the Histadrut (Confederation of Labor).

1. Government intervention: The government is heavily involved in the regulation of economic activity. Key areas of economic decision-making are politicized. The system is one of trade-offs, with bureaucrats deciding on license approvals, subsidies, price controls, production rights and quotas, wage levels, import privileges, and access to foreign exchange. A related problem is a lack of accountability that is felt in many areas, notably the budget process.

2. Public sector corporations: The government owns at least a partial stake in approximately 160 companies in virtually all areas of the economy. Of Israel's six largest companies, four are government owned -- the electric, oil and aircraft monopolies, plus the Dead Sea Works (chemicals from the Dead Sea). The government also controls El Al, the national airline, and Bezek, the telephone and telecommunications company. Since a bail-out of the distressed banking system in the financial crisis of 1983, it has owned

³ Much of the material in this section, and all of the cited data, are drawn from an OI-funded report, Baudot, Trajtenberg and Yahalomi, The Israeli Economy: A Review of the Current Situation, July 2, 1992.

(though not maintained management control of) four of the five largest banks. The private industrial sector is characterized by many small- and medium-sized companies, but includes a number of enterprises controlled by investment holding companies. In considering the matter of economic concentration in Israel, it should be noted that the problem is not merely one of government ownership. There exist also large private holdings enjoying monopoly production and trade privileges that form part of a larger problem of economic cartelization.

3. Histadrut: Though its influence has waned of late, the Histadrut has been active in many areas of the economy. As recently as 1985 the Histadrut-affiliated sector accounted for 30 percent of GDP. Subsequently, as a result of bankruptcy and reorganization, it lost control of Koor, the industrial conglomerate; and its power through its control of organized labor to control wage levels was greatly reduced by the 1985 economic reforms (see below). Histadrut remains by far the largest provider of health insurance in Israel.

B. Recent Economic Developments

1. 1985 reforms and their aftermath: Following the Yom Kippur War in 1973, Israel entered a prolonged economic crisis with large government deficits, stagnating output and rising inflation rates that approached 450 percent in 1984. A key factor in the crisis was indexation in both the wage and capital markets that eased the pain of inflation and helped to mask its effects. In 1985 a reform program was introduced, featuring major reductions in public spending and an end to full indexation. The result was a sharp reduction in inflation, to under 20 percent per annum, and higher productivity gains for most of the 1986-92 period.

2. Renewed large-scale immigration: From the outset of 1991 to the present, Israel has accommodated approximately 500,000 new immigrants, mostly from the former Soviet Union. The resultant 10 percent increase in population has created huge new strains in employment and on the government's budget, especially in the housing area. While the immigrants are well-educated and should be a factor for accelerated growth in the longer term, the requirement of providing for their immediate needs has involved setbacks in some areas of economic reform.

3. Recent economic growth: Recently there has been an encouraging, rapid growth of small private enterprises, many high tech in nature, and venture capital firms. Economic growth in the past two years has in fact been rapid, though barely matching the population growth rate of about six percent per annum.

4. Recent progress on reform: Despite continued, even rising, security concerns, and problems related to absorption of the refugees, some reform progress continues to be made. There has been a marked easing of restrictions in the capital markets and, to a lesser extent, in the foreign trade area. However, little progress has been made in the key area of privatization. A major development in 1992 was suspension of the effort to partially privatize Bank Haopolim, Israel's largest commercial bank, as a result of the Central Bank's insistence that Bank Haopolim first be divested of some of its far-flung

holdings, many in non-banking areas. Most observers continue to feel that the Israeli economy remains overly regulated and in need of far-reaching reforms.

IV. FINDINGS

A. Organization and Management of OI

Operation Independence began as a Committee of the Council of Jewish Federations. In 1990 it became an independent, non-profit 501c(3). In August 1989, AID/PPC/EA approved start-up funding of \$50,000 for an unsolicited proposal from the Council to assist in financing "a program of research into the likely economic consequences of liberalization of Israeli economic policies." ⁴ A second grant of \$2,450,000 to Operation Independence (the subject of this evaluation) was approved April 25, 1990, and is being disbursed over a five-year period. OI is currently in its third year of funding under this Agreement.

OI is based in New York, and is headed by its President, Mr. Howard A. Cohen, who also serves as Executive Director of the A.I.D. Grant Agreement. Other headquarters staff include a receptionist, administrative assistant, research assistant, and financial manager. OI also occupies a separate suite next to its headquarters and an office in Tel Aviv for the purpose of U.S.-Israeli business networking and promotion of joint ventures. OI administers its business networking independently from the A.I.D. Grant Agreement. (See Section IV.D below.)

OI is governed by a board of directors comprised of business leaders, economists, and professionals who are familiar with and interested in private sector development and policy reform issues in Israel. Many of them are actively involved in Israeli development issues and ventures, apart from their affiliation with OI. A Grants Committee of the Board is responsible for reviewing and approving activities proposed by the Executive Director for funding under the A.I.D. Grant.

OI also recently established a Business Advisory Board in Israel to provide guidance and assistance to the formal business networking activities of OI (not funded under the Grant Agreement). This board is comprised of business and civic leaders who are active in the policy reform dialogue in Israel. Many individuals on this Board have also advised OI on economic policy and activities related to the A.I.D. Grant Agreement. A list of board members (U.S. and Israeli) is presented in Annex II.

Under the terms of the Grant Agreement, OI is to submit to A.I.D.: a) quarterly Progress Reports, b) an Annual Work Plan at the start of each grant year, c) an annual report summarizing the major efforts and accomplishments of the previous year, and d) three copies of every discussion paper, research report, book, pamphlet or other printed matter produced as part of a research activity funded by OI with A.I.D. resources. Quarterly

⁴ Action Memorandum from AAA/PPC/EA to DAA/FPC, page 1, August 4, 1989.

Financial Reports are also required from OI.⁵ OI's performance in complying with these procedures is discussed in Section E, below.

OI's planning periods under the Grant run from May to April. Thus, Year 1 of the Grant corresponds to May 1990 to April 1991, Year 2 to May 1991 to April 1992, etc. Total A.I.D. funding for the Grant is \$2,450,000 over five years, with funding from other sources totalling \$2,149,000. By the end of the fifth year, OI's plan is to be entirely financed from non-A.I.D. sources.⁶ The funding schedule is presented in Figure 1.

Figure 1: Operation Independence Planned Funding Schedule
('000s \$)

| Source | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|--------|--------|---------|---------|---------|---------|---------|
| A.I.D. | 500.0 | 700.0 | 550.0 | 450.0 | 250.0 | 2,450.0 |
| Other | 99.6 | 300.0 | 450.0 | 550.0 | 750.0 | 2,149.0 |
| Total | 599.6 | 1,000.0 | 1,000.0 | 1,000.0 | 1,000.0 | 4,599.6 |

Source: Attachment 1, "The Schedule" Page 7 of Grant Agreement, 25 April 1990.

Actual funding received to date is presented in Figure 2. As can be seen in Figure 2, OI has received total funding of \$961,000 from other sources through Year 3. This compares with \$849,600 estimated for the same period under the Grant Agreement.⁷

Figure 2: Operation Independence Funding, Years 1 - 3
('000s \$)

| Sources | Year 1 | Year 2 | Year 3 | Total |
|--------------------------|--------|---------|--------|---------|
| A.I.D. Grant | 500.0 | 700.0 | 550.0 | 1,750.0 |
| Government of Israel | | 183.0 | 200.0 | 383.0 |
| Other Private & Interest | 108.4 | 241.1 | 228.5 | 578.0 |
| Total | 608.4 | 1,124.1 | 978.5 | 2,711.0 |

Source: Operation Independence Ledger "Analysis of Projects & Income" Fiscal Years 1990 - 1992 (May 1990 to December 1992).

As of December 31, 1992, OI reported total project expenditures in the amount of \$1,961,584. (See Annex III.) Of this amount, forty-two percent of the funds were used

⁵ Attachment 1, "The Schedule" Article I.1 and I.2, pages 3-4, and Attachment 2, "Program Description" Page 2 of Grant Agreement, 25 April 1990.

⁶ Proposal: Alternative Economic Policies for the State of Israel, Operation Independence, November 21, 1989, page 5.

⁷ Ibid.

for subgrant activities (including the Software Study) and the balance for administrative expenses. This compares with an estimated figure of forty-eight percent to be used for subgrants for the same period under the Grant Agreement.⁸

B. OI Activities

Annex IV, "Summary Table of Activities," lists all activities proposed by OI to date in its various annual work plans, with outcomes and comments as appropriate. This section provides a summary discussion of OI activities, grouped according to categories that conform largely to the groupings in OI's Annual Work Plan for 1992-1993 (third year of funding under the A.I.D. Grant). In addition to the formal interventions summarized here, the OI President has participated in meetings of the Joint Economic Development Group (JEDG), a senior working group with representation from the highest levels of the U.S. and Israeli governments. The President and OI Board members also have engaged in discussions regarding policy reforms and options in numerous informal meetings with businessmen, academics and opinion leaders, covering all areas of OI activity. This informal "networking" process is, in turn, part of the networking activity discussed in subsection 8 below.

1. Reform of the Business Management Schools

OI has been involved since the inception of the grant with the three principal schools of management at Tel Aviv, Hebrew and Bar Ilan Universities, and subsequently with the management school at the University of Haifa. The business schools have been growing rapidly, with demand for space far exceeding the number of places for entering students. The Team met with the directors of the management schools at Bar Ilan, Tel Aviv and Hebrew Universities. Following have been the principal OI activities in this area:

- a. Holding of a business schools conference in October 1991: The business school directors all spoke well of the conference, which was said to have involved top people, and dealt with course curricula and teaching methodology, among other matters. The development of practically oriented programs was a key consideration. The ideas for the development of case studies of Israeli companies, and establishment of a Curriculum Advisory Committee, are said to have flowed directly from this conference.
- b. Development of case studies: Two of the business school directors were highly enthusiastic about the proposal to produce case studies to be funded by OI, the other one more cautiously disposed. One said that he had designated professors ready to work on them. All noted that the process of actually producing the studies has been delayed for lack of follow-up from OI.
- c. Formation of Curriculum Advisory Committee: The Committee was established as a direct result of the October 1991 Conference but has been inactive, reportedly for lack of OI follow-up.

⁸ Original Grant Agreement, Attachment 1, page 7.

d. Elevation of business schools to faculty status: The School of Business Administration at Tel Aviv University is the only one of the business schools to enjoy faculty status within its university. OI has pushed extensively for faculty status at Bar Ilan and Hebrew Universities as well. Conferring of such status was believed to be near at the time of the Team's visit.

2. Housing

Early OI efforts in the housing area focused on promotion of rental housing, and of U.S. contract construction in Israeli housing. Progress on market reforms in housing reportedly was being made in the late 1980s when the country suddenly had to cope with the large-scale immigration from the former Soviet Union. A massive housing construction program was launched, involving subsidies and buy-back guarantees to builders, as well as the controversial siting of housing in the Negev and other outlying areas. To a considerable extent, therefore, OI policy efforts were overtaken by events of a social/political nature that dictated a control-oriented course. In response, OI shifted its focus to less controversial areas such as the design of building codes, development of a secondary mortgage market, and environmental matters. OI has worked closely with the A.I.D. Housing Office, and has had frequent informal meetings with housing industry officials in Israel. Other specific OI initiatives in the housing area:

a. Publication of a report authored by Aaron Fogel, assisted by Shlomo Shattner, titled "The Fogel Report: Reforms to Promote the Development of Rental Housing in Israel," followed by a policy dinner in Tel Aviv to discuss the Report on March 6, 1991.

b. A meeting to discuss barriers to U.S. firms building in Israel was held at the offices of Deloitte & Touche in New York City, April 29, 1991 with over 80 attendees.

c. A Housing Policy paper, to be developed by Shlomo Schattner and David Gayer, first mentioned in OI's Year 1 Workplan, was published in draft form in December 1991. It has not yet appeared in final. It will presumably cover all of the areas of OI involvement in housing.

d. A Housing Conference, to which A.I.D.'s Housing Office has offered its support, was first scheduled to take place in Jerusalem in June 1992. It was tentatively rescheduled (per OI's 1992-93 Workplan) for September 1992; postponed again owing to complications related to the then pending Israeli elections; and tentatively rescheduled for June 1993. According to OI's President, the June date is now in doubt as a result of political uncertainties having to do with the appointment of a Director General of Housing.

3. Capital Markets, Venture Capital and Taxation

The capital markets have experienced a significant amount of deregulation, especially in the money market and securities areas. This, in turn, has been a factor in a booming Tel

Aviv stock market, the development of venture capital firms, greatly increased listings of Israeli firms on American exchanges, and new measures for reform of the tax system. OI activities in the area:

a. Amex Conference: OI and the American Stock Exchange jointly sponsored a conference in New York titled, "Reaching the World From Israel," in November 1990. Most of the business people with whom we spoke in Israel had attended the conference and spoke highly of it, mentioning the high calibre of speakers and attendees, and the amount of worthwhile business conducted. More than one said that the conference had led directly to increased U.S. investment in Israel. In its 1991-92 Workplan, OI stated that \$20,000 had been budgeted for publication of the Amex proceedings, with publication expected for the fall of 1991. The matter was not mentioned in the 1992-93 Workplan, and OI's President has confirmed that a decision was taken not to go ahead with publication of the document.

b. Securities Market Deregulation: Securities market deregulation was an important theme of both the Amex Conference and the conference on Israeli Democracy's Political Economic Complex, generally known as the IDI (for Israel Democracy Institute) Conference, in November 1992. Through its sponsorship of these conferences and other, less formal approaches, OI contributed to general awareness of the need for securities market reform. OI's role in this area was, then, of an indirect, albeit important, nature; OI does not appear to have played a direct role in the development of new securities regulations.

c. Tax Reform: OI funded the translation of a Report on taxation of foreign investment by an Israeli committee headed by Moshe Gavish; organized a committee comprising American tax experts to study and report on the Israeli Report; and sponsored a meeting in Tel Aviv, in February 1993, to review the work of the committees and produce a set of proposals for legislation and/or implementation. Based on the Team's findings, the meetings involved top people, were well run, on schedule, and produced meaningful recommendations. We understand, further, that legislative proposals are being prepared on the basis of the Tax Commission recommendations.

d. Financial Intermediation: Dr. Steven Plaut, a University of Haifa professor and OI subgrantee, has completed the draft of a paper on financial intermediation, with OI funding.

4. Comparative Advantage and Software Studies

OI advanced the notion of a comprehensive study to assess Israel's areas of comparative/competitive advantage in the 1990-91 Workplan. Temporarily sidetracking the idea as too grandiose, OI settled instead for an in-depth study of the software industry and its potential. Following objections to the study on the part of A.I.D. (see Section IV.C and D), the Software Study was shifted to non-AID funding. The Comparative Advantage study, now styled CAON for Comparative Advantage of Nations, then resurfaced in the 1992-93 Workplan. According to the OI President, the Grants Committee will decide

whether to go ahead with the CAON study as part of the review of the 1993-94 workplan. These two studies are mentioned in this section because of the relatively large amounts of time and money devoted to them.

5. Reform of the Budgetary Process

a. **IDI Conference:** Reform of the budgetary process was one of the principal themes of the IDI Conference, held in November 1992. IDI managed the conference under the joint sponsorship of OI and the Koret Foundation. Emmanuel Sharon, former Finance Minister and currently Chairman of Bank Haopolim, headed the task force on budgetary reform. As a direct result of the conference, which received general praise by those with whom we spoke, the Finance Minister requested that IDI organize a task force to produce recommendations for budget reform.

b. In the aftermath of the IDI Conference, IDI has focussed its attention on budgetary reform, involving comparative studies of tax systems in countries with economic characteristics similar to those of Israel, and an attempt to involve Finance Ministry officials directly in the process of reform. The IDI President has submitted to OI a detailed proposal for further work in this area in 1993-94. The proposal is scheduled for consideration at the next meeting of the OI Grants Committee.

6. Changing Economic Perceptions in Israel

Except for the Knesset education program, we found it difficult to determine from OI workplans just what activities have been undertaken, let alone completed in this area. Part of the difficulty arises from the fact that the Israel Center for Social and Economic Progress (ICSEP), the principal OI subgrantee in this area, has been attributing only a portion of its activities to A.I.D. funding. Following is our understanding of the situation:

a. **Knesset Education:** OI has funded, and ICSEP conducted, a series of seminars to introduce and explain free market concepts to members of the Knesset and their staffers. As of February 1993, 16 seminars and study tours had been held, with more planned. Unfortunately, in spite of its attempts, the Team was unable to meet with any Knesset members in Israel. However, we did meet and were impressed by the ICSEP Director, Mr. Daniel Doron, and to judge by the ongoing demand for the seminars, as well as favorable comments from others we interviewed, they appear to have been successful.

b. **OI Business Leaders Advisory Board:** Formation of this Board, discussed in Section D.1, has been included by OI in the "Changing Economic Perceptions - - -" section. Although the Board was formed for non-A.I.D. funded business networking activities, and its relationship to "Changing economic perceptions" appears tenuous, OI's President feels that the Board members' consistent involvement in business affairs does help to change perceptions and economic policies.

c. **Opinion Leader Seminars:** Two paragraphs on Opinion Leader Seminars appeared, identically worded, in the first two workplans (1990-1992), but not in the 1992-93

Workplan. OI's President has confirmed that the reference made to work being done by Dan Doron (ICSEP) on "school directed education projects" refers to work that Doron described to us involving Israeli high schools. The high schools program involves situational studies to develop an understanding of free market economics on the part of high school students. It impressed us as a worthwhile program, but it is not among the ICSEP projects attributed to A.I.D. funding.

d. Educational Materials, Including Books, Videos, etc.: This item, which appeared in the first and second workplans, was described as having to do with publication of excerpts of a 1989 ICSEP seminar involving Milton Friedman. It appears as a line item alone in the 1992-93 Workplan, from which one might conclude that the project had been dropped. However, OI's President has advised the Team of his understanding that excerpts of the Friedman program were produced in Hebrew and English and distributed in Israel by ICSEP.

e. Efforts to Reach a Broader Audience: Though not included by OI in its "Changing Economic Perceptions" section, the Team would include under this rubric efforts by Dr. Steven Plaut, an OI subgrantee, that appear to have reached a wider audience than the usual businessmen and opinion leaders. These include: (1) Plaut's excerpting of a work on agriculture and water policy for serial publication in a farmers' magazine (see also Section 9 below); and (2) Plaut's frequent op-ed pieces, covering a variety of economic reform topics. Though not directly funded by OI, the President of OI contended to us that without OI funding of his research papers, Dr. Plaut would not be able to undertake unpaid work of this type. Another OI subgrantee, Dan Doron of ICSEP, also writes frequent op ed pieces for Israeli and international newspapers.

7. Privatization

OI Workplans have spoken of Privatization as "one of the most important economic reformations to be achieved," and as a "linchpin to change the political economy of Israel." Privatization was one of the areas selected for attention at the OI-sponsored IDI Conference (see further d. below), and IDI has recently submitted proposals for a comprehensive program on privatization for the coming year. For the most part, however, the record contains far more in the way of planned undertakings than of actual accomplishments. Following are our findings with regard to planned OI initiatives in Privatization, as spelled out in the workplans, including items whose inclusion in the Privatization category seems of doubtful validity.

a. In its 1990-91 Workplan, OI proposed to focus on "at least two areas, one of which would be the health system" (the other being unspecified). Funding for research of \$70,000 was mentioned, of which \$40,000 in Israel, \$30,000 in the U.S. The item did not appear in subsequent workplans. Dr. Steven Plaut is currently considering a study on the need for reform of the health system, but we know of nothing actually completed under OI auspices in the area.

b. In the 1991-92 Workplan, OI advised that it was planning "seminars in the U.S. for senior members of the Ministry of Finance who are responsible for privatization." The plan was to arrange for faculty from Harvard's Business School, Wharton and New York University to participate in the seminars, as well as having the delegation meet with experienced people who have taken state-owned companies to the capital markets. The seminar has not taken place. The Team has been advised by OI's President that it was postponed owing to a decision of Ministry of Finance officials, and that a possible future seminar will be part of a privatization proposal to be reviewed by the Grants Committee.

c. In all three workplans, OI proposed a conference to review past and current privatization issues. A funding figure of \$30,000 was mentioned in the 1992-93 workplan. The goal of the conference would be to broaden and strengthen the constituency for change in this area. The conference to date has not taken place.

d. As mentioned, privatization was discussed in general proceedings, and at least one workshop, at the IDI Conference in November 1992. An AID/NE staff member attended the IDI Conference, and reported favorably on it.

e. In its 1991-92 and 1992-93 Workplans, OI referred to the abolition of the Citrus Board, and went on to mention Dr. Plaut's work on agricultural exports and water policy, as if it too fell into the category of privatization. We think not. Our discussion of Dr. Plaut's work appears in Section 9, "Other" below.

f. In the 1991-92 and 1992-93 Workplans, mention was made under the privatization section of possible OI support for a non-governmental blue-ribbon commission on deregulation. In the 1992-93 Workplan, possible funding of \$75-100,000 is mentioned for the commission and/or studies on deregulation. In the event, neither blue-ribbon commission nor studies have appeared; and the proposal for a blue-ribbon commission reappears in Section 3.7, "Deregulation" of the same Workplan, where it would seem to belong. (See further in Section 9 below.)

Two possibilities for future privatization activities were surfaced in our discussions with the OI President in New York: (1) the design of regulatory regimes that would be ready for adoption in the wake of utility privatizations (N.B.: We subsequently learned that just such a paper covering electric utility regulation has been written by Joseph Vardi, a member of OI's Israeli Advisory Board); and (2) a wide-ranging conference devoted to privatization, probably to be held in 1993.

8. Networking

There are two distinct aspects to OI "networking" that need to be distinguished from one another. The two, termed for this purpose as "Business networking" and "Informal networking," are discussed below:

a. Business networking: This term applies to the relatively formal networking function, as described in Section 1.3 of OI workplans and, as far as we can tell, in

Sections 7.0 and 7.2 as well (since these sections seem to plow the same ground as Section 1.3). The original purpose of the formal networking activity was to promote a better understanding of Israel, and of Israel-America trade and investment opportunities, among the 500,000 Israelis said to be living in the U.S. This effort was subsequently expanded to involve interchange between Israelis in the U.S. and in Israel itself, and it came to include offices in New York and Tel Aviv occupied fully with networking (see Section IV.A). A.I.D. asked, and OI agreed, that this portion of OI's work not be funded under the Grant Agreement for reasons discussed in Section IV.D.

b. Informal networking: This term applies to an informal process involving the regular interchange of policy views and information on business and trade opportunities between the OI President and Board members, on the one hand, and opinion leaders, businessmen and academics on the other. There is nothing mysterious about this informal networking process. The expenses involved do not fit under any programmatic category, but the activity is what one would expect of an organization such as OI, whatever the term for it, and whether or not the other, formal networking process existed. Most of the businessmen with whom we talked in Israel mentioned networking as OI's most valuable contribution to economic reform, and two of them singled out OI's Tel Aviv office manager as being particularly good at it. We believe that in praising networking these people had in mind the informal, not the formal aspect. Finally, Mr. Cohen's participation in the meetings of the U.S. - Israel Joint Economic Development Group drew praise from the former head of the U.S. delegation to those meetings.

9. Other Activities

Following are an assortment of activities, actual and planned, some completed, some uncompleted or dropped, which do not fit under the above categories:

a. Establishment of a New York chapter of the Israel Management Center (IMC) and subsequent seminars: The IMC is said to be one of the most prestigious business organizations in Israel. The New York chapter was formed, with OI encouragement and funding, in February 1992. A series of seminars and trade and management issues have since been held by the IMC.

b. Agricultural export and water policy: Dr. Steven Plaut published a paper on agricultural export and water policy, with OI funding, in 1992. The paper was translated and distributed to Knesset members, the press and financial people, among others, in addition to which Dr. Plaut excerpted the paper for serial publication in a farmers magazine. OI held a conference to promote and help distribute the paper in September. We understand that as a direct result of the paper the Water Commission raised water rates, and that consideration was given to the paper's main recommendation for auctioning of water rights. Unfortunately, these advances were subsequently reversed by a new, and less progressive, Water Commissioner, under pressure from the farm lobby.

c. Investment In Israel Survey: This activity was planned for in 1990-91 and again in 1991-92. The purpose of the survey was to identify the factors affecting members of the

Jewish community in making decisions to invest in Israeli companies or funds. The outcome was to be a comprehensive set of information about what needs to be done to attract and promote foreign investment in Israel. Nothing came of the proposed survey, and the Grants Committee recommended that it be dropped from the 1992-93 Workplan.

d. **Banking Study and Conference:** In its 1990-91 Workplan, OI proposed to do studies and hold a conference on banking in Israel. The subject was again raised in the 1991-92 Workplan, along with a statement that there would be "a more active effort considered for 1991 - 1992."⁹ The main purpose of the studies would be to identify constraints to foreign banking operations in Israel, with the goal being to "ascertain policy options, create a forum for discussion, ignite public opinion, and stimulate the GOI and Bank of Israel to review existing policies. [OI] would then work with the Israeli constituency for such changes."¹⁰ The item did not appear in the 1992-93 Workplan.

e. **Small Business/Entrepreneurship Development:** In its first two Workplans, OI proposed collaborating with Charles Bronfman and the CRB Foundation to promote the growth of the small business sector in Israel. Further, the 1991-92 Workplan discussed the possibility of research or surveys into the needs of small businesses and the organizations that serve them. The item was dropped from the 1992-93 Workplan, and there is nothing in the available A.I.D. records to suggest either the precise nature of the efforts referred to in the earlier workplans, nor results therefrom. However, we have been advised by OI's President that OI work with the CRB foundation has led to small business loan programs, including one funded by the CRB Foundation itself. A new organization, Claridge Small Business Development, Ltd., was established to implement the CRB Program.

C. Possible Conflict With Section 599, Lautenberg Amendment

One of the reasons for A.I.D.'s decision to insist that the Software Study be attributed to non-A.I.D. funding (see Section IV.B.4 above) was the opinion of A.I.D. counsel to the effect that publication of the Study could be construed as violating at least the spirit of Section 599 of the FY 1993 Foreign Appropriations Act. Section 599, enacted in November 1992, prohibits the obligation or expenditure of funds appropriated in 1993 to a business activity that might result in the loss of U.S. jobs. Counsel for AID/NE confirmed to us that attribution of funding for the Software Study to non-A.I.D. sources would preclude any danger of A.I.D. culpability with respect to the provisions of Section 599.

D. Points of Contention Between A.I.D. and OI

It is apparent that A.I.D. values certain OI activities, but has serious misgivings about others. In our discussions in Washington, we were given examples of OI activities that A.I.D. considered "time and money well spent." These included, for example: OI's work on housing; its organization of the October 1991 business management schools

⁹ OI Annual Work Plan, May 1991 - April 1992, page 25.

¹⁰ Ibid.

conference; its support of the November 1992 IDI Conference; and its support of the Knesset Economic Education Program of the Israel Center for Social and Economic Progress. A few of the A.I.D. staff we met also felt that the high levels of access that the OI Board and President have to business and government leaders in Israel are serving the policy reform efforts in a positive way. However, even the proponents of this type of "informal networking" admitted to a certain level of discomfort because they didn't really know how it worked, and couldn't put their finger on exactly what A.I.D. was getting in return for the dollars spent on these informal meetings and discussions.

We have identified three areas of contention which we feel need to be highlighted. These are discussed below.

1. Networking on Behalf of U.S. and Israeli Businesses

As discussed in Section IV.B.8 above, OI's first two work plans included a proposal to develop a network of Israelis living in the United States (Workplan item 1.3), the purpose being to tap successful Israeli businessmen, in particular those in high tech industries, "to encourage and develop trade whenever possible between their firms and Israel and have them source/purchase high tech R&D and software development in Israel."¹¹ OI also proposed a program for "changing attitudes in the U.S." and to "strengthen the existing economic support system in the U.S." (Workplan items 7.0 and 7.2). The purpose, again, was to encourage U.S.-Israeli business ties through investment, trade and joint venturing.

During the review and approval process for OI's 1991-92 Workplan, A.I.D. asked that these items be removed from its Grant program, mainly for three reasons.¹² First, it encourages U.S. companies to source high tech products outside of the U.S., which could, theoretically, have a negative employment impact in an industry in which the U.S. would like to expand its share of the global market. Second, business promotion creates the appearance of OI operating as a foreign lobbyist on behalf of a special interest group. Finally, the relevance of this activity to the original Grant purpose was seen as tenuous.

OI and A.I.D. reached a mutual decision to have these activities accounted for and administered separately from OI's A.I.D. supported efforts under the Grant Agreement.

2. The Israel Software Study

In early summer 1992, OI commissioned The Chicago Group, Inc., a management consulting firm, to undertake a study entitled "A Strategy for Increasing Exports of Israeli Software and Software Services to the United States." As the study was being implemented, A.I.D. reportedly expressed verbal misgivings to the effect that the activity might work against U.S. stakes in the global market place for software development and related software technology. At the same time, it did approve the activity as part of the

¹¹ Annual Workplan, May 1991 - April 1992, Operation Independence, page 8.

¹² Mollidrem to Cohen letters dated June 10 and July 19, 1991.

1992-93 Workplan.¹³ OI's President responded to A.I.D.'s concerns by citing what he saw as the mutual benefit to be gained by U.S. and Israeli ventures in this area, and the Software Study proceeded.

By the time A.I.D. received the final draft report early in 1993, Congress had passed the Section 599 legislation discussed in Section IV.C above. A.I.D. counsel's interpretation of the legislation, to the effect that it violated at least the spirit of Section 599, probably constituted sufficient ground for insisting that attribution of the funding for the Study be shifted to non-A.I.D. sources.

In addition, AID/NE disagreed strongly with the study's recommendation to establish an Israeli Software Industry Strategy Board with broad authority involving the Government of Israel budget, policy and regulations concerning R &D funding to the software industry. A.I.D. felt that these recommendations ran counter to the spirit and intent of the Grant Agreement to promote free-market practices and private sector-led development strategies. It spelled out its concerns in a February 1993 letter to OI. A.I.D. and OI reached a mutual decision that the study, which cost approximately \$180,000, would be funded through non-A.I.D. sources.

3. OI's Planning and Project Management Style

It is our understanding from discussions with A.I.D. personnel that, prior to management of the Grant being transferred to AID/ENE, OI was allowed broad discretion with regard to the selection of activities and compliance with reporting requirements. The Team was also unable to find evidence of close A.I.D. supervision during that period of time. The nature of this early relationship may account to some extent for the subsequent friction between OI and A.I.D. described further below.

OI's activities are managed based on what its President describes as a "wave theory of change." That is, OI tackles the policy reform issues from several angles, but is unable to ascribe "which wave moves which grain of sand" in the "dune" that obstructs reforms in the private sector in Israel. That is, it undertakes several activities, but it can't measure which of them has an impact.

OI's President also sees flexibility as an important element in taking advantage of opportunities, planned or unplanned, that might have a favorable effect in promoting needed economic reforms in Israel. It is also clear from the Team's discussion with OI that they feel this flexibility was an intended feature of the Grant Agreement.

On several occasions, A.I.D. has communicated its appreciation of OI's "wave theory," but, at the same time, A.I.D. has made clear its wishes that the planning for and selection of subgrants include a better definition of objectives, purposes and goals to result from each effort. In recent letters to OI it has insisted on the establishment of "benchmarks" in

¹³ Amendment 2, Attachment 1, page 2, Item 4, August 19, 1992.

order to determine "if any progress is being made" ¹⁴; and on being able to "measure the impact of the Grant to OI." ¹⁵ There as yet appears to be no resolution to these differences of opinion as to how best to target Grant resources.

E. OI Planning, Budgeting and Reporting Procedures

As stated in Section IV.A above, OI is required to submit certain planning and reporting documents to A.I.D. under the terms of its Grant Agreement. This section discusses those documents, as well as other areas related to OI's administration of the Grant.

1. Annual Workplans

a. Timeliness of Submissions: According to the Grant Agreement, annual workplans are to be submitted by O.I. "at the start of each grant year," except for the first workplan which OI could submit within the first three months of the Grant Agreement (presumably by July 25, as the Grant was signed on April 25, 1990.) ¹⁶ In year 1, the workplan was prepared within the three month period allowed under the terms of the Grant. A first draft of the Year 2 Workplan was sent to A.I.D. on May 1, 1991. A draft of the third and most recent workplan was provided to A.I.D. on April 30, 1992, even though a specific request for its timely submission was made by A.I.D. to OI on March 10.

A.I.D. has requested that OI submit these workplans on a more timely basis to allow them sufficient time for review and discussion before new funding cycles begin. In spite of these requests, OI's workplans have consistently come after the official start-date of each funding year (April 25).

b. Content: The team spent an inordinate amount of time trying to understand OI workplans. The workplans often repeat proposed activities from the previous year's plan word for word, or with only slight variation in language, and activities are often repeated in more than one section, making it difficult to identify the activities being planned for funding during the coming year. Adding to this the fact that, as discussed in Section IV.B, many of the proposed activities never materialize, the entire effect is such that the workplans read less like planning documents than rambling accounts of activities underway or under consideration.

Although A.I.D. has requested OI on several occasions to improve its planning, there has not been any favorable outcome to date. Part of the difficulty is attributable to differing perceptions between A.I.D. and OI about how the project should be managed. OI sees the workplans as "living documents," that is, they identify broadly the areas in which they hope to work, but retain the flexibility necessary to act on opportunities as they arise.

¹⁴ Champagne to Cohen letter of 27 May 1992.

¹⁵ Sterne to Cohen letter of 30 September 1992.

¹⁶ Grant Agreement, Attachment 2, page 2.

A.I.D., on the other hand wants more specific targets and plans for achieving them.

Another aspect of the problem is the loose nature of the Grant Agreement, which identifies very broad areas of emphasis without identifying a process for reviewing and approving specific activities.

With due allowance for the broad language of the Grant Agreement, and the difference in operating philosophies, we find that the planning documents are of very poor quality.

2. Program Reports

Two types of programmatic reports are required under the Grant Agreement: a quarterly report and an annual report. The Grant Agreement provides clear guidance as to what these reports should contain. (See reference in Section IV.A. above.)

a. Annual Reports: According to the Grant Agreement, OI is supposed to submit "a report summarizing the major efforts and accomplishments of the previous twelve months, including the amount of financing obtained from non-USG sources."¹⁷ Annual Reporting has generally been incorporated into the Annual Workplan prepared by OI. The poor quality of this document, however, has made it difficult to assess OI's performance in relationship to the previous year's goals and objectives.

b. Quarterly Reports: Quarterly Reports have not been submitted in a regular fashion. Two were submitted in Year 1 after A.I.D. pointed out the issue to O.I., and two were submitted in Year 3, again after A.I.D. pointed out that they were required under the Grant Agreement. The reports themselves are adequate narratives of OI activities, but given the loose nature of the workplan, one cannot rely on the quarterly reports for purposes of monitoring project implementation.

3. Budgeting and Accounting

OI's finances have been audited twice by an independent accounting firm. Financial reports are submitted to A.I.D. on a regular basis according to the terms of the Grant Agreement.

However, since the beginning of the project, expenditures have been reported only on a line item basis, thereby making it impossible to delineate the progress of expenditures towards sub-grant activities.

In approving funding for Year 3 of the project, A.I.D. amended the Grant Agreement to require that OI report on its quarterly expenditures towards seven program areas: 1) reform of management schools, 2) capital markets, venture capital, taxation and trade, 3) reform of Israel's economic policy machinery, 4) increasing Israeli competitiveness, 5) Knesset economic education programs, 6) housing, and 7) miscellaneous small projects.

¹⁷ Original Grant Agreement, Attachment 2, Page 2, Section C.

OI was also to report on its administrative costs. ¹⁸

In spite of this request, OI did not respond with a programmatic breakdown of expenses until the end of calendar year 1992 after A.I.D. provided them with yet additional guidance and an explicit reporting format in September 1992. At that, the report which OI subsequently produced is confusing, and doesn't conform to the areas specified in Amendment 2. After receiving further comments from A.I.D., OI submitted another revision on February 8, 1993. (See Annex III.) However, the statement only reported on activities for which OI incurred expenses in CY 1992, and didn't identify approximately \$75,000 spent on Grant activities pre-dating the 1992 period, namely: Housing Newsletters in 1990 and 1991 (\$32,797); the 1990 Economic Forum (\$8,686); The Milton Friedman Program in 1990 (\$25,000 -- this is related to publication of educational materials, books, videos, etc. based on a February 1989 Seminar conducted by ICSEP at which Milton Friedman and others spoke at various locations throughout Israel); and various smaller projects completed in 1990, namely, Private Sector Economic Development and Jewish Immigration (\$4,275), and The Sharony/Singer Networking Project (\$3,786). See Annex III for a presentation of OI's expenditures to date based on an analysis of two expenditure statements provided to the Team.

OI has told the Team that they are awaiting further guidance from A.I.D. as to how to improve its programmatic reporting on expenditures. It is the Team's finding that sufficient guidance has already been given.

4. OI Salary Levels and Use of American Carriers

The Team was asked by A.I.D. to clarify OI's practice concerning two specific issues: (a) payment of salaries exceeding the maximum allowable under A.I.D. (equivalent to the "FS-1" category); and (b) use of American flight carriers under the Grant.

In a letter to OI dated July 19, 1991, A.I.D. pointed out that "prior approval of all salaries is required under this Grant. For wages and benefits paid by OI that exceed the FS-1 salary maximum, it is particularly important that documentation be maintained by OI to support such payments." ¹⁹ The Team asked the President of OI whether any staff member is compensated over the current FS-1 ceiling (\$86,299 for 1993). He responded that his was the only salary in excess of this amount, and that the difference between the FS-1 maximum and his compensation is paid for out of "non-A.I.D. funding."

The Team also asked whether OI made it a common practice of using American carriers, which is required under the terms of the A.I.D. Grant Agreement. He responded affirmatively, saying that they use only American carriers when travelling on business related to the A.I.D. Grant.

¹⁸ Amendment 2, Page 2 and Attachment A, August 19, 1992.

¹⁹ Mollidrem to Cohen letter dated July 19, 1991, page one, paragraph 4.

5. Sub-Grant Activity Review and Management Procedures

Sub-grant proposals are reviewed by a Grants Committee of the OI Board. Proposals are received from various researchers, organizations, etc. in Israel for consideration under OI funding.

OI does not have a formal solicitation process. It also does not have a standard procedure or format for sub-grant proposals. According to the President of OI, such a process is too lengthy for the size of operation they are managing. Instead, OI circulates grant proposals and memos to the Grants Committee for review. Proposals are reviewed and decisions taken on them at Grants Committee meet.ngs. If the activity is relatively small, reviews may take place in smaller meetings or by teleconference.

The Grant Agreement does not require that A.I.D. review or authorize specific sub-grant proposals of any amount.

F. **Israeli Impressions**

This section summarizes the impressions of Israelis as to the progress of reform in general, the progress of privatization, and OI's role in the reform process, as gleaned from Team interviews in Israel and Washington.

1. General

Virtually all of those interviewed felt that the climate for reform is improving, and that there is a growing awareness of the need for economic liberalization. The expansion of the policy dialogue process, both reflected in and advanced by the OI-sponsored conferences (especially the IDI, Amex and Business School conferences), was often cited in this regard. The business school managers mentioned the very heavy demand for places in their schools. Two of the three interviewed mentioned the enrollment in their courses, for the first time, of army officers and government officials.

There was less of a consensus on the actual progress of reform. All agreed that things were better since the 1985 reforms, but that recent progress has been slower than it should have been. The optimists pointed to steady progress in deregulation, the decline in influence of the Histadrut, the rapid growth of small business and venture capital firms, and the rapid GDP growth of the past two years. Pessimists tended to focus on the lack of progress in privatization (on which even the optimists agree), and to note that overall growth has been largely accounted for by the accompanying very rapid population increase. Productivity growth, they noted, remains low.

2. Privatization

While some progress has been made in the area of privatization, virtually all of the interviewees felt that the amount of progress has been disappointingly slow, especially as concerns divestiture of the larger government enterprises. Blame for the situation was

placed, variously, on "special interests," on "obstructive ministers," and on "the absence of anyone to sell to," the latter being a reference to the concentrations of economic power in Israel. In a variation on this theme, a few of the interviewees expressed the view that there can be no meaningful privatization absent an end to such concentration; that under prevailing circumstances, privatization would simply mean trading government control for monopoly control. Asked what was needed to break the logjam on privatization, most said the pressure of public opinion which eventually would wear down the existing obstacles to reform.

3. OI Performance and Impact

- a. OI is seen as especially good at getting good people involved in reform, in putting out the "right message," and in bringing business, government and academic people together, whether in conferences or through networking.
- b. On OI papers: OI-sponsored research papers are viewed by most as being generally relevant and of high quality, but the view as to their relevance is not unanimous, and there is some question as to their readership and influence. Several people with whom we talked didn't know of certain OI papers. There was mention of the need for more "practical" papers, for better distribution of papers, and for translation where necessary of useful papers. Finally, one well-connected businessman expressed serious doubt as to the value of research papers at all, especially papers produced by "outsiders." In his view, Israelis can and do produce such papers. The problem, he feels, is not knowing what to do, but doing it. He added that, rather than producing new papers, OI might more usefully focus on bringing existing research papers to the attention of policy makers. He mentioned translation of papers into Hebrew as one needed step in this process.
- c. On OI activities: When asked their view of OI's most important activity, business people tended to answer "networking." Also widely mentioned were the conferences which, like networking, involve bringing people together and achieving a fermentation of ideas.
- d. On impact: Interviewees could not (indeed, were seldom asked to) ascribe policy changes or new legislation directly to OI influence. However, several did mention immediate achievements, such as those in the tax, housing and water policy areas mentioned above, and several said that in advancing the dialogue process OI was doing what was most needed to achieve meaningful reform. If much of the OI-sponsored dialoguing has involved the elite talking to one another - i.e. "preaching to the converted" - no one was complaining about it.

V. CONCLUSIONS

A. Regarding OI Activities and Their Impact

1. OI activities have served to promote the policy dialogue process and awareness of the need for reform, especially among opinion leaders in Israel. Immediate successes have

been achieved, in terms of committees and task forces formed to address problems, and OI can claim credit for pending changes in tax legislation.

2. Both Howard Cohen and the OI/Israel staff are well-connected and good at networking. Networking seems an inherent part of an operation such as OI, whether or not it is labelled a discrete activity. We believe networking does promote the cause of economic reform in Israel, and see no problem with it as long as time devoted to it does not impinge on formally agreed activities.
3. The principal OI subgrantees - IDI, ICSEP and Steven Plaut - are first-rate: energetic, well focused and practically oriented.
4. We sense that no one, including OI, knows really what to do to bring about privatization of the large government-owned enterprises. While the most important economic reform issue, it is also the most heavily politicized and the most difficult to address.
5. The Software Study was, in our view, a mistake. Apart from legal issues - possible conflict with at least the spirit of Section 599 - the relation of the Study to the Grant Purpose seems highly tenuous. Given funding constraints and the numerous areas in need of reform, it seems to us surprising that OI would select for priority attention an industry that by all accounts has been doing well without it.
6. In the Team's view, since none of OI's activities can be construed as involving inducements to U.S.-based firms to relocate in Israel, OI is not vulnerable to legislative restrictions under Section 599 of the FY 1993 Foreign Appropriations Act.
7. Economic education has been directed almost entirely at opinion leaders. This is useful, but given general agreement that public opinion will be the deciding factor in moving the government on privatization, OI needs to reach a wider audience. It needs to extend its message beyond the circles of business leaders and academics, most of whom are already committed to reform.
8. There has been a decided problem with follow-up in certain areas of OI activity. We refer not to the numerous initiatives mentioned in Work Plans and subsequently aborted, but to activities seemingly intended but lagging in implementation, in particular, the development of case studies of Israeli companies and the activation of a Curriculum Advisory Committee, both of which originated in the Business Schools Conference of October 1991; and the finalization of a housing policy paper, first mentioned in the 1990-1991 Workplan .
9. With (8) in mind, the move (requested by A.I.D., agreed to by OI) to reduce the number of activities in order to provide for a better focus seems wise.
10. To a considerable extent, the tension between OI and AID/NE that has increasingly come to the fore can be ascribed to a clash of corporate cultures, reinforced by: (a) a

loosely worded Grant Agreement; (b) the loose nature of the supervision by AID/PPC in the first year of the Agreement; and (c) the poor planning and reporting procedures of OI.

Planning and reporting procedures are discussed in Section B below. As far as activities are concerned, the Team feels that OI can do a better job of defining and reporting on its activities. It was, in our view, unrealistic of A.I.D. to demand benchmarks and measurement of impact (per the Sterne to Cohen letters cited in Section IV.D) of an organization attempting a large number of varied initiatives, and with no tradition of performance measurement. Certainly so without training to impart the necessary measurement skills. However, it should not require special training to provide clearly stated purposes and results of subgrant activities.

B. Regarding OI Planning, Budgeting and Reporting

1. Because this is OI's first A.I.D. Grant, their lack of experience in producing adequate project activity plans may be understandable. However, the poor quality of the plans leads us to conclude that they are not given adequate attention or scrutiny prior to their submission to A.I.D. OI's inadequate response to repeated requests to improve these plans reinforces our conclusion on this point.

2. The timing of OI's submission of its annual workplans has not allowed A.I.D. sufficient time to critically review and comment on their content before a new funding cycle was to begin. Although the Grant Agreement states that the workplans are to be submitted "at the start of every grant year," OI should have provided these documents in advance, and in sufficient detail, as was requested by A.I.D. on a couple of occasions. This might have helped to avoid friction between OI and A.I.D. by allowing more time for discussion and an exchange of ideas concerning the program's content and direction.

3. OI has been responsive to A.I.D.'s recent requests for a programmatic breakdown of its expenditures, and is taking steps toward improving its budgeting and reporting on sub-grant expenditures. However, given the conflicting information provided to the team, it does not appear that an adequate accounting procedure -- one which tracks all expenses according to area of activity -- is yet in place.

4. OI has been negligent in following the reporting procedures outlined in the Grant Agreement, succumbing only when A.I.D. has made specific reference to this shortfall. Our conclusion must be that this aspect of its management responsibility has not been given high priority within OI.

C. Summary

The Team feels that OI activities have furthered the Grant goals and purposes. Progress in economic reform has taken place under extremely difficult circumstances (the Gulf War, the precarious security situation, massive immigration, the change in governments), and we have no doubt that OI has contributed to it. That said, OI's own effectiveness has left something to be desired. OI and its subgrantees have been most effective at informal

networking and the management of conferences and seminars, all of which has served to promote the policy dialogue process. Although some of the research produced has been of high quality, other research efforts have run into difficulty and delays in production, and little of it has been disseminated to the general public. Viewed from the perspective of areas of activity, the conclusion is much the same: good progress in a few areas, such as the business schools and tax reform; little progress in privatization and changing economic perceptions; and almost everywhere, less progress than what might have been.

The factors mainly responsible for OI's failure to achieve greater effectiveness have been, in our view, the diffusion of effort, and the poor performance with respect to reporting and budgeting. Diffusion of effort, reflected in many more activities proposed than undertaken, has undoubtedly resulted in an inadequate focus, and a failure to follow-up, in areas of key importance. Poor reporting, especially the confusing workplans, have made it difficult for A.I.D. to interact sensibly with OI in the planning process, leading in turn to misunderstandings and undertakings that conflict either with A.I.D. policy or with A.I.D.'s view of Grant goals and purposes.

VI. RECOMMENDATIONS

A. Concerning OI Activities and Areas of Grant Emphasis

Privatization: OI should give high priority to moving ahead on the issue of privatization in Israel, and include in this effort the question of how to deal with cartelization. Papers on privatization should be completed and circulated to participants in advance of the proposed conferences. Other efforts could include sponsoring public debates about the papers, and other public forums where the need for privatization can be brought to the attention of the public in order to build a stronger constituency for reform.

Advancing Economic Perceptions: We have two sets of recommendations for furthering this goal of the project:

- OI should consider suggesting to A.I.D. the design and carrying out of a nation-wide survey on public attitudes toward economic reform. The purpose would be to determine the extent and awareness of the need for reform, and to identify social/economic groups most in need of targeting to help support those reforms.
- OI should undertake to expand the publication and distribution of existing works of other Israeli scholars and researchers who are active in the policy reform dialogue. This would also include sponsorship of seminars, conferences and public forums for discussing these works.

B. Concerning Grant Management

Sub-Grant Proposal Preparation and Review: OI should standardize a format for preparation of proposals to be funded under the Grant Agreement. The format should be simple, and contain basic information concerning:

- Background and rationale for the proposal;
- Purpose of the sub-grant;
- Description and tentative schedule of proposed activities; and
- An itemized budget of expenses.

In addition to OI's internal review process, these proposals should be circulated to A.I.D. after their approval by the OI Grants Committee so that A.I.D. can review and comment on them.

OI Management of the Grant Agreement: OI should designate a staff person with the requisite skills and experience to serve as Project Administrator for the A.I.D. Grant Agreement. This person should work under the leadership of the President of O.I. with day-to-day responsibility for management of the Grant. Responsibilities would include:

- Timely preparation of all programmatic reports, including budget reviews, to be submitted to A.I.D. and the Board of OI;
- Regular contact with sub-grantees to monitor the implementation of Grant-funded activities;
- Timely preparation of annual workplans; and
- Serving as second-in-command in relationship to communications with A.I.D. concerning the Grant Agreement.

It is the Team's opinion that the number of positions currently supported under the Grant Agreement is sufficient for management of a Grant of this size. This recommendation, therefore, should be implemented by using existing resources, not by creating an additional position.

Annex I: List of Persons Contacted

Israel:

Academic Community:

Niv Ahituv, Ph.D.
Dean, Faculty of Management
The Leon Recanati Graduate School of Business
Administration
Tel Aviv University

Dr. Moshe Ben Horin
Director, School of Business Administration
Hebrew University
Jerusalem

Shlomo I. Lampert, Ph.D.
Director
Bar-Ilan University
School of Business Administration

Steven E. Plaut, Ph.D.
Financial and Banking Economist, Consultant
University of Haifa, Israel
University of California, Berkeley

Professors Lavouri and Rabbani
Hebrew University

Business Community:

Jonathan Kolber
Chairman
Claridge-Israel, Ltd.
Tel Aviv

Yitzhak Moda'i
Former Minister of Finance

Naftali Trenter Moser
Administrative Director
Israel-U.S. Binational Industrial Research &
Development Foundation

Yair Seroussi
Senior Vice President
Marlaz
Shore Zone Const. Property & Holding Co.

Dr. Emmanuel Sharon
Chairman of the Board
Bank Haopolim

Prof. Eytan Sheshinski
Chairman
Koor Industries Ltd.

Dr. Joseph Vardi
Chairman of the Board
Cubital, Ltd.

Former Government Official

Government and Trade Promotion:

Nina Admoni
Executive Director
Israel-America Chamber of Commerce

Dr. Chaim Fialkoff
Director, Policy and Development
Ministry of Construction and Housing

David Litvak
Director General
Israel Export Institute

Arie Mientkavich
Chairman
Israel Securities Authority

Dr. Shimon Weiss
General Counsel
Israel Securities Authority

OI Subgrantees:

Arye Z. Carmon, Ph.D.
President
the Israel Democracy Institute

Dr. Daniel Doron
Director
Israeli Center for Social and Economic Progress
Jerusalem

Steven E. Plaut, Ph.D.
Financial and Banking Economist, Consultant
University of Haifa, Israel
University of California, Berkeley

Annex I, Continued

U.S. Embassy:

Judy Garber
Economic Counselor
U.S. Embassy
Tel Aviv

Allan Parker
Office of Economic and Commercial Affairs
U.S. Embassy
Tel Aviv

Operation Independence:

Amira Dotan
Brig. General (Res.)
Director General
Operation Independence
Tel Aviv

Ron Waldman
Director of Networking
Operation Independence

Washington Area:

John Champagne
AID/NE/ME

Robert Dubinsky
International City Managers Association
(Formerly A.I.D. Office of Housing)
Washington, D.C.

Roy Grohs
AID/NE/DP

Robert W. Kelly
Deputy Assistant Administrator
Near East Bureau
A.I.D.

Donald Lubick
Attorney
1401 New York Avenue
Washington, D.C.

Richard McCormack
Former Undersecretary for Economic Affairs
Alexandria, VA

Kevin O'Donnell
AID/GC/NE

Bert Porter
AID/NE/ME

Marx Sterne
AID/NE/ME

Jacob Walles
Office of Israel and Arab-Israeli Affairs
U.S. Department of State

New York:

Howard Cohen
President
Operation Independence

Sandra Weinstein
Financial Manager
Operation Independence

Annex II: OI Board of Directors and Israel Business Advisory Board

US Board of Directors:

Alan R. Batkin, V. Chairman
Kissinger Associates, Inc.

Paul Berger, Esq.
Arnold & Porter, Attorneys at Law
Co-Chairman, OI

Paul Borman
Borman's Inc.

Ephraim M. Brecher
Taxes and Tax Counsel
AT & T

Charles R. Bronfman
Claridge Investments Inc.

Shoshana Cardin
Member of OI Executive Committee

Howard A. Cohen, President
Operation Independence

Lester Crown
Henry Crown and Company

Simcha Dinitz
The Jewish Agency for Israel

Irwin Field
Liberty Vegetable Oil Co.

Stanley Fischer
MIT

Max Fisher
Founding Chairman of OI

Dr. Jacob Goldman
Softstrip, Inc.

Mr. Yoine Goldstein
Goldstein, Flanz & Fishman

Peter Golick, Chairman
Grey Canada

Charles Goodman
Henry Crown & Company

Alex Grass
Rite-Aid Corporation

Stephen Greenberg
Helling, Lindeman

Stephen Greenberg, Esq.
Stern & Greenberg

Sylvia Hassenfeld
JDC

David Hermelin
Federal Enterprises Inc.

Irwin Hochberg, CPA
Bloom Hochberg & Co, P.C.

Eli Hurvitz, President
Teva Pharmaceutical Industries Ltd.

Richard Jacob, Chairman
Jacob, Dourlet & Associates

Mendel Kaplan
The Jewish Agency for Israel

Harvey Krueger, Sr. Managing Director
Lehman Bros.

Marvin Lender
M & M Investment

Norman Lipoff
Greenberg, Traurig, Hoffman, Lipoff, Rosen &
Quentel P.A.

Morton Mandel, Chairman
Premier Industrial Corp.

Gerald Seelig
Chairman, OI Grants Committee

Avraham Shochat
Minister of Finance
Government of Israel

Lord (Marcus) Sieff of Brimpton
Marks & Spencer, Ltd.

Peter J. Solomon
Peter J. Solomon, Co.

Annex II, Continued

| | |
|--|--|
| Leonard Strelitz, President Haynes Furniture | Emanuel Gil President Elbit Ltd. |
| Henry Taub, Honorary Chairman Automatic Data Processing | Micha Hertz Managing Director Kibutz Industries Association |
| Martin Trust, President Mast Industries | Jonathan Kolber President and CEO Claridge Israel, Inc. |
| Edward Weinstein, Sr. Partner Deloitte and Touche | David Kolitz Managing Editor ELUL Technologies, Ltd. |
| Ambassador Milton A. Wolf Landmark Centre | Meir Laizer Managing Director of Clal Industry Clal Ltd. |
| Alan Wurtzel | Dov Lautman President Manufacturer's Association |
| <u>Business Leaders Advisory Board:</u> | Haim Rosov Managing Director Gibor Sabrina Industries |
| <u>From OI:</u> | Yair Shamir Managing Director Soitex Corp. |
| Harvey M. Krueger Howard A. Cohen Amira Dotan Eli Hurvitz | Yechiel Spector Director Spectronix |
| <u>Israel Chairman:</u> | Dov Tadmor Director Discount Investment Corp. |
| Eli Hurvitz | Yossi Vardi President International Technologies (Holdings) Ltd. |
| <u>Board Members:</u> | Moshe Viedman Managing Director Revlon Israel |
| Yoram Blizovsky Managing Director The Manufacturers' Association of Israel | David Wainshal Managing Director Clal (Israel) Ltd. |
| David Boas Chairman of the Board Yakhin-Hakal | |
| Aaron Dovrat President Dovarat Shrem & Co., S.A. | |
| Miki Federman Managing Director Israel Hotel Association | |
| Uzia Galil Chairman and CEO Elron Electronics Industries, Ltd. | |

Annex II, Continued

Yehuda Zisapel
Director
RAD Data Communications Ltd.

Yoaram Ziv
Managing Director
Tmora

Annex III: Expenditures to Date for OI Subgrant Activities

Source: Operation Independence Budget Report for Period Jan 1, 1992 to Dec 31 1992. Submitted to A.I.D. on February 8, 1993.

| Activity | Total LOP Funding | Total Expenditures to Date (as of 12/31/92) 1/ |
|---|-------------------|--|
| Reform of Mgt Schools | 215,000 | 108,358 |
| Israel Management Center | 5,000 | 6,267 |
| Financial Intermediation | 22,000 | 15,842 |
| Tax Advisory Commission | 40,000 | 3,942 |
| IDI (Conference on Budget Reform and Reform of Capital Markets) | 125,000 | 123,919 |
| Privatization Paper | 160,900 | 27,855 |
| Software Study | 210,000 | 184,008 |
| CAON | 8,000 | 12,433 |
| Deregulation | 10,000 | 583 |
| Tourist Industry Study | 5,000 | 530 |
| Agriculture Paper & Conf | 18,000 | 23,515 |
| Israel Forum | 3,000 | 2,918 |
| Reform of Export Institute | 30,000 | 28,966 |
| Knesset Seminars | 180,000 | 162,642 |
| Housing Policy | 24,000 | 29,557 |
| AMEX Conference | 20,000 | 7,171 |
| Investment In Israel Survey | 25,000 | 3,432 |
| Housing Newsletters 2/ | 32,797 4/ | 32,797 |
| Economic Forum 2/ | 8,686 4/ | 8,686 |
| Milton Friedman Forum 2/ | 25,000 4/ | 25,000 |
| Various Smaller Projects 2/ 3/ | 8,061 4/ | 8,061 |
| Subtotal, Subgrant Activities | 1,175,444 | 816,482 |
| Administration | 1,145,102 4/ | 1,145,102 |
| Total | 2,320,546 | 1,961,584 |

Notes: 1/ Sub-grant Activity Expenditures include relevant time charges of OI staff assigned sub-grant program management responsibilities. Other staff charges appear under "Administration."

2/ These items were not included in the February 8 report to A.I.D. According to OI, in that report they itemized only activities for which they incurred expenses in 1992. The Team became aware of these other expenses upon reviewing a separate budget report prepared by OI entitled "Analysis of Projects and Income." The February 8 report submitted to A.I.D., therefore, under-reports total project-to-date expenditures by \$74,544.

3/ Included here are two activities completed in 1990: Private Sector Economic Development and Jewish Immigration (\$4,275); and, Sharony/Singer Networking Project (\$3,786).

4/ Actual expenditures were used here, since no LOP estimates were available.

Annex IV: Status of Planned OI Activities
(As Listed in OI Workplans)

| Title or Description of Planned Activity | Year(s) Planned | Status |
|--|---------------------------|--|
| 1.1 Reform of Business Management Schools | 1, 2, 3 | <u>Completed:</u> <ul style="list-style-type: none"> ■ October 91 Conference ■ Establishment of Curriculum Advisory Committee <u>Pending:</u> <ul style="list-style-type: none"> ■ Case studies (see 6.3) ■ Publication of Conference proceedings (planned to happen in summer 93, according to OI) ■ Activation of Curriculum Advisory Committee (planned to take place once proceedings are published, according to OI) |
| 1.2 a) Establish Relationships with the Israel Management Center and Other Pro-Market Force Organizations b) Establish US Chapter of Israel Management Center (as part of "pro-market force") | a) 1, 2, 3 b) 2, 3 | <u>Completed:</u> <ul style="list-style-type: none"> ■ IMC/NY Chapter inaugurated in February 1992 |
| 1.3 Development of Network of Israelis Living in the US (related to high-tech industries: software, food products, jewelry) | 1, 2 | <u>Completed:</u> <ul style="list-style-type: none"> ■ Activity implemented, but shifted to non-A.I.D. funding at A.I.D.'s request |

Annex IV, Continued

| Title or Description of Planned Activity | Year(s) Planned | Status |
|---|------------------|--|
| 2.0 Housing | 1, 2, 3 | <p><u>Completed:</u></p> <ul style="list-style-type: none"> ■ Fogel Committee Recommendations ■ Policy dinner to discuss the Fogel Report (March 91) ■ Emergency meeting to discuss barriers to US firms building in Israel (Deloitte & Touch venue -- April 91) ■ Draft housing policy paper, "Government Housing Policy Position," Shattner & Geyer, Dec. 1991 ■ <u>Newsletters:</u> This comprised intermittent letters from OI's President between April 1990 and April 1991 aimed principally at US firms to promote their entry into the housing construction business in Israel. In the Team's opinion, these cannot properly be called "Newsletters." <p><u>Pending:</u></p> <ul style="list-style-type: none"> ■ Publication of housing policy paper (Shattner & Geyer) ■ Housing Policy Conference -- planned for June 1993 <p><u>Comment:</u> Housing efforts stymied by present GOI policies and positions. OI efforts turning to the immediately practical: building codes, development of a secondary mortgage market, environmental matters.</p> |
| 3.1 a) Capital Formation Conference (AMEX) b) Publication of AMEX Conference Proceedings | a) 1 b) 2 | <p><u>Completed:</u></p> <ul style="list-style-type: none"> ■ "Reaching the World From Israel" -- AMEX Conference, Nov 1990 <p><u>Dropped:</u></p> <ul style="list-style-type: none"> ■ Publication of proceedings |

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Annex IV, Continued

| Title or Description of Planned Activity | Year(s) Planned | Status |
|---|--|--|
| 3.2 Advisory Committee on Reforming the Taxation of Corporations in Israel | 1, 2, 3 | <p><u>Completed:</u></p> <ul style="list-style-type: none"> ■ Translation of "Report of a Committee Appointed by the Commissioner of Internal Revenue of the State of Israel" November 1991 ■ Final Report of the OI Tax Advisory Committee, Feb 1993 ■ Tax Advisory Committee Meeting, Tel Aviv, Feb 1993 <p><u>Comments:</u> Tax Advisory Committee Meeting has led to recommendations for new tax legislation.</p> |
| 3.3 Investment in Israel Survey | 1, 2 | <p><u>Dropped:</u></p> <ul style="list-style-type: none"> ■ OI Grants Committee advised dropping activity in Year 3. |
| <p>3.4 Privatization:</p> <p>a) Support of a Non-Governmental Blue Ribbon Commission on Deregulation, with support of ICSEP (to promote privatization)</p> <p>b) Conference in Israel to Review Past and Current Issues</p> <p>c) Seminar in the US for senior members of the Ministry of Finance responsible for the privatization program</p> <p>d) Privatization of Health Care Study and Conference</p> | <p>a) 2</p> <p>b) 1, 2, 3</p> <p>c) 2</p> <p>d) 1, 2</p> | <p><u>Pending:</u></p> <ul style="list-style-type: none"> ■ All listed activities. OI Grants Committee is currently carrying out a "comprehensive review" of the privatization area, according to OI. |
| 3.5 Banking Study and Conference | 1, 2 | <p><u>Dropped:</u></p> <ul style="list-style-type: none"> ■ Dropped from OI's agenda in Year 3. According to OI, this issue is being considered by the Grants Committee as a major part of its "privatization analysis." |

Annex IV, Continued

| Title or Description of Planned Activity | Year(s) Planned | Status |
|--|-----------------|---|
| 3.6 Small Business/Entrepreneurship | 1, 2, 3 | <u>Pending:</u> ■ Year 3 Workplan refers to OI's affiliation with the Charles R. Bronfman Foundation, but there have apparently been no specific OI initiatives in this field. According to OI, they have been consistent advocates of reforms and initiatives to strengthen the small business sector in Israel, thereby giving A.I.D. a "leveraging effect" through its support to OI. Yet, no discernable program in this area has been funded by OI. |
| 3.7 Deregulation: Formation of a Blue-Ribbon Advisory Committee in collaboration with ICSEP | 3 | <u>Pending:</u> ■ Formal proposal by ICSEP to establish the Committee |
| 3.8 Conference on Israel's Political-Economic Complex and the Politics of the Budgetary Process | 3 | <u>Completed:</u> ■ IDI Report and Conference, Nov 1992 |
| 3.9 Analysis of Financial Intermediation in Israel | 3 | <u>Completed:</u> ■ Draft Plaut Study submitted to OI Dec 1992 <u>Pending:</u> ■ Publication of report |
| 4.1 Business Leaders Advisory Board | 3 | <u>Completed:</u> ■ Board established in Israel |
| 4.2 Knesset Economic Seminars | 1, 2 | <u>Completed:</u> ■ Seminars are being implemented by ICSEP as part of their regular program. |
| 4.3 Educational Materials (Publication of ICSEP February 1989 Conference Materials -- Milton Friedman, etc.) | 1, 2 | <u>Completed:</u> ■ Excerpts of Milton Friedman's speeches in Israel were printed and distributed in Israel. <u>Delayed/Presumably Dropped:</u> ■ The Activity Heading appears in the Year 3 Workplan, but without any narrative. |

Annex IV, Continued

| Title or Description of Planned Activity | Year(s) Planned | Status |
|---|-------------------------|--|
| 5.0 a) Comparative Advantage Study b) Strategic Planning Assistance to the Israeli Export Institute c) Various sector studies, including software | a) 1 b) 2 c) 2, 3 | <u>Completed:</u> ■ Software Study was completed with non-A.I.D. funding. ■ "Capital Markets Reform in Israel" Paper by IDI, July 92 <u>Pending:</u> ■ Comparative Advantage of Nations (CAON) Study |
| 5.1 Water Allocation Research | 1, 2, 3 | <u>Completed:</u> ■ Study of Barriers to Increasing Ag Exports in Light of Water Policy Changes and EEC Ag Policy, by Stephen Plaut. |
| 6.1 Translation of Neubach, Razin and Sadka book on economics | 1 | <u>Dropped:</u> ■ Effort put "on hold" in Year 2, and eventually dropped by Grants Committee because, according to OI, they decided it would not contribute to meeting OI/A.I.D. objectives because it was "dated." |
| 6.3 Publication of Case Studies for Business Management Schools | 1, 2, 3 | <u>Pending:</u> ■ At the time of the Team's visit to Israel, the business management schools were awaiting follow-up by OI to commission the studies. |
| 7.2 Strengthening the Economic Support System in the US | 1 | <u>Completed:</u> ■ This effort is being implemented with non-A.I.D. funds, at A.I.D.'s request. |

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