

PDCBK 870 *Project*

MEMORANDUM OF DISTRIBUTION

I. OBLIGATION: This is a partial final award under P/O No. M/1616 (M/1616). If final obligation, OP has no objections to the dereferencing of any remaining funds.

II. DOCUMENT IDENTIFICATION/INFORMATION:

- a) Document No.: POC-0095-6-00-0026-01
- b) Incremental funding action: YES NO
- c) Buy-in: YES NO
- d) Document has been transmitted to recipient/grantee for signature. Date transmitted: _____
- e) Method of financing (check one only)
 - Letter of Credit
 - Periodic Advance
 - Direct Reimbursement

III. FM DISTRIBUTION

- One original signed copy to FM for recording obligation.
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mailed 8/15

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- _____ - Technical Office: ENE/MENA Attn: Marx Sterne
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- _____ - Mission: _____
(specify)
- Program Office: ANE/PD/PCS, Judy Britt, Rm 3320A NS
- _____ - APRE/PD, Carrie [redacted]

V. OP DISTRIBUTION:

- _____ - OP/PS/SUP copy of all documents including final assistance document signed by all parties.

Copy of this form goes with each copy of the document distributed and one copy remains in the official file.

Contracting Officer: [Signature] Date: 8/14/91

*S. Len Hai
5/025*

Agency for International Development
Washington, D.C. 20523

Mr. Howard A. Cohen
Operation Independence
Suite 1921
350 Fifth Avenue
New York, New York 10118

APR 25 1991

Subject: Grant No. PDC-0095-G-00-0026-00
Amendment No. 1

Dear Mr. Cohen:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "AID" or "Grantor") hereby amends the subject Grant to Operation Independence (hereinafter referred to as "OI" or "Grantee").

The purpose of this amendment is to: (1) provide incremental funding in the amount of \$700,000; and (2) add the Annual Work Plan for Year 2.

Total obligated funds for the grant are increased to \$1,200,000. Accordingly, the cover letter, schedule and program description are modified as follows:

COVER LETTER

1. In the first paragraph, delete the obligated sum of "\$500,000" and insert in lieu thereof "\$1,200,000."
2. In the fourth paragraph, delete the obligated sum of "\$500,000" and insert in lieu thereof "\$1,200,000."

SCHEDULE

1. Under Article A, Purpose of Grant, in addition to the text that already exists add the following:

In addition to the Program Description set forth in Attachment 2 of the Original Grant, add the Year 2 Annual Work Plan contained in Attachment 1 to this modification.

2. Under Article B, Period of Performance, Part 2, delete the text in its entirety and substitute in lieu thereof the following:

Funds obligated hereunder are authorized for program expenditures beginning with the effective date of this letter and are anticipated to be sufficient through the second year, as shown in the Grant Budget below.

3. Under Article C, Amount of Grant and Payment, Part 2, delete the obligated amount of "\$500,000 and insert in lieu thereof "\$1,200,000.

4. On Page 7, Five Year Annual Budget Plans:

1) Replace the proposed Year 1 budget with the actual budget for Year 1 as follows:

Year 1

Salaries and Fringe benefits	\$288,109
Rent	\$25,138
Travel, Transportation and Per diem	\$41,904
Supplies, Communications	\$22,677
Meetings	\$4,401
Professional Fees	\$10,818
ADP Support	\$9,300
Subgrants and Educational Programs	<u>\$202,615</u>
TOTAL COST	\$604,962

A.I.D. Funding Share	\$500,000
Funding from other sources	\$104,962

The Year 1 budget exceeded the original amount of \$599,600 that Operation Independence proposed for that period. The additional \$5,362 was covered by non A.I.D. sources.

2) Replace the proposed Year 2 budget with the revised proposal for Year 2 expenditures as follows:

Year 2

Salaries and Fringe benefits	\$325,296
Rent	\$27,300
Travel, Transportation and Per diem	\$43,200
Communications	\$22,200
Meetings	\$8,400
Professional Fees	\$12,000
Supplies	\$7,800
Subgrants and Educational Programs	<u>\$556,884</u>
TOTAL COST	\$1,003,080

A.I.D. Funding Share	\$700,000
Funding from other sources	\$303,080

All other terms and conditions outlined on Page 7 of the Original Grant remain unchanged and in full force and effect.

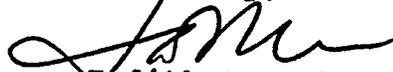
PROGRAM DESCRIPTION

1. A detailed Year 2 Annual Work Plan is attached as an addition to the Program Description set forth in the Original Grant with Operation Independence (See Attachment 1).

Except as expressly amended herein, all other terms and conditions of this Grant remain unchanged and in full force and effect.

Please acknowledge acceptance of this Grant Amendment by signing all copies of this Cover Letter, retaining one copy for your files, and returning the remaining copies to the undersigned.

Sincerely,



Judith D. Johnson
Grant Officer
Overseas Division-ANE
Office of Procurement

Attachments:

1. Program Description

Acknowledged

Operation Independence:

By



Name/Title Howard A. Cohen, President

Date 13 August 1991

Fiscal Data (Amendment #1)

PIO/T No.:	398-0373-3-1633200	398-0373-3-1633205
Appropriation No.:	72-1111021.6	72-1111021.5
Budget Plan Code:	QDSA-91-33398-KG12	QDEA-91-33398-KG12
Allotment No.:	145-63-398-00-69-11	145-63-398-00-69-11
Duns No.:	161131560	
IRS Employer ID:	133533228	
This Amendment:	\$700,000	
Total Amount Obligated:	\$1,200,000	
Technical Office:	ANE/MENA, Marx Sterne	

achieving the fundamental goals of the original grant -- development of a pro-market forces community and economic reform in the State of Israel.

It is the intention of OI to follow the program thrust set forth in our contract, but to do so in an opportunistic way. For instance, we will not let an opportunity pass to participate in policy develop or programs which may change attitudes of Americans toward investment in Israel's private sector, increase trade with privately owned Israeli companies, and increase the understanding of Israelis of the need to place greater reliance on pro-market forces in the development of their economy.

Within such a defined framework, OI has set forth a number of programs it is already undertaking or plans to undertake during the coming Grant Year ["GY"], April 25, 1991-May 30, 1992. Updates and changes will be indicated in the quarterly progress reports.

1.0 ISRAEL'S HUMAN CAPITAL

The men and women of Israel constitute Israel's most important comparative advantage in the international marketplace.

The influx of Soviet immigrants constitutes a substantial increment to the already existing resource, however, the influx of an estimated 200,000 to 250,000+ immigrants in calendar 1990, and the projected one million during the next 4-5 years places a uniquely severe strain on the country's capacity to develop its economy and utilize further the increasing human resource pool and even to maintain the existing pool at a world class standard.

ATTACHMENT I

June 19, 1991

ANNUAL WORK PLAN
May 1991-April 1992

INTRODUCTION:

This Annual Work Plan for May 1991-April 1992 has been prepared for the Agency for International Development ["AID"] in accord with the initial grant agreement with Operation Independence signed on April 25, 1990.

This Annual Work Plan should be evaluated in light of the unstable environment in which Operation Independence ["OI"] conducts its activities, namely the complex internal political and social environment of the State of Israel, and most importantly, the difficult international situation which permeates every aspect of Israeli political and economic life. The environment is complicated further at this point in time by the somewhat involved relationships between the Government of Israel ["GOI"] and the Government of the United States of America ["GUSA"], the actual and potential instability existing in the Persian Gulf area and the continuing large number of Jews entering Israel from the Soviet Union during the five years of this grant.

The situation can be expected to change so rapidly and so frequently that we have prepared a plan which can best be described as a "Living Plan." Changes in specifics, especially in programs, may change more rapidly and more frequently than other undertakings by AID grantees working on economic development in foreign countries. However, all program efforts are directed toward

1.1 DEVELOPMENT OF A MANAGEMENT ETHOS IN ISRAEL'S NON-MILITARY ORGANIZATIONS

OI perceives the lack of a management ethic to be a serious impediment to utilization of Israel's fantastic human resources already existing in Israel and coming to Israel now and over the next decade.

1.11 STUDY OF ISRAEL'S BUSINESS SCHOOLS

OI is conducting a four (4) phase program in conjunction with the two principal Israeli schools of management, Tel Aviv University and Hebrew University. The program, which began in mid-1990, will continue through this grant year.

Phase I - A comprehensive critical review of the curriculum of these schools, the incentives for development and teaching of courses designed to promote understanding and development of Israel's unique situation, and other related issues. This research has resulted in a preliminary draft report which is being reviewed by a group of Israelis and Americans. It is expected to be completed by the end of June 1991. The discernible product is a draft report for review.

Phase II - A conference on the Future of the Israeli Management Schools. This two day conference would take place in Jerusalem and Tel Aviv on the campuses of the two universities. We expect an OI expenditure of about \$45,000 for the conference. The Conference is now scheduled for October 16-17. Mr. Charles R. Bronfman of Seagrams, a member of OI's Board of Directors, will

deliver the opening address. The discernible product is the Conference attended by the target audience. The audience is faculty, students, administrators, and alumni of the management schools, administrators of the universities, GOI education officials, representatives of the Ministries of Finance and Trade & Industry, executives of the Israeli business establishment, entrepreneurs, representatives of the Israel Export Institute, and representation from the American business community and the American management education community.

Chief Executive and Chief Operating Officers from major American and Israeli firms will attend. Since part of the effort is to increase relationships between the management schools and top level management. This has traditionally been considered a strength of the top American management schools.

Phase III - Printing of the study before the conference and [later] the conference proceedings and recommendations developed at the conference.

Phase IV - Development of an integrated program to improve the schools. The program will involve:

- 1) The Israeli Management Schools,
- 2) The Israeli Business Community,
- 3) The American Jewish university support organization already functioning in the United States, such as Friends of the Hebrew University of Jerusalem, Friends of Tel Aviv University, Friends of the Technion and Friends of Bar Ilan University, and

- 4) The American and EEC business communities, especially those countries with facilities in Israel.

Additional program components will evolve during the Conference and will include specific projects to improve the Israeli Schools of Management. Overtime, and change in the education establishment takes considerable time, the real outcome expected is change in the Israeli schools of management, their curriculum, and their relationships with businesses in Israel and around the world.

This is a major undertaking for OI. It is anticipated that an OI Board meeting will be held in Israel coincident to the Conference. The attendance of well known American business and professional leaders will highlight the importance of improving the schools and Israel's managerial capability overtime.

Preliminary research and discussions with deans, faculty, alumni and business and government leaders indicate the following areas will be explored.

*Reform of the curriculum to meet Israel's unique trading status in the world community as the only country with free trade agreements with the United States and the European Economic Community;

*Support of faculty to develop research projects of and for the Israeli economy;

*Development of teaching materials featuring Israeli companies, U.S. and EEC companies doing business in Israel, and government/business relationships (see discussion at 6.3);

*Development of programs to meet the needs of Israel's growing

entrepreneurial/small business sector, including a review of what first-class management schools are doing in the United States; and

*A review of how to improve on-going relationships with management of Israeli's largest and best companies.

1.2 ESTABLISH RELATIONSHIPS WITH THE ISRAEL MANAGEMENT CENTER AND OTHER PRO-MARKET FORCES ORGANIZATIONS

The Israel Management Center (IMC) is considered by many to be among the most prestigious business organizations in Israel. Its membership is reported to include the Chief Executive Officers, Chief Operating Officers, and directors of Israel's most significant private sector companies and the top management of Government owned companies.

OI has established relationships with this organization, especially its Managing Director, Mr. Haim Kaminitz, to develop a pro-private enterprise constituency in Israel. This has been targeted as an important Israeli network for OI.

Similar undertakings will go forward with other organizations. OI already has good relationships with the Manufacturer's Association and the Israeli Chambers of Commerce.

OI has agreed to establish a U.S. chapter of the IMC in 1991, and plans to spend approximately \$5,000 to do that.

1) The budget includes the cost of collecting names, addresses and phone numbers of Israeli managers in New York City, Northern New Jersey, and Southern Connecticut; mailings; development of one or more programs and related printed materials; and rental of a facility appropriate for the initial meetings.

2) The discernible outcome are the meetings and establishment of an ongoing organization (Greater New York chapter of the IMC.) The longer term outcome is involvement of this organization and its members as a pro-market forces constituency in Israel and of Israelis resident in the United States. We believe cross fertilization between Israelis in Israel and those who are or have been in the United States promotes the evolution of an increasingly market economy in Israel.

3) Among the policy issues which need to be developed are:

* If Israel must rapidly develop an export-led growth strategy, what existing networks can establish necessary linkages to the U.S. and EEC markets? What new networks are needed?

*Can Israeli high tech firms rapidly increase exports if their alleged marketing deficiencies are overcome by joint ventures or other cooperative relationships with U.S., EEC, or Japanese firms? Are there policy changes which are needed?

*What is the impact of the Arab Boycott on the development of such mutually beneficial arrangements?

*Can successful Israeli entrepreneurs in the United States serve as mentors or connectors to the development of similar professionals in Israel? Can the tax laws encourage such in-service educational programs?

*With the current development of several entrepreneurial incubators in Israel, how do we provide a trans-

cultural managerial class to move entrepreneurial business further along on the growth curve? Is current tax policy adequate?

The very nature of entrepreneurship makes definition of clear cause and effect relationships difficult, if not impossible, to ascertain. Discussions with Ed Shills, Professor of Entrepreneurship at Wharton, and Erik K. Winslow, Chairman of the Management Science Department at George Washington University's School of Business and Public Sector Management, have encouraged OI to include sessions on this subject in the Management School Conference to be held in Israel this October. See discussion at 1.11 and 3.6.

1.3 DEVELOPMENT OF NETWORK OF ISRAELI'S LIVING IN THE UNITED STATES

It is estimated that almost 500,000 Israelis live in the U.S. and many of them are achieving considerable success in American companies and/or are involved in high tech industries.

OI has worked closely with Nati Sharony, Head of the Economic Mission to North America, and Meir Buber, Commissioner of the Israel Trade Center to establish programs for networking these Israelis, 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. We estimate that \$12,000 is necessary to develop a preliminary plan/effort for this network and to activate it, of which one half will be paid by OI. Mr. Dan Singer of Arthur D. Little has been involved in this project which is jointly supervised by Mr. Sharony and Mr. Cohen.

This effort is expected to develop an important constituency for economic reform of Israel's economy, both in the U.S. and in Israel. It should have an impact, albeit a hard one to measure, in a number of OI program areas, including 2.0, 3.4, 3.5 and 3.6.

Special emphasis will be placed on the demonstration sectors (software, processed food products, and jewelry) conducted pursuant to the strategic advantage redirection outlined in 5.0.

This program relates indirectly to the IMC program discussed in 1.2 above. One is general (1.2) and this effort focuses on specific sectors which are potential high priority growth sectors.

2.0 THE HOUSING INDUSTRY

Second only to jobs, this is considered to be the most important 1991-92 problem for Israel, as it was in our first grant year Plan.

OI is committed to helping to develop a freer, less regulated housing industry in Israel. This is a continuous program to build an Israeli and American constituency for change. Specific efforts will focus on land reform and development of a radically increased rental market. While preparing this revision, we learned that the Cabinet of the Government of Israel voted to send the recommendations of the Fogel Committee (See (14) at 2,3 and 2.1) to the Knesset with a recommendation that the laws affecting rental housing be changed. This is not a small achievement and we believe our efforts and those other like-minded people contributed to this decision. However, which wave moved the sand will never be known.

We are planning the follow-up in concert with like-minded

colleagues in Israel. Sec 4.2, "Knesset Economic Seminars" through which there exists a mechanism in the legislative process of this parliamentary democracy. This is also an example of our need to have program flexibility to respond to new opportunities.

The action by the Cabinet and the decisions we hope to see emerge from the Knesset will then lead to a series of seminars and development of materials in Hebrew and English so that policy is implemented and becomes reality.

OI has discussed these issues with academics, Israeli Government officials, lawyers and accountants. We anticipate an expenditure of \$20-25,000 to achieve the implementation activity that will rapidly lead to an active market performance. For OI, this will then have become a significant achievement, and it also can be studied as a paradigm for policy reform.

Our housing program will include issues on taxation, investment, construction, freer importation of construction materials, and foreign investment specifically. The Israel Center for Social and Economic Progress is and will be involved in this effort, although OI will operate on a number of levels and with other individuals and organizations.

OI brought together more than 60 individuals representing construction firms and firms which finance construction to learn about Israel's housing policies for the Soviet Olim at breakfast on January 19th for the then Minister of Construction & Housing, Hon. David Levy. These kinds of efforts will continue on an ad hoc basis.

As a follow up, OI has compiled a database of about 750 individuals and firms to which it has mailed information regarding the residential development opportunities for foreign investors in Israel. In addition, OI has met with more than 80 firms to discuss the policies affecting housing construction in Israel and to encourage U.S. firms to consider doing business in Israel.

A paper which included suggested changes in policy was forwarded to the new leadership of the Ministry. A number of the recent policy changes being made by the Ministry reflect earlier OI thinking.

To increase the managerial capabilities of Israeli firms and promote new technology and innovations in housing and construction, OI will work with other organizations to promote technology transfer from the U.S. to Israel. A number of U.S. firms doing business in or with Israel have received educational and policy/law materials from OI, including copies of laws, regulations, and related materials.

OI also intends to sponsor a program in these areas and is encouraging the visit of U.S. Secretary of Housing and Urban Development, The Hon. Jack Kemp, to such a conference in Israel. Such a conference has been discussed with Mr. Kemp. It has been on hold until further stability in the region is achieved. This conference, which OI would co-sponsor with others, will have a date and a budget developed when the probability of the conference increases. This issue will be addressed again towards the end of the summer of 1991. The activity on the Fogel Report taken by the

Cabinet could open the door on this now dormant project. However, this would have to be coordinated with the U.S. Department of State and HUD.

2.1 HOUSING RESEARCH

This ongoing project, which in 1991 included one short study on housing policy (not suitable for publication) will increasingly focus on the financial aspects of housing, incentives and taxation to develop a stronger rental housing market, and a review of housing finance programs and capital markets. The development of the financial infrastructure to support home ownership and development of rental housing is critical in the next 24 months. If new financing mechanisms can be established, the construction will follow. The trick will be to minimize the involvement of the Government. OI has visited with top management of AID's Housing Office on this and related efforts.

We plan to spend \$40,000-\$45,000 during this year in the housing area in Israel. Additional funds may be spent in the United States. This project is considered so important in the American Jewish Community that non-AID funds have been given to OI specifically earmarked for the OI housing program.

OI already met with officials of AID's Housing Office and various experts and consultants in the field. We anticipate developing research projects with them after their initial review of Israel's housing sector has been completed. Originally scheduled for late December, the review did not reach OI until

early 1991. A review of the Abt study is underway and we expect additional research projects will evolve from that review.

An interim summary project is now underway to define Israeli housing policy and financial arrangements for renters and buyers in January 1990 and in June 1991. This review/assessment is being conducted by Mr. Shlomo Shattner, a former official of the Ministry of Finance and the Executive Director and author of the Fogel Report discussed at 2.3 (14).

This assessment which we anticipate will be completed in September 1991 will provide the perspective of a very knowledgeable pro-markets economist. We expect a public disclosure of this review and will likely schedule one or more public forums on the subject.

2.2 HOUSING CONSTITUENCY AND NEWSLETTERS

Every six to eight weeks, OI mails a letter on housing to more than 750 individuals and organizations in North America and Israel. Copies have been provided with the Quarterly Report furnished to AID, and are attached to this Plan as examples of what we plan to continue to do. The feedback has been excellent.

The focus is to maintain a high level of involvement in the American construction industry and to facilitate joint activities between American builders/developers.

OI intends to build this group into a constituency for change in existing housing policy during the next 1 to 5 years.

2.3 SELECTED OI HOUSING ACTIVITIES - JANUARY 1990- APRIL 1991

- 1) Minister of Construction & Housing, The Hon. David Levy
Breakfast at Regency - January 17, 1990**
- 2) Development and maintenance of database with 750+ developers,
builders and financial people**
- 3) Mailings - January, April, June, September, October 1990**
- 4) Confidential paper to Ministry - March 29, 1990**
- 5) More than 75 meetings with industry people in Israel and U.S.**
- 6) Contact with Ministry on regular basis**
- 7) Meeting with Minister of Construction & Housing, Hon. Ariel
Sharon - June 30, 1990**
- 8) OI recognized as interface by GOI, Washington Embassy and New
York offices**
- 9) Arranged meetings with Federation of Builders and GOI for
American firms**
- 10) Planning a possible conference in Israel with Secretary of**

Housing and Urban Development, Jack Kemp

11) November meetings with Uri Shoshani, Director of Planning and Engineering Administration, Ministry of Construction & Housing

12) Distribution of Government of Israel tenders and continuous networking of American building community to do business in Israel

13) Conference in Israel on October 31, 1990, concerning developments in construction industry with speakers from government and the private sector and a tour of current building projects. Speakers included Michael Kleiner, Chairman of Absorption Committee of the Knesset, and Dr. Haim Fialkoff, Foreign Liaison Officer of the Ministry of Construction & Housing.

14) FOGEL REPORT DINNER IN TEL AVIV -- March 6, 1991. OI sponsored a policy dinner to discuss "The Fogel Report: Reforms to Promote the Development of Rental Housing in Israel" (copy attached). More than 30 individuals, including businessmen, professors, officials from the U.S. Embassy, the Ministry of Finance, the Ministry of Construction & Housing, reporters, and members of the pro-market forces policy community attended this policy dinner at the Jerusalem LaRomme.

The initial presentation was given by the Chairman, Aaron Fogel, currently with Bank Leumi, and Shlomo Shattner, the Executive Director for the Report.

We are pleased to report that one of the attendees, Ms. Miriam Lauper, chaired a major seminar sponsored by Globes, the Israeli version of the Wall Street Journal, at the Dan Hotel in Herzliya on May 21st. Messrs. Fogel and Shattner spoke, this time in Hebrew.

15) POLICY CONFERENCE -- April 29, 1991. On Monday, April 29th, at the New York offices of Deloitte & Touche, more than 80 individuals from as far away as Salem, Oregon, responded to OI's call for an emergency meeting to discuss barriers to U.S. firms building housing in Israel.

After an initial presentation of current Governmental Israeli policies, a lively discussion took place. A report is being prepared for the Ministry.

Mr. Cohen met with the new Director General, Arie Bar, in Beersheva on Friday, May 3rd, to discuss housing policy. OI was asked to continue its liaison activities.

In addition, the builders discussed formation of the American Israel Housing Producers Council to advocate concerns of the American construction industry (see attachment). Whether this actually happens is an open issue. OI has provided information to those trying to form the Council. However, since it is development of an industry trade organization, OI is not directly involved in the establishment of the Council.

3.0 CAPITAL MARKETS, TAXATION, AND PRIVATIZATION

If the Israeli economy is to grow to meet the needs of the new

immigrants (Olim) and veteran Israelis, very significant investment will be needed. To get this, tax policy may need to be changed. An increased facility in dealing with international capital markets will have to be developed. A more widely accepted, larger capital market will have to grow in Israel. The lead of the regulatory agencies to develop world-class, readily acceptable reporting and financial statements will have to continue, and, perhaps, accelerate. Privatization will have to become a reality, not just rhetoric.

3.1 AMEX CONFERENCE

On November 19-20, 1990, OI and the American Stock Exchange co-sponsored a seminar on Opportunities for Global Investment in Israel in New York City. This seminar is part of OI's longer term efforts to liberalize Israel's capital markets. Our immediate goals are twofold: Introduce Israeli companies to the capital markets of the United States AND, even, more importantly, introduce significant money managers to Israeli companies, the Tel Aviv Stock Exchange, and give them confidence in the Israeli securities regulatory system.

This program was anticipated to cost OI approximately \$15,000, but the turnout was so large that OI's costs amounted to out of pocket cost of less than \$5,000.

OI is preparing a publication of these proceedings and preliminarily has budgeted \$20,000 for that project. The publication is anticipated for the fall of 1991. A number of

economics and finance professors in Israeli universities have indicated that they plan to use the book as assigned reading in their courses.

3.2 U.S.A. ADVISORY COMMITTEE ON REFORMING THE TAXATION OF CORPORATION IN ISRAEL

This study, being conducted by a commission in Israel under the direction of the Hon. Moshe Gavish, will be supported by a committee of American lawyers, accountants, professors, tax administrators, and economists.

The Chairman of the OI advisory committee is Donald C. Lubick, former Assistant Secretary for Tax Policy, U.S. Department of the Treasury and currently a partner at Hodgson, Russ, Andrews, Woods & Goodyear. The co-chairman is Ephraim Brecher, currently Vice President-Law of AT&T and former President of Operation Independence.

Most of the advisory/review work will take place in the United States. We anticipate expenditures in Israel of approximately \$50,000, including research, translations, airfares, hotels and accommodations in Israel. Direct expenditures in the United States are expected to be approximately \$30,000 during grant years 2 and 3.

The goal is to develop a world competitive tax policy in Israel which encourages economic growth.

3.3 INVESTMENT IN ISRAEL SURVEY

To the best of our knowledge, no one has ever surveyed the

active contributing Jewish community with respect to those factors relevant to individuals making private sector investments in Israeli companies or funds.

The matter has been discussed with members of Israel's small investment banking community, Prof. Leonard Lodish of the Wharton School, Mr. Dan Singer of Arthur D. Little, and other knowledgeable individuals. At the suggestion of a number of interested parties, OI is currently compiling information about the investment and merchant banking community in Israel.

It is imperative that such surveys be conducted because the privatization program we are supporting will, in part, depend upon the longer term growth and health of freer capital markets in Israel.

The push for privatization of Government and Histadrut owned enterprises presupposes capital markets and an understanding of what it takes to attract investment capital to Israel. A survey similar to surveys conducted frequently in the United States was considered essential by OI's board. This decision included advice and counsel of extremely experienced, knowledgeable Wall Street investment bankers and international lawyers.

With respect to new increases in Israel's private sector productive base and the capital necessary to finance the huge increases required by the Soviet immigration, we need reliable, quantitative information acquired in the most proper manner to replace opinion. Today, everyone, from the most sophisticated Wall Street investment advisor to the small individual investor who

wants "just to help Israel" has an opinion. None have data. This requirement has led OI to assemble a first class team which combines respected academics with experienced international practitioners.

Preliminary arrangements for the design of the survey have been done by a team from the Graduate School of Business of Columbia University (Dr. Bari Harlam) The Wharton School (Dr. Leonard Lodish) Mr. Daniel Singer of Arthur D. Little, and other knowledgeable professionals, including Mr. Bernard Engelhard of Engelhard Associates, New York City. The survey is being reviewed by an Advisory Committee of Americans and Israelis, including selected members of the OI Board. Mr. Peter Golick, former Chairman of the Board, Grey Canada and a member of OI's Board will chair this undertaking.

A preliminary scientific sample (per market research standards) has been put together from a number of available sources, including Israel Bonds. The goal is to have a validating survey of investment information vis a vis Israel. The methodology will include focus groups, a survey, and in-depth interviews. The result will be the most comprehensive information as to what needs to be done to attract and promote foreign investment to Israel.

OI anticipates expenditures of approximately \$50,000 for this survey.

3.4 PRIVATIZATION

Any meaningful schedule for privatization of Israeli companies

continues to be avoided by the GOI. It has become a visible, important political issue. A number of proposals are being discussed or have been submitted to OI to concentrate on certain specific industries. In speeches OI has consistently encouraged Americans to look for private sector investment opportunities in Israel, especially purchase of Government owned companies and business entities in Koor.

An example of OI involvement took place in April 1991. A group of American investors sought to buy Rami Ceramics, a Koor owned company. Israel Chemicals, a Government owned company also sought to buy Rami. The matter went to the Israeli Cabinet. OI became involved (see attachment).

Operation Independence will focus considerable attention on this issue in 1991-1992.

OI is planning seminars in the United States for senior members of the Ministry of Finance who are responsible for the privatization program. Faculty from Harvard University's School of Business, The Wharton School, and N.Y.U. will participate in these seminars. However, it is critical that experienced practitioners be involved, and to achieve that, OI will arrange for the Ministry's senior privatization team to visit with experienced people who have taken state owned companies to the capital markets.

We expect to hold at least one conference in Israel on the subject with an estimated cost of approximately \$30,000 to review past and current privatization issues. Future policy change options will be discussed, and, hopefully, a constituency for

change will be developed and encouraged.

As a follow-on to the abolition of the Citrus Board which controlled export in this area, OI is negotiating a research project with Professor Steven E. Plaut, a professor of economics at Haifa and the University of California at Berkeley. This Israeli based project will review comprehensively the barriers to increasing Israel's agricultural exports in light of dramatic changes in a water policy and EEC agricultural policy. The project is currently budgeted at \$23,000. When reviewed, we anticipate financing public forums in Israel on this subject, the importance of which grows constantly.

OI plans to undertake one or more research efforts to ascertain whether various sectors of projects of Israel's infrastructure can be privatized. We have reason to believe that such studies would be well received by the concerned ministries.

Among areas which will be explored are water reclamation authorities, and various existing transportation systems, such as the current structure of the intra and inter city bus system(s). Special attention would be paid to those policy prerequisites necessary to attract foreign capital. This ties in with other existing OI efforts, such as those described at 3.3 above.

OI staff believes the current financial strains on the Israeli economy, especially the need to rein in spending by the Government of Israel, provides a unique opportunity to achieve significant breakthroughs in this area. A list of experts in these areas in Israel, the U.S.A., and the U.K. is being compiled to

provide the intellectual assistance needed for OI to proceed.

The objective is to assist the Government of Israel to develop policies which would increase the role of the private sector in Israel by limiting the growth of the role of the Government. This could lead to faster construction, less expensive, better maintained infrastructure facilities at a time when economic growth requires increasing the infrastructure, but public funds are not available.

Preliminary discussions have led OI to anticipate that its expenditures in this area would be \$55,000-\$75,000 in our 1991-1992 grant year. Exact costs for such studies have not yet been determined.

The privatization efforts will get special attention during the next two years from OI's staff and Board. These efforts will not only include enterprises owned by the Government of Israel, but also enterprises owned directly or indirectly by the Histadrut, including Koor companies, and the policies which could lead to privatization of parts of Israel's infrastructure.

OI considers privatization to be one of the most important economic reformations to be achieved in the next three years. It is a linch-pin to change of the political economy of Israel.

Deregulation of certain sectors of the economy would be beneficial to most Israelis and would install the rules of the marketplace in place of the existing rules and regulations. Studies of deregulation by economists, lawyers, political scientists, and others, were a necessary prerequisite to economic

progress in the United States in the 1980s. Similar studies need to be done in Israel. Thus, OI plans such undertakings in the second half of 1991. Particular areas to be considered include, but are not limited to, transportation, especially the bus system, water pricing (see 5.1), banking (see 3.5) and housing (see 2.1-2.3).

To focus attention on the subject, OI may support a non-governmental blue-ribbon commission on deregulation. That commission would review government regulations and recommends revisions on abolition.

Preliminary discussion have taken place with a number of academics and members of the policy community, specifically The Israel Center for Social and Economic Progress. ICSEP could provide administrative support for such an undertaking. This matter will be reviewed by the OI Grants Committee, especially whether to proceed with sector or sub-sector studies, support a private blue-ribbon commission, or both. Preliminary discussions indicate an OI budget contribution of \$75,000-\$100,000, although the effort would extend over more than one grant year. This project is not yet included in any budget calculations.

3.5 BANKING

There are alleged to be serious impediments to foreign banks doing business in Israel. In discussions with American bankers, there is considerable interest in their establishing banking facilities in Israel. This often is discussed in the context of the Arab Boycott.

Operation Independence staff has been active in reviewing the impact of the Arab Boycott and already has been involved in extensive policy level discussions in Israel, the United States, and in London. A more active effort is being considered for 1991-1992. OI has provided policy guidance and information to individuals involved in negotiations with non-Israeli/non-U.S. firms that are concerned about the boycott.

A number of OI's Board members and knowledgeable Israelis have suggested that the change in the Chairman of the Board of Governors of the Bank of Israel and the delay in the scheduled privatization of IDB have created an environment in which foreign banks could be attracted to Israel. OI staff will review this subject in the late summer and fall of 1991 and proposals for policy research may be developed.

For instance, why are there no large foreign banks operating in Israel? The goal will be to ascertain policy options, create a forum for discussions, ignite public opinion, and stimulate the GOI and the Bank of Israel to review existing policies. We would then work with the Israeli constituency for such changes. The goal would be to have one or more new banks owned and controlled by non-Israelis open branches and compete actively.

3.6 SMALL BUSINESS/ENTREPRENEURSHIP

One of the principal generators of growth in the Israeli economy in the near term (next 3 years) will be new and existing

small businesses. For conformity with others, we define small business as one employing fewer than 50 persons not owned by another business of larger size.

OI has been involved for more than a year with the groundbreaking work in this field being undertaken by Charles R. Bronfman and his CRB Foundation of Montreal, Canada.

CRB has now undertaken a prototype private small loans administration of an estimate \$5 million. This project conforms to some of his research in this field set forth by Mr. Cohen at an ICSEP February 1990 conference in Haifa.

OI will continue to support the CRB efforts and work with others to promote, develop, and encourage individuals and organizations who do the same for small businesses.

For instance, we have been working with Mr. Albert Soffa to establish an "entrepreneurial incubator" in southern Israel and another in Karmiel. We also work with university based efforts, such as these at Tel Aviv University.

Whether a research project, perhaps a survey of all such support organizations and programs (public and private), makes sense will be explored. Until further information is available, we cannot forecast a budget.

4.0 CHANGING ECONOMIC PERCEPTIONS IN ISRAEL

4.1 OPINION LEADER SEMINARS

This is part of a two pronged effort -- seminars at the top

and educational materials in the schools. Significant parts of this particular program are being undertaken with Mr. Daniel Doron of the Israel Center of Social and Economic Progress.

This is done because OI wants to build on the excellent efforts already underway. Those efforts have been lacking financial support, and in addition to direct OI funds, we will try to develop an effort to direct private American foundations efforts to support the school directed education programs.

4.2 KNESSET ECONOMIC SEMINARS

We plan to review anew a major program to stimulate discussions of economic issues among Members of the Knesset, staffs of the Members, and their committees.

These seminars focus on alternative economic policies, including programs and policies which rely more substantially on pro-market forces.

We have allocated \$65,000 for this program which is already underway, and we expect to spend that in the 1991-1992 grant year. It will be conducted by Israelis for the target population. The objective is to increase knowledge of markets among those who develop and pass laws and especially those who advise the Knesset. The program is modeled on programs in the U.S. Congress years ago which helped professionalize congressional staffs.

4.3 EDUCATIONAL MATERIALS, INCLUDING BOOKS, VIDEOS, ETC.

OI has already indicated a commitment will be made to the

publications of excerpts of the February 1989 Seminar conducted by the Israel Center of Social and Economic Progress at which Nobel Laureate Milton Friedman and others spoke at locations throughout Israel.

This program has cost between \$25,000 and \$35,000, and the material will be reviewed during Mr. Cohen's next visit to Israel.

5.0 COMPARATIVE ADVANTAGE

In all discussions of increasing Israeli exports, especially to the United States, the issue of "What does Israel make that could be bought by consumers in the traditional channels of distribution?" is raised.

At the time the initial draft of this Annual Work Plan was prepared, OI staff believed that a comprehensive study of Israel's comparative advantage in the 1990's was needed. OI has had a few international consultants thinking about this issue. We thought this could turn out to be an important block-buster study. While expensive, it would seem to be extremely important.

However, after additional research and further discussions with A.I.D.'s staff, such an undertaking is not considered feasible. By the time it would be completed, it would be out of date. Instead of a comprehensive mega study, OI will undertake small, more manageable, sector studies. The first, software, is already underway.

OI has already contracted for a policy review of methods to grow rapidly Israel's software industry. This is an especially

high priority project in light of the skill level and education of many Soviet immigrants.

The project will explore the success of the Indian's and will include an analysis of the cultural issues. Critical related economic policy issues also are to be reviewed in this context. For instance, there are serious taxation, education and telecommunications policies which could impact the development of a software export industry.

The project also has built into the design a component for Israelis already in this industry in Israel and the United States. We are hopeful that this approach will lead to development of a constituency for change. Preliminary discussions with Americans and Israelis living in the United States indicate that this could be a significant private sector growth industry for Israel with benefits of a substantial international impact accruing to the U.S., especially to U.S. companies which engage in joint ventures with Israeli firms.

An advisory team including Mr. Henry Taub, Chairman Emeritus of ADP, and a co-chairman of OI, is involved in this research project.

OI anticipates spending approximately \$45,000 on this project (see attachment). The study will include a definition of the policy issues, options to promote growth of the sector, a review of the fit of Israeli manpower to the growth requirements, and policy/legal impediments to growth of this sector. OI's contract researcher is working closely with top management of the Israeli

Export Institute in this endeavor. Such a linkage with the Institute, Israeli industry, American Jews in the industry, and Israelis in America in the industry improves significantly the likelihood of a real outcome, not just a dust collecting study.

In addition to software, OI is also working on an important, albeit related, project with top management of the Export Institute, led by its Director, Mr. David Litvak, the former Trade Commissioner in New York.

This project is an attempt to bring comprehensive strategic planning to the Export Institute, principal export oriented agency in the Government which is an independent arm of the Ministry of Trade & Industry. At the request of Mr. Litvak, an OI team, which includes OI's president, has worked with management to review Israel's potential export growth in selected sectors and to ascertain those policy changes which are necessary for increases in production and to achieve a more competitive international position. Specific focus has been on computer software, processed food products, the automotive aftermarket, and jewelry.

This project has received the personal attention of the Minister of Finance, Mr. Yitzchak Moda'i, Mr. Bill Davidson, Chairman of the Board of Guardian Industries, and Mr. David B. Hermelin, when he served as Chairman of Operation Independence.

Serious and difficult policy issues have been identified, and are being explored, including:

*Existing disincentives to utilize more fully Israel's existing physical plant capacity. This is particularly important

in light of the enormous growth in the labor force and the shortage of investment capital.

*Existing restrictive labor practices in the laws which add costs to the employment of second and third shift of workers.

*Existing agreements with the labor unions which impose serious and expensive costs to the employment of new workers, especially costs incurred with shift differentials.

There is also a serious lack of marketing know-how, and this could require development of marketing training courses. This issue will receive the combined attention of the Israel Management Center (See 1.2 above), the business schools, and the Export Institute.

In addition, American expertise and networks of potential mentors is being explored. This exposure could open Israeli eyes to the success and benefits of market drive economies. It is already changing attitudes toward the opportunities of joint ventures with existing companies, and this may require changes in existing corporate and business laws in Israel. Taxation issues also will be reviewed.

The preliminary inquiry has also raised serious issues regarding the capacity and organization of Israel's Institute of Standards. There are international measuring and testing issues which may have to be explored further. OI staff has had preliminary discussions of these issues with knowledgeable American experts.

The strategic review of the sectors mentioned and the capability to expand exports has also raised energy and water pricing issues to which OI may, overtime, devote resources. However, no specific projects other than that discussed in 3.4 (The Plaut study) have yet been defined. The ongoing work about infrastructure privatization has a relationship to this work. This is especially the case with respect to the transportation sector.

Additional OI staff attention is expected to be focused on these issues after the October Management Schools Conference (See 1.11 above).

The Export Institute strategic planning assistance has as its short term objective the installation of a business policy-strategic planning dimension in the Institute. Over the longer term, a better managed Institute should assist the development and implementation of the export led growth strategy.

The budget for these undertakings in grant 1991-1992 is expected to be \$50,000.

5.1 WATER ALLOCATION RESEARCH

Water is one of Israel's scarcest resources. There are a multitude of policy issues associated with "the water issue," including, but not limited to,

- * politics (domestic and international/geopolitical)
- * social (at a minimum there lurks the entire basket of issues having to do with agricultural support programs and food production)

- * international trade, and
- * Israel's GDP

The traditional view of economists and their markets and pricing mechanisms needs to be reviewed in light of this unique situation.

DI is exploring development of a research project that will review the available literature, clarify the entire range of issues, and delineate policy options and their potential ramifications. We do not yet have an idea of the cost of this project.

6.0 ECONOMIC CHANGE PUBLICATIONS

There is a lack of current information on economic policy options available to Israelis and to Jewish Americans who could be expected to be a natural constituency for change to a greater reliance on market forces in Israel. Simultaneously, the development of this constituency in the United States should also provide new avenues for increasing Israel's export trade to the United States, and, hopefully, for additional U.S. exports to Israel. This increase in economic activity would, we believe, further stimulate the pro-market forces community in both the United States and Israel, including the support of studies and research. Once a critical mass is achieved, new forces for change will be in place.

6.1 TRANSLATION AND DEVELOPMENT OF A NEW ENGLISH LANGUAGE EDITION OF NEUBACH, RAZIN & SADKA'S BOOKS

Amnon Neubach, now serving as Israel's Economic Minister at the Embassy in Washington, Assaf Razin and Ephraim Sadka, Professors of Economics at the Tel Aviv University have published two books advocating a movement towards market forces in an orderly, gradual way for Israel. The two volumes (Economic Growth: Embarking On The 1990s and Challenges To The Economy of Israel: Aliya, Growth, and Integration into The World Economy) were published in Israel, only in Hebrew.

OI has negotiated with the authors to develop a new edition combining the best of both books. New chapters, including transition chapters, description and commentary on reforms already undertaken will be added.

Two of the three authors are very well known to OI staff and all speak and write fluently in English.

The anticipated timetable for this effort is:

- * Negotiation of the specifics by June 15, 1991.
- * Translation and re-writing, including work by professional translators/editors/researchers, May - December 1991.
- * Publication in the mid 1992.

We had planned to convene a seminar of economists, journalists, and others who would have a pre-publication of the work, in a public forum in the second quarter to discuss the book, and the relevant policies and programs suggested. From this seminar and parallel efforts would come directions for new policy research and policies. The project was budgeted at \$65,000.

However, after preliminary review by OI's Grants Committee, this project is "on hold." It is thought that the book maybe out of date by the time it is published and that selected chapters updated and published as monographs with public seminars/forums is a format more likely to achieve A.I.D. and OI objectives.

6.2 [TO BE ASSIGNED TO POTENTIAL PUBLICATIONS FROM OTHER ACTIVITIES]

6.3 PUBLICATION OF CASE STUDIES: DOING BUSINESS IN AND WITH ISRAEL--SUCSESSES & FAILURES

One of the preliminary findings of the Business Schools review (See 1.11 above) is the lack of materials available for study of the Israeli business economy. This is particularly true at the "firm" level.

OI plans to produce a textbook, modeled on textbooks used for "Business Policy" and "Strategic Planning in the Firm" classes in American business schools.

The text will include chapters on Planning, Coping with the Changing Economic Environment, Implementation of Strategic Plans, Reconciling Personal Goals with Objectives of the Firm, Entrepreneurship, and Values.

An Advisory Committee will be appointed for this project. The Advisory Committee will include, but not be limited to, professors of management and marketing at American business schools, practitioners of the arts of management in large trans-national firms, and current or former government officials who have experience in promoting international business relationships.

Firms are being considered for relevant case studies include:

- * Motorola
- * Intel (Similar industries--very different experiences)
- * Teva Pharmaceuticals
- * Marks & Spencer (British)
- * Supersol (Supermarkets in Israel & food export)
- * Osem/Elite (Food processing and export)
- * Israel Chemicals (a successful GOI company considered ready to be taken into the private market)
- * Scitex (High tech manufacturing for printing industry)
- * Luz (Solar energy production company with high level technology, but considered to be in financial trouble)
- * Machpel (J/V textile cut & sew with the Limited).
- *Delta (a textile company of such world-class standards that a U.S. company purchased a substantial stake)

We have explored case study undertakings with the Wharton School of the University of Pennsylvania, where OI's president was on the faculty, and the University of Tel Aviv School of Business Administration and Hebrew University. There is already an established program between Tel Aviv and Wharton which is well known to OI. Utilizing resources from both schools, the case studies will be supervised by professors and done by graduate students in bi-national teams. In addition, faculty and students from the management schools and Harvard University, Columbia

University and Tel Aviv University are expected to participate.

This project will begin in June 1991 and will take approximately one year to complete. A preliminary budget has been developed: \$130,000 for case studies, \$20,000 for materials, research and editing and \$20,000 for initial publication.

7.0 CHANGING ATTITUDES IN THE UNITED STATES

The American Jewish communities's support of Israel is legendary. However, that support has, fundamentally, manifested itself by political support and philanthropic undertakings. American investment in Israel and trade with Israeli firms has not been at a particularly high level. There are many reasons given for this phenomenon, but none have been conclusively studied.

Changing the attitudes of the Jewish American community is a long term undertaking. OI anticipates that frustration will be more plentiful in the short term than successes. However, the influence of the Jewish American community is deemed essential to break the Bolshevik mentality that exists in Israel. Without the constant pressure from Jewish American business leadership, the central thrust of OI's efforts may not be achievable. It is for this simple reason that continuous, albeit sometimes marginal, efforts must be undertaken regardless of how small or significant they may appear to be.

To achieve this sine qua non, OI leadership must adopt the "wave theory of change." We don't know which wave of the thousands

that wash upon the beach changes the contours of the sand. We do know that over time the contours of the beach do change. OI's leadership is committed to a continuous parade of waves throughout the Jewish community in Israel AND the United States. Over time we will have change.

Operation Independence plans to study this situation and, over time, to lead the effort to change the situation so that American-Israeli economic partnerships become pervasive, especially in the American-Jewish community.

7.1 CAPITAL MARKETS/INVESTMENT STUDY; See 3.3 above

7.2 STRENGTHEN THE EXISTING ECONOMIC SUPPORT SYSTEM IN THE UNITED STATES

OI will explore whether to undertake or stimulate the forging of a cooperative alliance among all major pro-market forces/international trade organizations in the United States supporting Israel's economic growth.

Mr. Cohen commissioned and supervised a study of this subject in 1988, and that work needs to be updated. The study, which OI will then try to implement, will look at the various organizations involved in the facilitation of the U.S. Israeli trade, the current set of inter-relationships among these organizations, and ways to achieve future coordination of these individual governmental and non governmental efforts.

This undertaking is considered to be essential to provide the network to facilitate the export-led growth strategy OI considers imperative for Israel to achieve economic health. Special emphasis

will be placed upon the feasibility of an integrated information system, creation of a data-base oriented service bureau, and integration of existing Government of Israel efforts with existing volunteer sector efforts.

This study is expected to cost approximately \$40,000. The implementation will be much more, but to be effective it should be shared with other organizations, including the Government of Israel. OI anticipates that adoption of the recommendations and implementation of this comprehensive effort would be funded from American Jewish communal sources and the Government of Israel, not OI or A.I.D. Preliminary OI staff estimates are that implementation would cost about \$800,000 in the startup year.

This study, if approved by the OI Grants Committee, would be an example of OI initiating policy, not implementing policy.

This effort is a long term undertaking. It is also important to integrate the existing non-system and tie it together with an information system. This undertaking has already been studied by Operation Independence in a study conducted in late 1988 by Howard A. Cohen, OI's current president, when he was teaching at the University of Pennsylvania. That study will be up-dated and an implementation program developed.

It is imperative that a constituency be developed for this change, including the political stake-holders and the economic stake-holders. This will be a subtle, but continuous effort. We anticipate that the influx of Soviet Jews will put a severe strain on the current Israeli economy in the next four to five years, and

the environment supporting such an effort will change because more and more important people will realize the imperative of achieving a new situation in the United States.

<u>PIO/T no.</u>	<u>Budget Planning Code</u>	<u>Appropriation</u>	<u>Amount</u>
398-0373-3-1633200	QDSA-91-33398-KG-12 (146-63-398-00-69-11)	72-1111021.6	\$600,000
398-0373-3-1633205	QDEA-91-33398-KG-12 (145-63-398-00-69-11)	72-1111021.5	\$100,000