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9. ABSTRACT

Since 1971, the Office of Housing of AID has been conducting preinvestment surveys in countries where housing investment guaranty programs are anticipated in order to provide the background and framework for its intervention. These surveys are,in fact,increasingly sophisticated analyses of the shelter sector of each country. Each report is intended to provide the Office of Housing with the information necessary to enable it to answer three primary questions about a specific country:

- What is the country's capacity to undertake a large-scale housing program?
- What is the effective demand for housing at a given price level?
- What is the country's capacity to repay a foreign loan?

To paraphrase the introduction to the scope of work for a recent survey, its objectives are to determine the need for housing at all socio-economic levels of society, to determine the ability of each socio-economic group to pay for housing; to assess the capabilities of the Government to plan and manage large scale housing programs and projects; to analyze the impact of large scale foreign borrowing on the country's economy and its ability to repay; and to assess the ability of the country to absorb large sums of money into the shelter sector industries.

These objectives have been realized with varying degrees of success. Some of the more recent surveys, in particular, provide broad panaromas of the country housing sectors. Some of the earlier ones are more limited in scope and cover only a part of the sector.

These reports provide valuable orientation for anyone becoming involved in housing sector in one of these countries. They should also be useful for comparative studies of housing programs and policies on a regional or world-wide basis.

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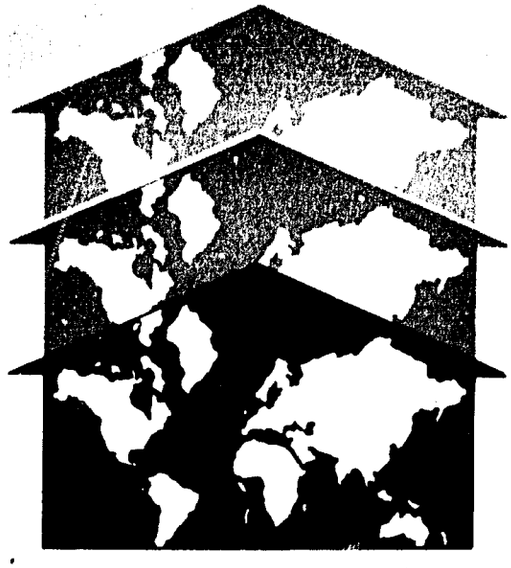

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF HOUSING
HOUSING GUARANTY PROGRAM

1975

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I INTRODUCTION

During May 1975, a team from A.I.D.'s Office of Housing (SER/H) consisting of Messrs. Edward Palash (Consultant in SER/H), Michael L. Unger (Director, Office of Economic Research, Federal Home Loan Bank Board) and Frank J. Senold (Vice-President, Technical Operations, National Savings and Loan League) traveled to Israel to complete a shelter sector study and to review the application in process by A.I.D., for a $25 million housing guaranty project. The report which follows constitutes the Team's Shelter Sector Analysis. The report also serves to update the prior two shelter sector studies conducted by A.I.D. in 1971 and in 1973, pursuant to the prior three housing guaranty projects authorized by A.I.D.

NOTE: Unless indicated otherwise, all dollar amounts shown in this report have been converted at the rate of six Israeli Pounds (IL) equal one U.S. Dollar (US$).

II FINDINGS AND RECOMMENDATIONS

A. Findings

The extent of Israel's housing development, unquestionably, must be classified as unique, given the hostility of both the natural and human environment.

The Government's serious and determined acceptance of responsibility for providing suitable housing for the nation's population is evident not only in demonstrated performance, but also in systematic planning and an all-out effort to increase the volume and to improve the quality of delivery. The total number of housing units completed yearly in both the public and private sectors increased from 31,380 in 1970 to 51,070 in 1973 with a slight reduction in 1974 to 50,540 units. It is estimated that 55,000 housing units will be completed in 1975.

The Government of Israel (GOI) Ministry of Housing, other government institutions and private industry which function within the housing sector have inherited less than ideal conditions for mass development of housing units or for construction in general.

A shortage and limited selection of construction materials from domestic resources; shortages, limited skills and low productivity of construction labor; pressing time schedules; inflation and its critical effect on financial capability of an otherwise sizeable market; and limited GOI financial resources are factors the Government has had to face and resolve in the process of implementing its housing development program. The program's managers have attacked these problems by:

Advancing and augmenting the application of modern construction and material technology through organized research;

Improving the quality, productivity and supply of construction labor through organized training;

Improving and securing standards , quality, and functional performance of dwelling units through established standards , requirements, and through guidance and advanced training offered to supervisory and management personnel in the housing industry;

Centralized planning and coordination of current and new development through five-year development plans, yearly reviews, revisions and adjustments;

Increasing of market capability through the introduction of various financial and financing schemes, subsidies, and allowances for lower income home purchasers deemed willing and able to assume repayment of a mortgage obligation; and

Mobilizing internal and external financial resources and assistance considered practical and economically feasible.

The Team considers the Government's progress in providing its citizens with adequate housing is a noteworthy achievement in terms of housing units completed per year and in the quality of construction and design, especially in view of the steady inflow of immigrants and the multitude of other demands which affect Israel's economy and her development.

B. Recommendations

The Team's recommendations may best be expressed by the following thoughts and observations with reference to the shelter sector:

1. It is recognized that the benefits applicable to each population group (young couples, new immigrants, high density families, etc.) under the public housing program are paramount in assisting families in need of housing. However, the eligibility provisions of the various schemes, and the specific financial benefits that go to each participant in each specific scheme, appear excessively varied and complex. This is demonstrated by the examples set forth on page 26 of this report.

In the Team's view, a greater simplification of financial and other underwriting criteria should be pursued in establishing eligibility of applicants and in determining the amount and repayment provisions of each loan transaction. Any such simplifications would be better understood by mortgagors, and conceivably could speed computer programming and other processing procedures.

2. The institutions, both public and private, which participate in Israel's housing sector are numerous and diverse. Most housing activities are centered in the Ministry of Housing or in its affiliated corporations. The allocation of public land and the preparation of the national master plan for land use is centered in the Israel Lands Authority and in the National Planning Council of the Ministries of Agriculture and Interior, respectively. Housing for new immigrants comes under the aegis of the Ministry of Immigrant Absorption.

The short duration of the Team's visit precluded an adequate review of the need for a more centralized institution that would coordinate all activities within both the housing and urban development sphere. The team would hope that an analysis of this question can be conducted in the near future.

3. The financial requirements for Israel's Public Housing Program in 1975 amounts to nearly $893 million. Approximately $633 million originates in the country's budget, which represents 6-1/2% of Israel's overall budget expenditure. The subsidy, both direct and indirect, for the housing sector amounts to somewhat less than $317 million or approximately 3-1/2% of the country's total budget. The Team is pleased to note that concrete steps are being taken to phase out the land subsidy. The Team would hope that further reductions in Government subsidy requirements within other areas of home construction and finance can be accomplished within the near future.

4. Although the Team made no attempt to determine the feasibility of establishing a centralized Government institution that would provide construction financing to building contractors, as outlined beginning on page 43 of this report, the planned institution and its contemplated functions would appear to have merit.

Pending the implementation of such an institution, the Team would suggest the possibility of A.I.D. participation, through the Housing Guaranty Program, to assist the GOI in the initial capitalization of the institution. This possibility would, of course, depend on further discussions between the GOI and A.I.D.,any guaranty projects to be considered in the future and A.I.D.'s determination of feasibility, should the GOI be interested in proposing a project of this nature and should A.I.D. be a position to consider a proposal at that time.

5. The GOI's development of internal sources of finance for public housing, i.e., issuance of mortgage bank debentures and development of savings schemes for housing has, obviously resulted in increased resources over the years. However, savings plans for housing still provide only about 13% of the amount of savings attracted to the general savings plans of the commercial banks, which are unrelated to home ownership plans.

The new savings scheme being formulated by the Ministry of Housing and Tefahot, the provisions of which had not been completed during the Team's visit, may offer a greater impetus to prospective mortgagors to participate. The Team would be interested to learn of its provisions, when announced. Savings schemes in the past appear to have been promoted primarily by the Government, rather than by the mortgage banks which deal directly with the public. Further encouragement to the mortgage banks to help develop and promote schemes applicable to every family wishing to save for housing under conditions deemed reasonable and necessary by the Government, would appear to be of value.

The United States' experience with its savings and loan system, while not necessarily valid for Israel's institutional makeup, may offer some experiences worth sharing (to the extent that Israel's financial managers have not already done so) with respect to the promotion and accumulation of savings by the general public, specifically earmarked for housing.

III BACKGROUND

A. Overview

The State of Israel, with a population of approximately 3.4 million, of which roughly 15% are citizens of Arabic ethnic stock, and a pre-June 1967 land area of 7,993 square miles located at the traditional cross-roads of the Middle East, is a comparatively new country faced with housing problems both unique and disproportionate to its size.

The country was founded upon the concept, later formalized into law, that it would be the homeland, the refuge without restriction, for all persons of the Jewish faith. Under the Law of Return of 1950, the right of all Jews to settle in Israel is recognized without restriction as to their respective economic, social or political backgrounds. The flow of immigrants, therefore, is restricted only by the emigration restrictions of their respective countries of origin.

In accepting unrestricted Jewish immigration, the Government of Israel (GOI) has also accepted the responsibility to provide housing for their new citizens, but lack of immigration control makes the planning and allocation of resources difficult. In view of the variable demand, the Government follows a policy of maintaining a reserve stock of empty dwelling units for contingent market needs.

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

As a result, the GOI has given and continues to give priority to finding solutions for the housing problems of its people second only to that of National Defense. Within this priority, the Government gives considerable attention to the problems of providing housing for immigrants, for newly created families (Young Couples Scheme), for families living in overcrowded conditions of three or more persons per room or in slum areas (Three Plus Scheme), and for other categories of housing need deemed necessary for the Government's support under its Public Housing Program.

B. Prior A.I.D. Housing Guaranty (HG) Projects in Israel

There have been three prior HG Projects which have provided long term mortgage financing for families buying homes under the GOI Public Housing Program. An initial project, authorized by A.I.D. on November 22, 1971, provided a $50 million A.I.D. guaranteed loan to the Tefahot Israel Mortgage Bank, Ltd., the largest mortgage bank in Israel. Subsequent to the final disbursement on January 9, 1973, the long term mortgage financing made possible by the loan was instrumental in providing new housing for Russian and other new immigrants, newly married couples and slum dwellers.

A second project, authorized by A.I.D. on November 26, 1973, provided a $25 million A.I.D. guaranteed loan to the Ministry of Finance. Disbursement of this loan on May 20, 1974, provided additional long term mortgage credit for public housing through Tefahot and through the General Mortgage Bank, Ltd., the second largest mortgage bank in Israel. The impact of the first housing guaranty loan was further extended in the second loan to benefit lower income immigrant, young couple and slum dwelling families.

The third $25 million guaranty loan, disbursed to the Ministry of Finance on March 17, 1975, will further assist the GOI in providing housing under its Public Housing Program to those groups in need of housing assistance. A new $25 million project proposal from the GOI is presently under review by A.I.D.

C. Geography

Israel, located in the Near East, is bordered by Lebanon to the north, the Syrian Arab Republic and Jordan to the east, and the Gulf of Aqaba and the Arab Republic of Egypt to the south. Without considering territory occupied during the 1967 War, it stretches 260 miles from north to south and varies from less than 10 to more than 65 miles from east to west.

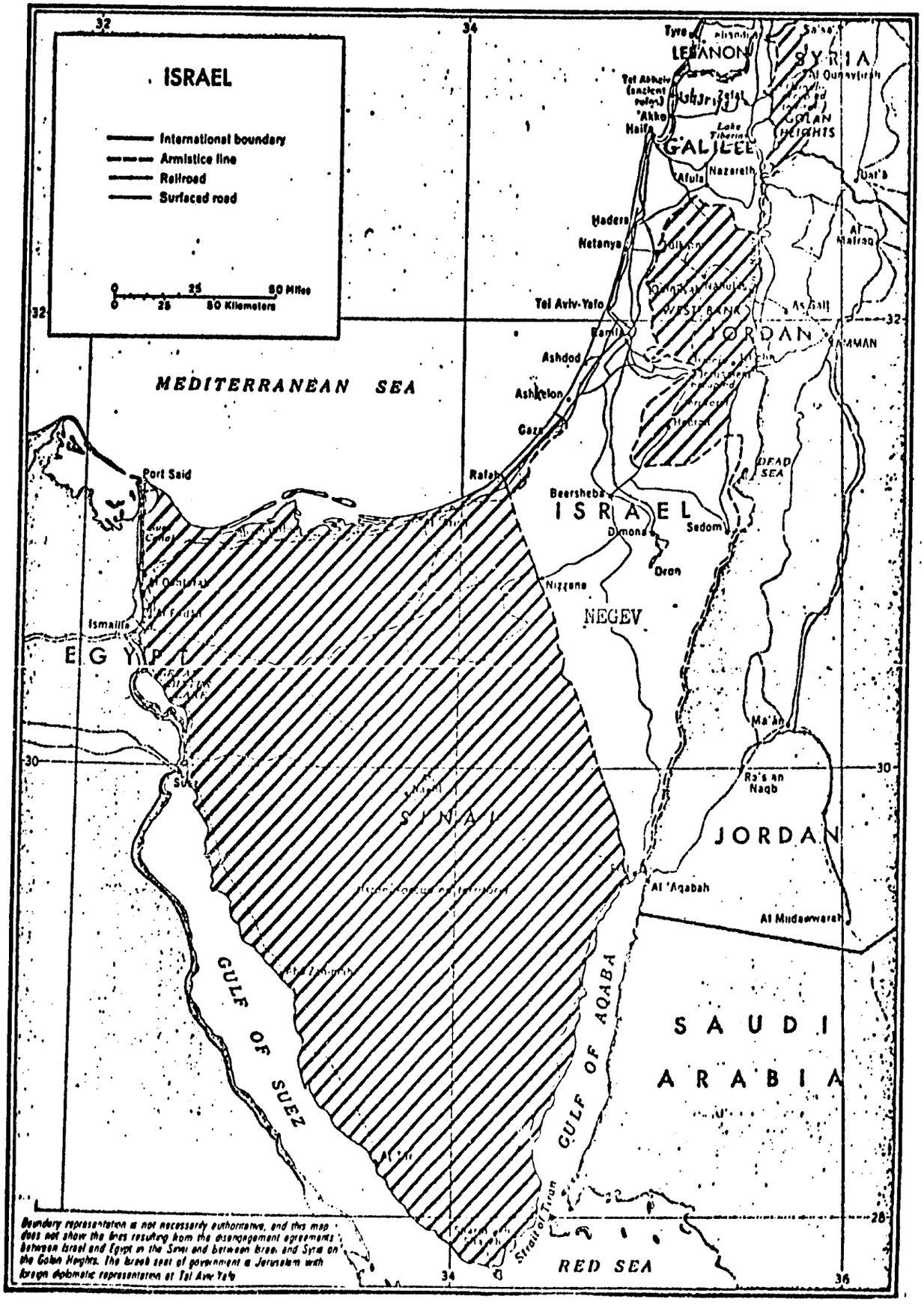
Israel has four principal geographic regions which have been further divided into the development regions shown on page 88, of this report. However, in purely geographic terms, the regions are: the coastal plain; the central mountains; the Jordan Rift Valley, in which lies the Jordan River, Lake Tiberias (the Sea of Galilee), and the Dead Sea; and the Negev Desert in the south, which comprises half the country's total area. The highest elevation is Mt. Meron at 3,963 feet above sea level. The Dead Sea, at 1,302 feet below sea level, is the lowest elevation on the earth.

The climate ranges from equable in the north and in the central mountains to very hot in the Negev. Summers in the coastal region are hot and humid; winters are mild. Snow is rare, and sunny days are frequent. Rainfall is concentrated in the October to April period with heaviest precipitation in January. Average annual rainfall varies from 28 inches in the north to 19-21 inches in the central area of Haifa, Tel Aviv, and Jerusalem, and 1-8 inches in the Negev.

Climate and terrain affect the costs of construction and improvements to the land. Differences in such costs are outlined beginning on page 88, of this report.

A map of Israel shown in Figure I will define the above-mentioned geographic regions and will serve as a reference to the population data described in the Area and Population section which follows.

FIGURE I



Source: Israel "background notes", U.S. Department of State publication 7752.

D. Area and Population

The total 7,993 square mile area of the State of Israel within its 1948 armistice frontiers (about the size of New Jersey) was multiplied four-fold by the territories occupied by Israel in 1967 (i.e., Sinai, the West Bank, and the Golan Heights). However, the de jure population by the end of 1974 totalled 3,403,600 of whom 2,880,100 were Jews and the remainder mostly Moslem Sunnites (most Israeli Arabs are Moslem Sunnites).

In addition, there were one million persons in the area brought under Israeli administration as a result of the 1967 and 1973 wars.

The population density of Israel was 410 per square mile in 1974. The population is heavily concentrated in the coastal strip, with about three-quarters of the Jewish and nearly two-thirds of the non-Jewish population located between Ashkelon and Nahariya. The Tel Aviv-Jaffa area is the most densely populated area of the country and accounts for 33 per cent of the total population. A further 18 per cent live in the central area between Tel Aviv and Jerusalem, 15 per cent around Haifa, 15 per cent in the northern area, and some 11 per cent around Jerusalem. Large desert areas are uninhabited except for nomadic Bedouin tribes. Approximately 85 per cent of the population may be classified as urban, and is made up of 2,650,000 Jews and 240,000 non-Jews.

The main reason for the growth of the Jewish population has been immigration. Immigration accounted for 60 per cent of the yearly increase in the Jewish population between 1958 and 1970. In 1970, 54 per cent of the Jewish population had been born abroad.

The level of migration was 20,624 in 1970 and rose to 55,888 in 1972, but declined slightly in 1973 to 54,888 and further declined in 1974 to 31,979. The average yearly immigration over the past five years has been 41,061.

IV HOUSING IN ISRAEL

The high production of housing units in Israel (47,350 in 1972; 51,070 in 1973; and 50,540 in 1974) directly relates to the GOI assumed responsibility to provide suitable housing for the nation's population, to eliminate slums and substandard dwellings and to provide for a viable distribution of the population.

Table 1 shows the progressive improvements in housing conditions related to density of room occupancy. In 1967, 10.2% of Jewish families lived in housing with three or more persons per room. By the end of 1973, only 5.4% of Jewish families lived in housing with three or more persons per room, notwithstanding the substantial increase in the number of families from 1967 to 1973.

The objective of the Public Housing Program is to find "solutions" to the housing problems of the lower income levels of the population who cannot adequately house themselves without GOI assistance.

The Ministry of Housing with the cooperation of municipal authorities plan, develop and supervise all public housing construction from a social interest point of view, with the actual construction work being carried out by private contractors.

Activities within the private housing sector include all of the private builders and commercial real estate operations whose primary market is found in the middle and upper income levels of the population and wealthy expatriates seeking second homes in Israel.

One of the goals of the economic policy initiated by the Government in July 1974 to curb inflation has been to direct construction activities towards meeting the demand for dwellings under Public Housing Programs. In connection with this goal, on July 3, 1974, the Minister of Housing issued an Order* which prohibits construction starts (except in agricultural settlements) on single dwelling units and on all dwelling units with a total area exceeding 110 square meters.

In addition, the Order prohibits construction starts on non-dwellings except upon approval of a "Committee of Experts" established to administer the Order. In connection with granting

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*/ Control Order on Commodities and Services, 5717-1957; Order in the Matter of Construction Control, July 3, 1974; Kovetz Takanot (Orders and Regulations Section of Israel Official Gazette) No. 3194, p. 144, as amended by Kovetz Takanot No. 3203, July 25, 1974, p. 1543; and Kovetz Takanot No. 3212, August 15, 1974, p. 1674.

TABLE 1

HOUSING DENSITY
JEWISH FAMILIES, BY NUMBER OF PERSONS PER ROOM
FOR THE YEARS 1959-1973

(in %)

		Number of Persons per Room				
Year's End	Families	Less than One	1.0 to 1.9	2.0 to 2.9	3.0 to 3.9	+4.0
1959	499.600	6.1	37.0	34.0	10.7	12.2
1960	505.700	6.6	40.9	31.7	10.3	10.5
1961	530.900	7.8	46.7	27.7	9.4	8.4
1962	553.000	7.4	46.8	27.5	9.8	8.5
1963	577.200	9.3	49.0	25.1	9.2	7.4
1964	582.900	9.4	50.3	24.9	8.3	7.1
1965	602.300	10.6	52.9	22.7	7.3	6.5
1966	617.300	12.7	53.5	21.5	7.6	4.7
1967*	613.600	14.8	53.9	21.1	6.1	4.1
1968	634.400	16.1	55.0	19.9	5.7	3.3
1969	640.800	16.9	55.4	19.2	5.6	2.9
1970	662.200	18.8	55.0	18.7	5.1	2.4
1971	683.200	20.0	55.1	17.9	4.6	2.4
1972	704.300	20.8	56.1	16.9	4.4	1.8
1973	729.900	21.6	57.0	16.1	3.9	1.5

* Since 1967 Families in Kibbutzim have not been included in the above statistics.

Source: Central Bureau of Statistics.

such approvals, the Committee must hold hearings to determine that the non-dwelling is designated for purposes of defense, industry or agriculture or for use by a public institution; that at least 70% of the non-dwellings so designated are constructed by, under the auspices of, or by requisition of the Ministry of Housing; and that other criteria set out in the Order are met. The Order also grants the Committee authority to hold hearings and issue injunctions to halt construction of buildings commenced prior to the issuance of the Order.

Table 2 shows the shift in percentage of building starts between public and private housing. It can be seen that since 1974 Government control has encouraged a greater percentage of housing starts in the public sector.

TABLE -
RESIDENTIAL BUILDING STARTS
(%)

YEAR	PUBLIC	PRIVATE
1970	45.8%	54.2%
1971	34.2%	65.8%
1972	37.2%	62.8%
1973	42.5%	57.5%
1974	55.2%	44.8%
1975	66.5%	33.5% (Planned)

In number of housing units:

YEAR	UNITS STARTED			UNITS COMPLETED		
	TOTAL	PUBLIC	PRIVATE	TOTAL	PUBLIC	PRIVATE
1970	46,530	21,320	25,210	31,380	11,170	20,210
1971	51,600	17,680	33,920	38,450	15,630	22,820
1972	66,090	24,610	41,480	47,350	20,130	27,220
1973	54,850	23,340	31,510	51,070	19,710	31,360
1974	54,210	29,970	24,240	50,540	23,920	26,620
* 1975	12,000	8,500	3,500	13,500	6,000	7,500

* Estimated number for the first three months of 1975.

Source: Ministry of Housing

V DEMAND FOR HOUSING

Demand for new housing in Israel is created mainly by five factors: the number of new immigrants, the number of new family formations, the number of families living in substandard and in high density housing, the shelter needs of Israel's minority groups, and the development requirements of new towns. Providing solutions to the housing demand created by these factors fall substantially upon the Government's public housing sector. Housing assistance in Israel is therefore primarily addressed to the following population groups in satisfying the demand for housing and in pursuing Government policy with respect to housing.

A. Population Groups

New Immigrants. Israel has no choice but to assume the responsibility to provide adequate shelter for new immigrants. Immigration is the life-blood of the State of Israel and is woven into the very fabric of its raison-d'etre.

The Team estimates that approximately 225,000 new immigrants may be expected to enter Israel during 1975 to 1979/80. This rate of immigration should necessitate the provision for nearly 57,000 housing units during this period, given the average size of a Jewish family as 3.9 persons.

Young Couples. New family formations, unlike immigration, are the cause of additional internal demand for housing units, mostly on the part of young, newly-married couples.

GOI statistics show that marriages each year have increased from 25,597 in 1971 to 28,587 in 1974. Although some of these "new households" can be accommodated with their families, can continue to use their present quarters or finance their own homes, the majority of this group will have just completed their military service or for other reasons will be without resources to enter the home market without GOI assistance.

The need for GOI assistance is demonstrated by the mortgage financing requirements for young couples as determined by the GOI's public sector directives. A $1 million mortgage financing requirement in 1970 soared to $50 million in 1974. The problem has grown increasingly acute in recent years because of the substantial increases in housing prices resulting in increasing difficulty for this group to purchase housing without government assistance. In establishing priority assistance to young couples, the GOI is not only responding to the growing socio-political pressures of the group, but is also discharging its responsibilities to veterans and, through assistance to the new households, is promoting the future stability of the economy.

The demand for housing by new households during 1975 is estimated by the Ministry of Housing to be 26,000 units. Over the five year period of 1975 to 1979/80, this demand is forecasted to

total 130,000 units, indicating a relative stability in the average yearly demand as seen by the Ministry of Housing. Actual future need will, of course, depend on population growth, marriage, and divorce rates and the amount of public housing assistance required by this population group.

Families Living in Housing Having a Density of Three or More Persons Per Room or in Substandard Housing. The most striking inequity in Israel with respect to housing is the disparity in dwelling standards among various groups of the population. The socio-economic ramifications of families living in substandard and high density housing presents a serious and potentially explosive problem. According to Ministry of Housing estimates, approximately 60,000 families are still occupying substandard housing. Of this figure, approximately 40,000 larger families are living in overcrowded conditions of three or more persons per room.

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

The unique makeup of the minority population requires the establishment of housing policies particularly suited to the expressed needs of these Israeli citizens. For example, the peculiar structure of the Arab family and high birth rate make it essential to allow for future expansion of housing units constructed and a housing plan which assures privacy for the family occupant.

Most minority families prefer to be directly responsible for construction of their homes (self-construction). Therefore, the Ministry of Housing offers assistance directly to these families rather than to provide completed units under its regular housing assistance schemes.

In striving to solve the housing problems of the minority population, respecting their specific requirements, their customs and traditions, the Ministry of Housing contributes both directly and indirectly to the social and economic progress of the regions inhabited by these groups. Specifically, the GOI is providing for the development of several new towns and villages for minority groups in the Akko region, Central Galilee, the Negev and in other developing and urban areas of the country.

Settlers in Development Areas. In an effort to reverse the population flow to the large metropolitan areas in the Tel Aviv-Haifa region, the GOI has established a high priority towards

strengthening the economic base of development towns located in the Galilee and Negev areas of the country. The Government, in addition to offering incentives to industrial development for these areas, offers incentives to families moving into these areas that include lower income taxes, higher wages, vocational training and special assistance towards acquiring housing in the form of grants and loans. The specific amounts of such grants and loans vary according to the particular classification of the development town.

B. The Ministry of Housing Estimated Housing Need 1975 - 1979/80

The Ministry of Housing projects a net nationwide housing requirement of 277,500 units with the actual requirement depending upon the level of immigration. Table 3 shows the breakdown of the estimated number of new housing units required during 1975 and during 1975 through 1979/80 by population groups.

The Team would question certain of the Ministry of Housing estimated housing needs for new immigrants and for high density (or slum dweller) population groups as shown in Table 3 in view of lower levels of present immigration and the expressed number of families living in substandard housing. The Team would be inclined to consider a lessor demand for new immigrants while opting for a greater need for slum clearance. In any event, the present overall total demand for new housing units, as estimated by the Ministry of Housing, appears reasonable. Yearly revisions in estimated demand and in construction programs to be initiated are made possible pursuant to the implementation of the Government's Five Year Housing Development Plan, a summary of which follows page 24.

TABLE 3

MINISTRY OF HOUSING
Estimated Annual Housing Nee
In The Public Sector
1975 Through 1979/80

	1975 Nationwide Total	1975 Urban Demand	1975-1979/80 Nationwide Total	1975-1979/80 Urban Demand
Total Net Demand	55,500	50,800	277,500	254,000
Total Demand	62,500	57,000	312,500	285,000
Young Couples	26,000	23,000	130,000	115,000
New Immigrants	17,000	16,000	85,000	80,000
Slum Clearance	6,000	5,500	30,000	27,500
Other (Minorities, Developing Towns, etc.)	13,500	12,500	67,500	62,500
Needs expected to be met from existing construction	(-) 7,000	(-) 6,200	(-) 35,000	(-) 31,000

Recapitulation of the Program for Planning, Housing Stock and Construction for 1975

	Units
Total Net Urban Demand for New Housing 1975 - 1979	254,000
Minus Urban Housing Stock in Process of Construction at Beginning of Period	-85,000
Total Additional Construction Starts Required By the Population During 1975 - 1979	169,000
Plus Urban Dwelling Units In Process of Construction For Occupancy After 1979	+80,000
Total Additional Urban Construction Starts Required During 1975 - 1979	249,000

Source: Ministry of Construction

VI FAMILY ABILITY TO PAY FOR HOUSING

A. Income Distribution

Tables 4 and 5 below show the distribution of income of urban employee's families and the percentage of families in each of the income categories. It is estimated that 50% of urban employee families by the end of 1974 earned an annual income of less than IŁ 20,000. On a monthly basis, in Israeli pounds, this equals IŁ1,666 and in U.S. $277.00.* The 1974 income estimate represents a 34% increase over 1973.

The income figure includes the earnings of all employees 14 years of age and older who are members of families in urban localities only. At the time of the last income survey this included approximately 90% of the employees in Israel.

For individual families, Table 6 indicates the source of income. In 1973, wage earnings represented 92.6% of all income. The balance consisted of income from such sources as 13th month salary, overtime payment, premiums, bonuses, and self-employed work. Other items included income from interest and dividends and current income from assistance and pensions.

The distribution of income in Israel for young couples registered for housing, one of the primary target groups, is shown below in Table 7. The table shows in absolute numbers as well as percentage terms the relationship between income and eligibility points, ** and further indicates, given a median monthly income during 1974 of IŁ1,666, that nearly 80% of the young couples registered for public housing were below the median income.

B. Effective Demand

Table 8 shows the number of families in Israel by size of family, population group (Jews and non-Jews) and type of locality (urban or rural). The table provides data for 1973 (data for 1974 not yet available). Although the population by the end of 1974 increased by 71,800 people, the data shown in Table 8 is sufficiently indicative in estimating the effective urban demand for housing.

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*/ U.S.$ 1 = IŁ6.

**/ The eligibility point system is defined and exemplified in Appendix 3, Young Couples Assistance Scheme.

TABLE 4

URBAN EMPLOYEES' FAMILIES - TOTAL FAMILY INCOME

Gross Annual Income Groups in IL.	1973 Average Size of Family	Average No. of Earners	Average Age Head of Family	Average No. Yrs. of Study Head of Family	Families 1967	1968	1969	1970	1971	1972	1973	1974*
					(%)							
Families-Total All Income Groups	4.0	1.5	43.3	10.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Up to 1,999					5.7	5.7	3.8	1.2)				
2,000-2,999	2.2	1.1	42.7	9.4	5.3	3.5	2.7	2.6(-	2.7	1.4	2.2)	
3,000-3,999					6.3	5.0	3.2	3.2	2.3	1.3	)	2.0
4,000-4,999	3.1	1.2	45.6	10.9	7.4	6.5	5.7	3.7	2.8	2.2	1.6	
5,000-5,999	2.9	1.2	52.1	7.2	9.5	6.8	6.6	6.0	3.5	2.5	1.7	1.6
6,000-7,999	3.2	1.1	44.5	8.5	18.3	19.0	19.7	17.4	14.1	8.8	6.4	1.9
8,000-9,999	3.9	1.1	44.5	7.4	14.1	15.7	16.0	15.6	16.9	12.9	10.4	5.3
10,000-12,499	4.2	1.2	42.4	8.5	10.5	13.7	14.2	14.0	16.0	16.6	14.8	6.6
12,500-14,999	4.4	1.4	42.8	9.4	8.9	8.5	9.0	11.0	12.3	13.8	13.2	11.2
15,000-19,999	4.2	1.5	43.1	10.1	8.0	9.5	11.4	14.6	15.1	18.0	18.4	20.6
20,000-24,999	4.1	1.9	42.2	11.3	3.4	4.0	5.1	6.1	8.5	9.5	12.4	13.5
25,000-29,999	4.0	1.9	42.1	11.7)					2.8	5.1	7.5	10.9)
30,000 plus				)	2.6	2.1	2.6	4.7	3.0	7.8	11.4	25.4)

* Estimated

Source: Central Bureau of Statistics

TABLE 5

Gross Income per Urban Employee Family
Annual, Monthly and Percentage Change
(in Israeli Pounds)

	Annual Average Income	Annual Median Income	Monthly Average Income	Monthly Median Income	% Change Median Income
1969	10,400	9,200	866	766	-
1970	11,800	10,100	983	841	.09
1972	15,400	13,300	1,283	1,108	.31
1973	17,500	14,900	1,458	1,241	.12
1974*	-	20,000	-	1,666	.34

Source: Central Bureau of Statistics *Estimated

TABLE 6

Source of Income
(Percentage)

	1973	1972	1970	1969
From Employment	92.6	93.7	93.0	93.0
Head	(73.2)	(74.2)	(75.0)	(75.7)
Wife	(11.5)	(11.9)	(11.0)	(10.0)
Other	(7.9)	(7.6)	(7.3)	(7.3)
Self-employed work	1.4	0.9	2.1	1.9
Other*	5.9	5.4	4.6	5.1

* Property, interest, dividends, pensions, assistance grants.

Source: Central Bureau of Statistics

TABLE 7

Distribution of Young Couples Registered for Housing Program
By Eligibility Group and Monthly Income[1]

Income (IL/Mo)	0-1,000	1,001-1,300	1,301-1,600	1,601-1,900	1,901-2,200	2,201+	Total
Eligibility Points							
Families: (Absolute Numbers)							
0-799[2] (not eligible)	(71)	(116)	(332)	(882)	(601)	(2,219)	(4,221)
800-999	239	206	349	529	250	488	2,061
1000-1999	276	276	339	475	173	178	1,717
1200*	727	429	362	306	56	23	1,903
Total (800+)	1,242	911	1,050	1,310	479	689	5,681
Families: (Percentages)							
0-799[2] (not eligible)	(1.7)	(2.7)	(8.0)	(20.9)	(14.2)	(52.5)	(100.0)
800-999	11.6	10.0	16.9	25.7	12.1	23.7	100.0
1000-1999	16.1	16.1	19.6	27.7	10.1	10.4	100.0
1200+	38.2	22.5	19.1	16.1	2.9	1.2	100.0
Total (800+) (Total eligible)	21.9	16.0	18.5	23.1	8.3	12.1	100.0
Accumulated Percentage	21.9	37.9	56.4	79.5	87.8	100.0	

[1] Figures for the period September 1974 - March 1975

[2] Below 800 eligibility points, no governmental funds are used.

SOURCE: Ministry of Housing based on program registration.

With respect to urban Jewish families who numbered 690,800 and to minority families who numbered 34,700 in 1973, 50.2% or 364,201 families may be considered within the income range (US $277 per month or less) which A.I.D. would consider for assistance under its housing guaranty program shelter objective of benefitting low-income groups.

TABLE 8

FAMILIES, BY SIZE OF FAMILY,
POPULATION GROUP AND TYPE OF LOCALITY
(Average 1973)

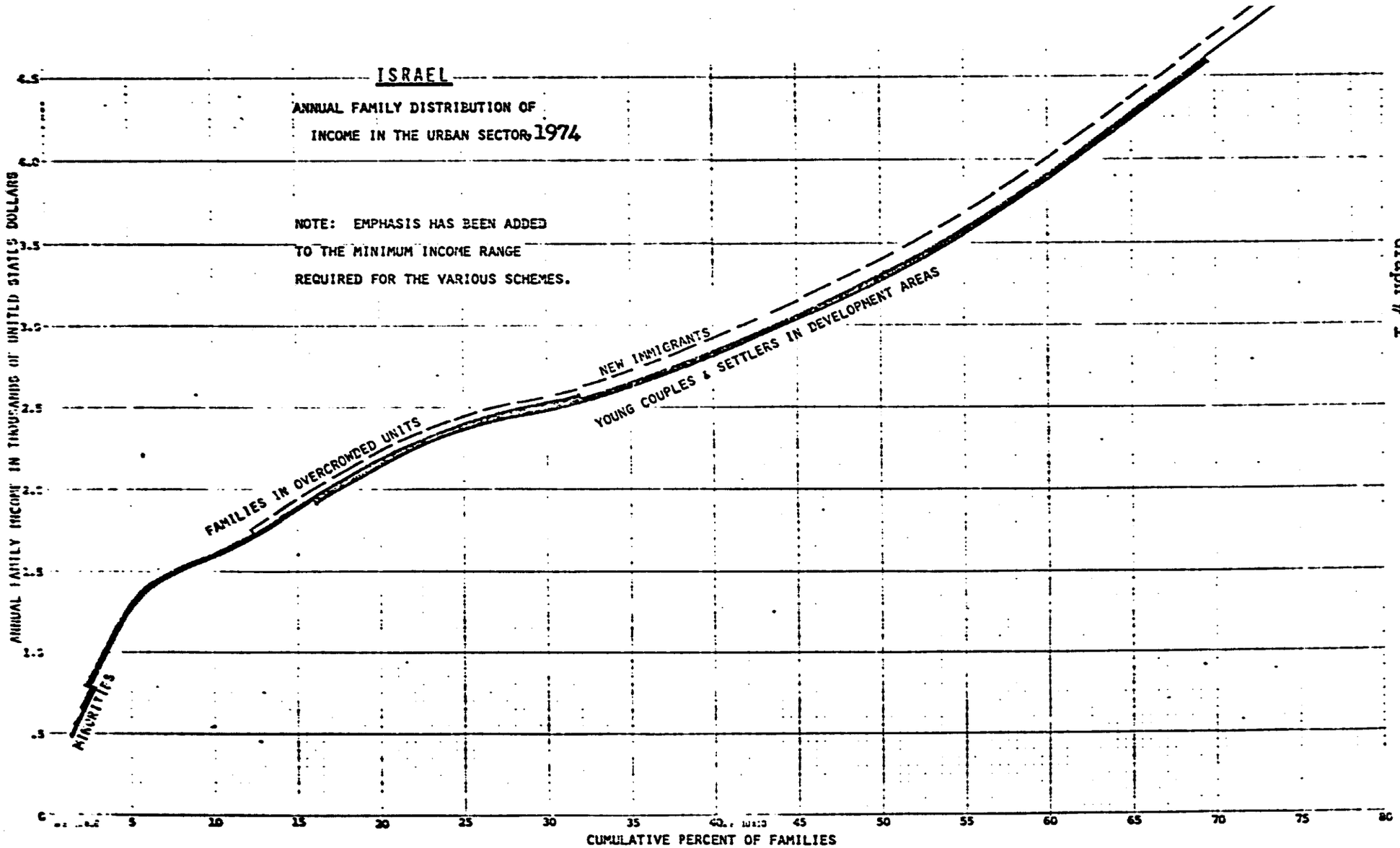
Population group and type of locality	Average size of family	Persons in family (percentages)							Total	Total (thousands)
		7+	6	5	4	3	2	1		
JEWS — TOTAL	3.5	7.8	5.7	12.3	19.5	18.8	22.5	13.4	100.0	765.9
Urban — total	*3.6*	*7.7*	*5.7*	*12.4*	*19.9*	*19.0*	*23.3*	*12.0*	*100.0*	690.8
Jerusalem	3.5	8.1	6.8	13.4	15.2	16.4	24.1	16.0	100.0	61.0
Tel Aviv-Yafo	3.1	4.4	3.4	10.6	19.8	19.2	25.1	17.5	100.0	127.8
Haifa	3.2	3.5	3.8	11.2	20.0	21.2	26.5	13.8	100.0	70.0
other	3.8	9.4	6.5	13.0	20.6	19.0	22.1	9.4	100.0	432.0
Rural — total	*3.4*	*8.9*	*5.6*	*11.4*	*16.4*	*16.4*	*15.2*	*26.1*	*100.0*	75.1
Moshavim	4.5	17.2	8.4	14.6	20.4	18.7	16.2	4.5	100.0	28.9
Qibbuzim	2.3	0.8	2.5	8.4	12.9	13.6	12.8	49.0	100.0	35.8
Villages	4.1	13.8	8.2	13.1	17.9	19.5	20.5	7.0	100.0	10.4
NON-JEWS — TOTAL	6.2	44.2	10.4	10.2	9.9	9.5	9.3	6.5	100.0	77.1
Urban	6.1	42.8	10.3	12.3	10.8	7.2	8.8	7.8	100.0	34.7
Rural	6.2	45.4	10.5	8.4	9.1	11.5	9.7	5.4	100.0	42.4

Source: Central Bureau of Statistics

A fair amount of housing being constructed in Israel under each of the Government's public housing schemes make possible the acquisition of a home with mortgage financing requiring initial monthly payments of IL415.50 (US$69.25) or less. In terms of 25% of family income being available for debt service requirements, a $69.25 monthly payment requirement would require a monthly family income of $277.

The range of monthly payment requirements for mortgage financing available under the Young Couples, Overcrowding 3+, and Veteran Settlers Schemes are shown in Appendix 3. A similar range of monthly payment requirements would be applicable for the new Immigrant Scheme. A lower range of monthly payment requirements would be applicable to the Scheme for Minority Housing.

The estimated 1974 annual income distribution of urban employee families as tabulated in Table 4 is further illustrated in Graph No. 1. It is also shown in the graph that those families whose incomes are at or below the 50th percentile (median income) can qualify for the five Government housing schemes applicable to their respective population group; provided, of course, that family eligibility criteria other than income is also satisfied.



Source: Graph by A.I.D.'s Office of Housing, using Ministry of Housing and Central Bureau of Statistics data.

VII HOUSING POLICY - FIVE YEAR PLAN

The GOI plans and controls the housing activities in the country through its "Five Year Housing Development Plan" which is revised each year to meet current and projected housing needs within the framework and guidelines of the Government's overall economic policy. In practice the Five Year Plan is a continuous vehicle for current and future housing policy implementation. As revisions to the plan are made in each succeeding year, the Plan's precepts for the initial year are dropped from further reference and the current year becomes a part of the existing Five Year Plan. Separate components of the Plan are devoted to urban housing, rural housing, and housing for minorities which are geared to the respective needs of these groups.

A. Primary Goals

1. The primary goals of the Urban Housing Development Plan are:

To provide housing for population increases both natural and as a result of immigration;

To continue slum clearance and improvement schemes;

To implement a population disbursal policy concerning Jerusalem, the Galilee, and the Negev;

To develop integrated neighborhoods to include low and middle income families consisting of new immigrants, young couples and slum evacuees;

To provide proper environmental conditions;

To advance mechanization, standardization, modular coordination, and systematization of construction;

To reduce the proportion of land investment to total housing costs; and

To develop reserves of planned and developed building sites thus providing elasticity for the annual adjustments in the Development Plan to meet changing requirements.

2. The primary goals of the Plan for Minority Housing are:

To guarantee adequate housing for the growing minority population in their present areas of habitation;

To develop villages and towns for minorities thus upgrading their level of housing and services;

To assist minority urban slum dwellers or families living in overcrowded conditions to obtain adequate housing;

To develop a reserve of planned building sites; and

To develop housing projects suitable for homogeneous community life for the various minority ethnic and religious communities in Israel.

3. The Plan for Rural Housing also has defined goals and precepts. Unfortunately, the Team had insufficient time to develop data with respect to this rural housing development.

B. The Public Housing Schemes

While public housing policy in Israel is geared to assist prospective homebuyers to acquire adequate housing, such assistance is being redirected from subsidizing the acquisition of land (land subsidies are being reduced); from subsidizing the cost of construction; or from downgrading construction standards. Instead, homebuyers eligible for public housing are increasingly being assisted directly by providing adequate mortgage financing under reasonable terms and grants (under certain conditions deemed appropriate by the Government).

Those families unable to qualify for purchase of housing as outlined below are assisted through various rental housing, home improvement, or rural self-help schemes.

Within the perimeters of the GOI's Housing Development Plan, five distinct housing market groups of the population, as described beginning on page 13 of this report, are being given priority under specific standardized public housing schemes. These housing market groups as previously described and the respective schemes applicable to each group are:

Young couples (Young Couples Assistance Scheme);

New immigrants (Immigrant Housing Program);

Families living in housing having a density of three or more persons per room or in substandard housing (Overcrowding 3+);

Minorities (Minority Program); and

Settlers in development areas (Housing for Veteran Settlers).

Additional groups primarily in the rural and development areas are being given assistance by the Government on a selective basis.

1. Eligibility Provisions and Benefits of GOI Sponsored Schemes

Specific eligibility provisions and benefits applicable to each scheme developed by the Government are varied and complex. This is demonstrated by a reading of the general provisions of the Young Couples, Overcrowding 3+, and Veteran Settlers Schemes, outlined in Appendix 3,which exemplify the multiplicity of terms and conditions facing prospective mortgagors who are deemed eligible under one of the public housing programs.

A determination of eligibility entails an even greater number of underwriting determinations. For example, the criteria for establishing eligibility of a "Young Couple" applicant involves some 55 risk rating possibilities under 10 underwriting subject headings which determine the number of eligibility points ascribed to each applicant. The number of eligibility points, in turn, determines specific mortgage loan limitations (and initial monthly payments), within each development or non-development area (as indicated in Appendix 3, Table A).

Appendix 4 provides a 1973 breakdown of eligibility criteria for Young Couple applicants. Although some minor changes have subsequently been made in the number of points ascribed to the various subject headings and in the weight given thereto, the general eligibility criteria shown in Appendix 4 is still utilized by the Ministry of Housing.

A general summary of the amount of loan and repayment terms available under the various housing assistance schemes are set forth in Table 9.

TABLE 9

GENERAL TERMS OF AVAILABLE HOUSING ASSISTANCE

Recipient Group or Program Category	Loan Amount Minimum - Maximum	General Terms of Repayment
New Immigrants	IL 30,000 - 100,000 ($ 5,000 - 16,666)	First 3 years @6% p.a.) 4th and 5th years @7.5%) Average 6th to 17th years @9.0%)
Families in Over-crowded Units (3+)	IL 20,000 - 90,000 ($ 3,333 - 15,000)	Variable Interest Rates of 1.5% p.a. to 7.5% -25 yr. term 2.0% p.a. to 8.0% -25 yr. term 4.0% p.a. to 6.0% -17 yr. term 5.5% p.a. to 7.5% -17 yr. term Depending on applicant eligibility status and amount of loan.
New Households (Young Couples)	IL 40,000 - 95,000 ($ 6,666 - 15,840)	Basic interest rate for each mortgagor varies according to eligibility and location from 7% p.a. to 16.5% Monthly payment increases every two years after first three year period until 15th year. Payment remains the same for the last 5 years of a 20 year loan
Settlers in Development Areas	IL 40,000 - 95,000 ($ 6,666 - 15,840)	Same as for young couples.
Home Improvement Loans	IL 15,000 - 45,000 ($ 2,500 - 7,500)	Multiple funding (mortgage bank or GOI budgetary) depending on amount of loan. Bank financing @11% p.a. (10 yr.); GOI at an average interest rate of 4.5% for 20 yrs.
Minorities	IL 25,000 - 60,000 ($ 4,166 - 10,000)	Same as for home improvement loans.
Rural Loans	IL 40,000 - 100,000 ($ 6,666 - 16,666)	Similar to home improvement loans but term of repayment is up to 40 years.

NOTE: Except for home improvement and minority loans, which are processed on an ad hoc basis, all of the above recipients or program categories) are processed according to standardized underwriting criteria developed by the Ministry of Housing applicable to all applicants for a particular program.

Specific amortization tables being utilized under the various schemes are on file at A.I.D.'s Office of Housing.

Source: Ministry of Housing

VIII INSTITUTIONAL FRAMEWORK OF THE HOUSING SECTOR

The institutions, both public and private, participating in Israel's housing sector are numerous and diverse. While most housing activities are centered in the Ministry of Housing or in its affiliated corporations, the overall institutional milieu covers a broad spectrum of participants.

A. Public Institutions

1. Ministry of Housing

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

The Ministry either directly through its various departments or through its affiliated housing corporations, coordinates and directs the activities within the sector including research projects to improve construction techniques and the development of new construction systems and materials.

New housing projects, as well as the improvement and expansion of existing housing, are planned and executed in accordande with central and municipal planning policies, general and local master plans, and follow GOI approved standards. Social, commercial and other community facilities are integrated elements of planning, particularly in development of new communities or settlements.

MINISTRY OF HOUSING DEPARTMENTS AND AFFILIATED CORPORATIONS *

Department of Rural Construction

This Department administers about 720 rural settlements throughout the country including cooperatives, Kibbutzim (collectives), older semi-urban and new settlements in which 220,000 people live.

Increasingly, the older settlements have become problems because of outdated standards of housing and difficulties in attracting new settlers. To improve these conditions, the Department has initiated a program through which improvement and rehabilitation loans are available at advantageous terms. Since the initiation of the program, about 60% or 15,000 units will be or are being renovated and improved. Parallel with this program, there are plans for construction of new housing for young people, for new community facilities, utilities and services. Housing standards for rural settlements are being periodically reviewed and improved as necessary.

* Corporations affiliated with the Ministry of Housing through the Government's capital investments therein and memberships on their Boards of Directors.

Other Departments of the Ministry of Housing provide for activities related to population dispersal, minorities, savings for housing schemes and maintenance of construction materials standards. The Building Center of Israel, of which the Minister of Housing is the Chairman of the Board of Directors, is described beginning at page 64 of this report.

Tefahot Israel Mortgage Bank,Ltd.

The GOI exercises direct operational control over Tefahot through the Government officials comprising a majority of its Board of Directors. These Government officials include representatives from the Ministries of Immigrant Absorption, Finance and Welfare.

Israel Housing and Development Co., Ltd.
(Shikum-Ve-Phituach, B.M.)

The GOI holds approximately 66% of this company's stock with the balance being held by Amidar. The company operates under an annual contract with the Ministry of Housing, with its primary functions being construction and sale of public housing units. It contracts with private contractors for the construction of approximately 20,000 units per year, as allocated by the Ministry of Housing.

Israel National Housing Corporation for Immigrants, Ltd.
(Amidar)

Amidar was established in 1949, as a central instrument of the Government and the Jewish Agency* for the construction and administration of housing quarters for new immigrants. Since 1963, it has assumed the primary function of administration and maintenance of public housing units designated for Amidar's services by the Ministry of Housing.

Amidar has a present inventory of 260,000 housing units, 140,000 of which it leases to low-income families with an option to buy. The remaining 120,000 units, although they have been sold, are maintained by Amidar. In its capacity as an administrating agent for the Ministry of Housing, Amidar receives 7,000 to 10,000 apartments per year which have been designated for lease-purchase under eligibility criteria established by the Ministry of Housing.

Additional functions of Amidar include the financing of improvements to existing housing and neighborhoods in need of rehabilitation. It also provides various cultural and social activities to indigent families under the guidance of community social workers. Amidar maintains 53 settlements throughout the country.

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* The Jewish Agency, which receives and administers funds raised abroad on behalf of Israel, undertakes the immigration and absorption of immigrants in Israel, in cooperation with the Government. Its chief sources of revenue are the voluntary fund-raising campaigns through the world.

Halamish Corporation, Ltd.

As a Governmental municipal corporation, Halamish is responsible for the rehabilitation of slum areas in Tel Aviv-Yaffo.

This corporation was established in 1962 as a partnership between the Ministry of Housing and the Tel Aviv-Yaffo municipality. It is estimated that the corporation's total investment is in excess of IL 60 million, of which two-thirds is invested by the Ministry, and one-third by the municipality.

The principal duties of this corporation are:

To provide housing in new residential neighborhoods for evacuees of slums;

To participate in the construction activities of public institutions; and

To develop and maintain activities with respect to community life in new residential neighborhoods by organizing tenants as independent community and self-management units.

Similar to the activities of Halamish, Shikmona Corporation, Ltd., is the Government municipal housing corporation for Haifa.

Lod Development Company

This company also participates in the construction of public housing for those population groups which the Government wishes to assist, including large families to be moved from unsafe or overcrowded housing. Its operations are limited to specific geographic areas designated by the Ministry of Housing.

Investment Development and Construction Co., Ltd. (Azorim)

This corporation acquires, develops and sells land or builds for rental or sale.

2. Housing Sector Activities Within Other Ministries

Israel Lands Authority

The Israel Lands Authority is under the control of the Ministry of Agriculture and owns more than 92% of all the land in the country.

The Authority allocates land for housing projects, new communities and settlements; however, following GOI policy, it avoids the outright sale of land. Instead, it usually enters into 49-year leases containing provisions for automatic renewal for an additional

49 years providing the use for which the land was originally leased continues unchanged.

The National Planning Council

Established by law in 1965, the Council, under supervision of the Ministry of the Interior, prepares a national master plan designating land for residential, agricultural, commercial and recreational uses.

To implement this plan, national development and security priorities, the country is divided into six districts. Each district has a district planning and building commission and a regional plan within which to operate. The planning process is finally divided into local agencies and plans.

Ministry of Finance

The Ministry of Finance through its various departments is influential in the Housing Ministry's development of its yearly budget for housing and in its reconciliation with and subsequent incorporation in the overall National budget.

The Accountant General of the Ministry of Finance handles the Government's finances (including the financing of current needs). This official administers and reports on the Government's capital accounts and is responsible for negotiating external (foreign) loans and deposits.

Responsibility for the formulation of the current and long-range economic plans are centered in the Economic Planning Authority of the Ministry of Finance. Preparation of the Five Year Development Plan for housing is coordinated with the Ministry of Housing. The Planning Authority, with the assistance of the Bank of Israel and the Finance Ministry's Economic Advisor, prepares the National budget.

A Department of Capital Markets and Financing carries out the statutory power of the Minister of Finance to mobilize money from the banking system and financial institutions for Government-directed operations, and to approve private issues of securities and their sale to the public.

The Bank of Israel (Central Bank)

The functions of the Central Bank are to issue currency, to accept deposits from banking institutions in Israel (and to extend temporary advances to the Government), to act as the Government's sole fiscal and banking agent, and to manage the public debt. It's Governor supervises the liquidity position of the commercial banks and regulates the volume of bank advances. It represents the Government in

international financial institutions in which it is a member, such as the International Monetary Fund and World Bank.

Its Economic Research Department provides various studies including studies on the effectiveness of the Government's approved savings schemes.

The Ministry of Justice

Under its Land Registration and Settlement Department, it acts as the principal client of the Israel Lands Authority.

Titles to land, other land transactions and auxiliary land operations are recorded. Disputes over land ownership, ownership over immovable property and differences between homeowners in cooperative and in condominium projects* are settled.

Settlement processes follow the Settlement of Rights to Land Ordinance (Consolidated Version) of 1969. Precise cadastral measurements that permit preparation of official maps of land settled, divided into blocks and parcels, are open for public inspection.

The Ministry of Immigrant Absorption

In coordination with the Ministry of Housing, the Ministry of Immigrant Absorption's Housing Department controls the absorption budget, earmarked for immigrant housing, and controls the settlement process of providing housing and other related services for new immigrants.

The Ministry encourages and assists new immigrants in obtaining mortgage financing for permanent housing and also makes advances which can become outright grants. It also assists in paying the rent for many families during their initial period of residence. It lends key money for the purchase of existing housing. It provides transient lodging in absorption centers, hostels, and in Ulpanim (centers for the study of Hebrew).

B. Private Institutions

1. Banking

Israel possesses a highly-developed banking system, consisting of the Central Bank (The Bank of Israel), 28 commercial banks, 14 credit cooperatives and 35 other financial institutions. Long-term credits are granted by mortgage banks, the Israel Agricultural Bank, the Industrial Development Bank, and the Maritime Bank.

The 18 mortgage banks of Israel are, directly or indirectly, effectively controlled by the GOI and, again directly or indirectly, receive a large percentage of their incremental resources from the GOI.

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* The condominium form of home ownership in public housing has replaced most of the single mortgage cooperatives previously utilized in the public housing sector.

Four of the banks (Tefahot, General, Housing Mortgage and Mortgage Development) control approximately 85% of the total assets of all of the mortgage banks, and Tefahot, the largest bank, and the recipient of the previous $50 million HG loan, also administers the GOI savings for housing schemes.

a. Bank Hapoalim, B.A.

Affiliated with the Histradut (Israel's general federation of labor), it is one of the major banks of the State of Israel, in terms of scope and in volume of business. Its savings programs include savings schemes linked to the cost of living index. Its outstanding loans at the end of 1974 amounted to IL18,268 million, 30% of which were utilized for construction and housing.

The Bank Hapoalim's subsidiary companies include:

Housing Mortgage Bank, Ltd.

In 1974, 4,900 loans were granted, mostly to families considered eligible for public housing by the Ministry of Housing and to purchasers of dwellings in the various enterprises of Shikun Ovdim (workers' housing) which is described on page 36.

Mortgage and Investment Bank for Building, Ltd.

This bank's activities consist of making loans to home purchasers for both public and private housing. It obtains its resources for making loans primarily through the issuance of debentures.

Bank Tel Aviv for Mortgage and Development, Ltd.

As a mortgage bank, it finances mostly the purchase of houses for young couples and other residents of Tel Aviv. It also grants loans for home improvements, in accordance with the joint program of the Tel Aviv-Yaffo municipality and the Ministry of Housing.

b. Bank Leumi Le-Israel, B.M.

The Bank Leumi is Israel's first and largest banking group. Its savings plans accumulated some IL 1 billion during 1974. Total deposits with the Bank Leumi Group went up by IL 10.8 billion (about 57%) in 1974. Particularly prominent were the approved savings plans, the balances of which increased by more than 100%. For the second consecutive year, the rapid rise in price indices increased the demand for index-linked assets, and savings plans are the only type of linked deposit available to the public at the banks. Since February 1974, with the introduction of less favorable conditions of index-linked debentures, the income receivable from investments and savings plans exceeded that yielded by linked debentures, making savings plans more attractive. The most popular of such plans is the "10,000 Optional"* and Bank Leumi accounts for some 45% of savings of this type in the banking system.

* The 10,000 Optional Plan is defined in the footnote to Table 14.

The construction industry accounted for 16% of the Group's total credit, both long- and short-term financing. Long-term loans, mainly against mortgages, are granted by the Bank Leumi's subsidiary General Mortgage Bank. This company's loan portfolio grew in 1974 by 60% to reach IL 1,268 million. Some 9,000 new mortgage loans were granted.

General Mortgage Bank, Ltd.

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

2. Mortgage Banks*

Tefahot Israel Mortgage Bank, Ltd.

Tefahot, Ltd., was founded in 1945 with the aim of granting mortgages for the promotion of public housing projects throughout the country.

The bank's major resources are provided from sales of debentures and from Government deposits which are used for granting mortgages to purchasers of residential housing.

An affiliate of Tefahot is the Carmel Mortgage and Investment Bank, Ltd., located in Haifa.

Israel Development and Mortgage Bank, Ltd.

This bank, incorporated in 1959, has as its major objectives the granting of loans against first mortgages and/or other securities in connection with public housing schemes and popular housing, and the carrying out of industrial investments and their preliminary financing requirements.

Bank of Jerusalem for Development and Mortgages, Ltd.

This bank started operations in 1964. Although primarily intended to assist the financing of building industrial and tourist activities, the bank also extends long-term loans to various types of housing applicants: new immigrants, evacuees from slum dwellings, newly-married couples, and participants in approved housing schemes.

3. Private Sector Building and Property Management Companies

There are a large number of private sector companies in Israel engaged in the construction and/or management of residential housing. Some of these companies are briefly summarized below:

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* These mortgage banks are in addition to those mortgage banks affiliated with Bank Hapoalim and Bank Leumi-Le Israel.

Solel Boneh, Ltd.

Solel Boneh is the General Federation of Labor's (Histadruth's) main executive arm in construction and related industries. It is also one of the largest and most influential enterprises in Israel, employing more than 25,000 people.

The Corporation operates through seven divisions, each specializing in a particular area of activity. With respect to home construction these divisions include: The Building Division, which undertakes construction of residential dwellings including prefabricated housing, industrial complexes, public buildings, hospitals, hotels, defense works, etc.; and Diyur B. P., Ltd., which plans and promotes the construction of apartments, offices, and shops for sale to the general public. It builds medium cost housing units in various parts of Israel.

Elram - Housing Corporation

Elram Corporation, founded in 1973 plans and constructs buildings in urban areas and in development towns for the Government (young couples, new immigrants) and for private enterprise (acquisition of land and construction of more expensive housing for the open market), in addition to the construction of commercial and shopping centers in industrial parks.

Pan-Lon Engineering and Building Co., Ltd.

The operations of the company are entirely within the private housing sector and include construction of residential, commercial and industrial premises. It builds on its own account, and also undertakes general contracting work.

Sela Housing Corp., Ltd.

Sela was established in 1949 as the central housing instrument of the Histadrut Ovdim Leumit (the national labor organization), with the purpose of providing housing and public institutional buildings for the benefit of both its workers and new immigrants. During its 20 years of existence, it has erected more than 7,000 housing units for families in the labor movement; and, through the Ministry of Housing, for new immigrants. It has also constructed commercial and shopping centers throughout the country, in addition to the public buildings.

Rural and Suburban Settlement Co., Ltd. (RASSCO)

RASSCO is a leading builder and real estate developer in Israel. The company is active in all fields of construction as a general contractor and in developing real estate schemes, ranging

from self-contained suburbs through urban apartment house centers, shopping centers, hotels and industrial parks.

It also shares in Government-sponsored building programs for new immigrants, young couples and slum clearing. RASSCO also constructs public buildings such as schools, university buildings and Government offices, and it takes part in building operations for the Ministry of Defense.

Shikun Ovdim (Workers' Housing), Ltd.

Israel's oldest and largest housing company, Shikun Ovdim, established in 1933 by the Hevrat Haovdim (the Histadrut's central economic agency), has carried out building activity aimed at supplying suitable housing for the Israeli working population. Since its inception, Shikun Ovdim has built 120,000 apartments, in which more than 500,000 people has been housed. It has building projects in 66 towns and settlements all over the country, from Safed in the North to Eilat in the South. It holds 50% of the shares of the Housing Mortgage Bank.

Ami-Gour Real Estate Management, Ltd.

A subsidiary of the Jewish Agency, Ami-Gour was established in 1971, as a trustee of the United Israel Appeal in order to administer housing estates purchased with funds raised by the United Jewish Appeal.

The company operations in Jerusalem, Ashkelon, Ashdod, Nahariah, Carmiel and in a number of other cities and towns include receiving property purchased with funds of the UJA/UIA for housing purposes; property administration, maintenance, and renovation; enlargement of apartments for eligible families living in overcrowded conditions and in substandard houses; and construction of playgrounds, public works, etc., in Ami-Gour neighborhoods; and community work and education of tenants.

Additional Companies

Additional private sector companies which participate in the construction of public housing would include Rubinstein, Ltd., and Nehassim U'Binyan.

IX FINANCING ISRAEL'S PUBLIC HOUSING PROGRAM

In Israel the term "public housing" is understood to mean housing initiated, planned (physical and social planning, including construction standards, unit areas, etc.), and financed, either fully or partially, by the National Government, local Government authorities, or other national institutions such as the United Jewish Appeal. Private housing includes those housing units the construction of which is initiated and financed by private builders and by private real estate companies.

A. Source of Funds

The financial requirements of Israel's Public Housing Program in 1975 will amount to nearly IL 5.4 billion. In terms of a rate of exchange IL 6 = US$ 1, this equals US$ 893 million. Table 10 illustrates the source of this money.

The bulk of the financial resources, IL 3.8 billion as shown in Table 10, is reflected in the country's development budget which is Israel's budget for specific development projects. The source of this money is primarily the Government's housing budget, the Government's Savings for Housing Schemes (described beginning on page 51 of this report), resources from other Government agencies for infrastructure development, and purchasers' investments represented by downpayments for dwellings under construction.

The regular budget, IL 192 million, represents, in part, the GOI's allocation for linkage differential and interest subsidy as discussed on page 40 of this report.

During 1975, sources external to the country's budget will supply more than IL 1.4 billion, one billion of which will be provided by the mortgage banks and capital markets, both domestic and foreign. The balance, IL 378.7 million, originates in the country's conditional budget. This budget is conditional upon receipt of funds from sources such as the Jewish Welfare Fund, United Jewish Appeal, U.S. Agency for International Development.

B. GOI Financial Assistance - Public Housing Sector

From the viewpoint of financing, it is possible to classify 1975 building in Israel into three main groups:

About 20,000 units to be financed directly from the country's development budget;

About 10,000 units to be financed partially by Government-directed funds (as indicated above. these are funds that are raised through bonds and securities purchased by insurance companies; pension funds and in the various Savings for Housing schemes supervised by the Government); and

About 25,000 housing units to be developed by building companies and by contractors through combined financing made up of advanced payments on the part of occupants, bank financing and other capital resources available to the builders.

TABLE 10

BUDGET FOR THE 1975 PUBLIC HOUSING PROGRAM
(IL 000,000)

	Total	Development Budget*	Regular Budget	External Sources and Conditional Budget
Total	5,358.9	3,755.2	192.0	1,411.7
Housing Budgets	3,737.0	3,545.0	192.0	
Other Government Agencies	74.6	74.6		
Purchaser Investment	135.6	135.6		
Banking System and Capital Market, Local and Foreign (External Sources)	1,033.0			1,033.0
Budget Expenditure Conditioned On Income From External Sources (Conditional Budget)	378.7			378.7

* Including Government's Savings for Housing scheme funds.

Source: Ministry of Finance

In light of current GOI policy, the 1975 funds have been allocated as indicated in Table 11.

TABLE 11

ALLOCATION OF FUNDS UNDER THE 1975 BUDGET
(IL 000,000)

	Total	Development* and Conditional Budgets	Regular Budget	External Sources
Total	5,358.9	4,133.9	192.0	1,033.0
Financing Schemes Started in Previous Years	2,423.5	2,013.5	-	410.0
Construction	2,069.7	1,879.7	-	190.0
Assistance	353.8	133.8	-	220.0
New Schemes 1975	2,743.4	2,120.4		623.0
Construction	1,733.6	1,371.6	-	362.0
Assistance	1,009.8	748.8		261.0
Direct Subsidies	192.0		192.0	

* Including Government's Savings for Housing scheme funds.

Source: Ministry of Finance

C. Financing System - Construction Financing

Interim construction financing is extended to contractors for approved public housing projects by the Ministry of Housing. It is possible to distinguish three types of contracts with contractors and building companies.

The first type of contract, Conventional Buildings, the Ministry of Housing pays the contractor an advance of 10%, given without interest upon signing of the contract. The contractor produces bank securities for this advance apart from the security which he gives for the execution of the project as a whole. During the course of construction, payments are in amounts fixed in advance corresponding to stages of completion. These payments are linked to the building price index of inputs.

For the second type of contract, Pre-fabricated Construction, the Ministry of Housing pays an advance of 20% to 30% of the value upon signing of the contract. The balance of the payments are made according to the stages of building progress. Again, the price is linked to the building price index of inputs.

Under the third type of contract, Land Development Works, the contractor presents a statement of costs at completion of each stage of work. The contractor receives 75% of the account at the end of each stage and the balance upon completion of the entire project.

D. Financing System - Subsidy *

The second major category of financial assistance through the Public Housing Program is that of the subsidy by the GOI for interest and linkage differentials. Under this category, the Government subsidizes repayment of loans from non-Governmental lenders for reloan to homebuyers in the form of mortgage loans, by covering payments of interest differentials and linkage differentials on both interest and principal. They are as follows:

1. Direct Subsidies

Interest Differentials in Respect to Non-Government Funds

The Government covers payment of interest differentials between the higher rates at which funds are borrowed from non-Governmental sources and the lower rates at which funds are reloaned to homebuyer mortgagors. This subsidy will amount to about IL 15 million for 1975.

Linkage Differentials

Repayment of virtually all funds, both principal and interest, from non-Governmental sources are linked, either to the COL (Cost of Living Index) or to the exchange rate of a foreign currency. Hence under this subsidy, the GOI covers the payment of any change in the COL or exchange rate. In consideration for this linkage coverage, the lender usually pays a premium (up to 4% annually on the outstanding principal) for "linkage insurance." However, the proceeds from such premiums (collected from mortgagors) do not generate sufficient funds to offset the linkage differentials. For example, as a result of the rapid, steady increase in the COL during recent years, the amount of the linkage subsidy not offset by insurance premiums is estimated to reach IL 80 million in 1975.

*/ Largely abstracted from "Outline of Information for Agency for International Development" (transmitted to A.I.D.'s Office of Housing by letter dated January 2, 1975, of Mr. Ze'ev Sher, Economic Minister, Embassy of Israel, Office of the Economic Minister) and from the April 1975 "Background Paper" prepared for the Team by the Ministries of Housing and Finance.

2. Indirect Subsidies

Subsidy Directly Allocated from Government Sources

In addition to the above-mentioned subsidies, repayment of the portion of mortgage loan funds derived from budgetary sources must also be regarded as subsidized, since the terms on which such funds are loaned are at interest rates below those prevailing in the market and non-linked; thus, in a sense, the Government subsidizes its own direct subsidies.

Subsidizing the Sale or Lease of Land

In the past, the sale price of land sold or leased for projects under the Public Housing Program has been considerably subsidized, with the amount of the subsidy in respect of any given transaction being greater in respect of land located in densely populated regions. The amount of such land subsidies for 1974 came to IL 370 million, only IL 50 million of which was offset by funds paid off during the same period by homebuyer mortgagors of dwelling units in public housing projects.

Although the land subsidies contribute to the goal of lowering the price of dwelling units in public housing projects, these subsidies tend to counteract the policy of encouraging geographical dispersion of the population, and to interfere with the implementation of policies relating housing assistance to the social needs of various groups. Therefore, it has been decided that commencing in 1975, this subsidy will be substantially reduced, while, at the same time, the amount of mortgage loans to homebuyers who purchase dwellings in the projects will be increased on the basis of socio-economic considerations. Accordingly, for 1975, the amount of land subsidies will be reduced to IL 120 million (as opposed to IL 320 million for 1974 as noted above); and IL 160 million of additional loan funds will be made available to homebuyers as mortgage loans to help compensate for the reduction in the land subsidy.

Price-of-Dwelling Subsidies

Most construction of public housing units is financed from Government funds (74% in 1974). The goal is to hold down costs of construction and consequently to lower the price of a dwelling unit to a homebuyer. In furtherance of this policy, the sale price of a unit sold to a homebuyer is based on cost of construction, rather than on market price or the cost price of a similar dwelling at the time when the unit is completed and transferred to the homebuyer.

As a result of the rising prices of apartments sold on the open market, as well as the rising cost of construction which has prevailed in Israel in recent years, the difference between the price

of a unit based on cost at commencement of construction which is sold to a homebuyer, and the price which a similar unit would attract on the open market (or a price taking into account rises in costs during construction) may be as great as 20%. Thus, by basing the cost of a unit to a homebuyer on cost at commencement of construction, the Government substantially subsidizes the sale prices of homes sold under the Public Housing Program. In 1975, the amount of this subsidy will come to I£ 280 million.

Subsidy of Advances to Contractors in Construction of Public Housing and Limiting Contractors' Profits.

Regarding construction under the Public Housing Program financed from the Government budget, no interest is charged on advances to contractors who build dwelling units for public housing. At the same time, a contractor must limit his profits to 15% or less of the cost of construction. This combination of interest-free advances and the limitation on profits helps to maintain lower prices of dwelling units constructed under the Public Housing Program.* On the basis of a rate of 16% per annum, the value of the interest free advances to contractors is estimated to be about I£ 310 million for 1975.

Table 12 indicates the subsidies for the Public Housing Program and their sources as described above for the Israel Fiscal Year (April 1 - March 31) 1974 and 1975 in I£ millions.

E. Drawbacks of the Ministry of Housing Construction Financing System **

1. Intermediate financing is set up in such a way that it generally leaves the contractor or the building company a surplus of funds until the intermediate stages of the construction are completed. (This surplus of funds is estimated at between 4% and 9% of the actual building expenses incurred by the contractor until the completion of framing). This surplus of the funds is without interest and, in practice, its use is unrestricted in time. It comprises a form of hidden and uncontrolled subsidy for the building.

In a buyers' market, such as exists in Israel today, this subsidy is not passed on to the consumer but remains in the hands of the builder.

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* Drawbacks to this system exist, however, as outlined below.

** The drawbacks outlined herein and the considerations with respect to establishing a financial institution have been drawn from the November 1974 booklet prepared for the United Nations Center for Housing, Planning, and Development by Mr. David Weinshall, Director General, Ministry of Housing.

At today's accepted marginal prices of money, this subsidy, embodied in the surplus of funds without interest, is about 3% of the overall cost of the building.

2. The surplus of funds, without interest, provides the contractor with an incentive to slow down the rate of completion of the building, especially after the completion of the framing. Beyond this stage, the contractor covers deficiencies in the funds from the surpluses created up to this stage.

3. The slow-down of the rate of completion of the building enables the contractor to continue to hold funds without cost, which can be used for expanding the beginning of new buildings. Such new starts create a lever for the generation of additional surplus funds. Furthermore, the contractor has several additional possibilities, such as investment in an inventory of lands or materials.

4. Notwithstanding the factor of surplus funds, a situation is created in which the Government finances the entire cost of building with no need for the contractor to share in the financing by investing his own resources.

As a result of the present construction financing system, a contractor can function without private capital. Therefore, any variation in the scope of Government orders can cause the collapse of a number of contractor companies operating on public housing. It may also be argued that contractors who have private sector building and therefore, tend to diminish the production input that could be channeled into public housing and its respective capital investment needs.

F. Establishing a Financial Institution for the Financing of Building Activities

In view of the above-indicated drawbacks, the Ministries of Housing and Finance have concluded that there is a need to establish a financial institution which would be able to provide construction financing. With the establishment of such an institution the Government would enable any commercial bank that so desires to participate in this financing plan. This would prevent the creation of a monopoly in this area and, by generating competition, encourage improvement in the level of services of commercial banks.

The institution for financing of building would be financed from the development budget from funds raised through the issuance of bonds directed by the Government, funds of banks, participation of building companies and, to a certain extent, from deposit of funds by prospective homebuyers.

This institution would function as a bank and would provide funds for running capital pursuant to guidelines of the Ministries of Housing and Finance for buildings earmarked for social objectives. Funds would be lent on a short-term basis and would bear interest.

TABLE 12

Direct and Indirect Subsidies of the Public Housing Program Based on Budget for Fiscal Year April 1, 1974-March 31, 1975 and Estimates for the Fiscal Year 1975-76
(Figures in Millions of IL)

	1974-75	1975-76
Total Direct Subsidies (including Linkage Differentials)	969	1,225
Total Direct Subsidies (excluding Linkage Differentials)	929	1,145
State Budget	403.4	520
Debentures	217.9	290
Bank Funds	292.7	320
Interest and Linkage Differentials	55.0	95
Total Indirect Subsidies	870	710
Land Subsidies	320	120
Dwelling Price Subsidy	240	280
Construction Advance Subsidy	310	310

NOTE: Above amounts in Israel Pounds were calculated in 1974 (US$ 1.00 = IL 4.20) before the new rate of exchange (US$ 1.00 = IL 6.00) became effective on November 10, 1974. The rate now is US$ 1.00 = IL 6.12.

Source: Ministry of Finance

Establishment of such an institution would achieve the following purposes:

- Payment of a marketable interest rate on running capital would counteract the incentive of contractors to slow down completion of public building. It may be expected that this method would act in a positive way to shorten the course of construction, if the builder has to pay interest on running capital. It may even be possible to set a method of regressive interest for the last months of the construction in order to enhance the incentive of expediting construction.

- The cost of building would reflect real cost and prevent hidden subsidies for the homebuyer (or the builder).

- Participation of banks, building companies and contractors in the fund would cause a turning away of resources from private building to directed building for social objectives. Thus, it would be possible to build more dwelling units for social objectives within a given Government budget.

- Separation between the running capital and mortgage funds would make it possible to direct the use of the apartments not as a function of financing but according to social and planning considerations. Similarly, mortgage financing would not be restricted to a specific apartment, but would be available to a homebuyer able to choose any apartment, not necessarily a specific apartment for which his down payment is utilized.

- By payment of down payment advances to an institution which would administer the fund, it would be possible to insure the homebuyers monies against delays in building and bankruptcy of contractors.

- Improvement of the Government's control of information on the scope of financing and progress of construction would make possible the improved control of the price of apartments for social objectives and make possible better planning for settling homebuyers in the new neighborhoods.

With the above considerations in mind, the Ministries of Finance and Housing plan to establish a Government company that would serve the purposes mentioned. A case study for the proposed Govern-

ment company for financing running capital for public building, as shown in Appendix 5, has been presented for approval to the Minister's Committee for Economic Affairs. Action on the draft resolution that would establish such a Government company had not been finalized during the Team's visit.

X INTERNAL SOURCES OF FINANCE FOR HOUSING

The Government has endeavored to develop internal sources of finance for housing. This includes the development of savings schemes for housing and the development of the security market, which enables the Government to direct financial institutions (the mortgage banks through issuance of debentures) and builders (the proposed Government company for construction financing) to increase their financing in the capital market.

Table 13, Assets and Liabilities of the Mortgage Banks, shows the marked expansion in the volume of mortgage bank lending for housing. This growth is the result of the development of the securities market (issuance of debentures or bonds) and to a lesser extent, the increased volume of savings for housing.

Israel does not have a savings and loan system although significant increases in participation of prospective home owners in savings for housing schemes could have an impact upon the Israeli economy similar to that produced in other countries through a savings and loan system.

The increased savings activity under savings programs for housing and the amount of credit granted to the public by mortgage banks are shown below in Tables 14 and 15, respectively.

A. Savings for Housing Schemes

In Israel, the high cost of construction and low mortgage-to-price ratios result in unusually large down payments being required to purchase a home. For the average family, saving to buy a home becomes a difficult, long-range undertaking without some form of Government assistance.

The GOI has sponsored and continues to sponsor various plans to encourage and assist people in accumulating savings for home ownership. In general, the plans provide for increasing interest relative to the term of deposit, interest premiums and linkage increments, and exemptions from certain taxes. In addition, upon certain conditions having been fulfilled, all plans guarantee mortgage financing to the participant.

The Savings for Housing Schemes are divided into two main groups:

1. The Government Savings for Housing Programs, administered by Tefahot, of which the Barmitzvah Savings Scheme is the only program presently open for new participants.

2. The savings schemes of the various mortgage banks, one of which is still operative in the General Mortgage Bank, Ltd., known as the "Optional Hemed".

TABLE 13

MORTGAGE BANKS - ASSETS AND LIABILITIES
(As of December 31 each year, in IL millions)

	1972	1973	1974
ASSETS TOTAL	5,148	6,747	10,890
Bank Notes and Coins	0	0	0
Deposits with Banking Institutions	22	23	31
Deposits for Granting Loans (Granted by Banks and Financial Institutions)	279	965	1,777
Credit to the Government	1,145	935	1,420
Credit to the Public	3,467	4,534	7,025
- Subsidiaries	4	1	117
- Local Authorities	515	633	902
- Housing	2,305	3,007	4,935
- Other Buildings	333	384	502
- Advances to Contractors and Building Companies	236	413	469
- Other	74	96	100
Securities	42	56	86
Bank Premises, Immovables and Fixed Assets	11	10	10
Liabilities on Behalf of Customers for Guarantees and Other Liabilities	38	39	66
Other Accounts	144 a/	185	475
LIABILITIES TOTAL	5,148	6,747	10,890
Equity Capital	209	264	318
Bonds	1,816	2,327	4,212
Loans and Deposits from Banking and Financial Institutions	461	637	1,122
Deposits for Granting Loans	705	975	1,542
- From Constractors and Bldg. Companies	438	584	905
- From Others	267	391	637
Government Deposits	1,542	1,950	2,588
Approved Savings Plans	202	278	398
Guarantees and Other Liabilities on Behalf of Customers	38	39	66
Other Accounts	175 a/	277	644

Source: Central Bureau of Statistics

a/ The amounts of Current Income and Expenses included in "Other Accounts" were reclassified on a net basis.

TABLE 14

BALANCE IN APPROVED SAVING PLANS
BY TYPE OF PLAN

(in IL millions)

	Dec. 1972	June 1973	Dec. 1973	June 1974	Sept 1974
Grand Total	1,985.7	2,281.3	2,711.9	3,621.2	3,978.7
GENERAL SAVING PLANS					
Total	1,592.1	1,813.9	2,161.6	2,986.1	3,290.2
Regular Optional Plans*	1,589.5	1,701.4	1,752.9	1,846.8	1,839.5
10,000 Optional Plans *	-	109.9	406.5	1,137.2	1,448.7
SPECIAL SAVING PLANS					
Total	393.6	467.4	550.3	635.1	688.5
Housing Plans	204.3	263.3	318.3	394.1	430.2
Secondary and Post-Secondary School Plans	86.8	91.4	101.8	105.1	114.7
Children & Youth Plans	100.0	110.4	127.7	133.7	141.5

Source: Central Bureau of Statistics

* The 10,000 Optional Plan, introduced in May 1973, offers a 5%-10% premium on sums deposited, which brings the effective interest rate to about 6%. Premium and principal, but not the interest, are linked to the Cost Price Index (CPI). The plan also carries substantial tax concessions, as neither interest nor linkage differentials are taxable, provided that the account is kept for a five-year period. The holder of the account can, in a period of price stability, disregard the linkage provision, in which case the effective interest rate would amount to about 11%. Withdrawal of savings from the plan cannot, however, be made within the first two years. In the Regular Optional Plans, deposits can be withdrawn at any time before the five-year terminal date. However, the depositor withdrawing savings during the first two years foregoes linkage differentials entirely. Linkage differentials are reduced proportionately on withdrawals during the next three years. Neither of these General Savings Plans are related to the acquisition of home ownership.

TABLE 15

CREDIT TO THE PUBLIC
BY MORTGAGE BANKING INSTITUTIONS
(IL million)

Year	Month	Mortgage Banks
1971		2,734
1972		3,467
1973		4,534
1974	January	4,582
	February	4,650
	March	5,165
	April	5,244
	May	5,399
	June	5,604
	July	5,722
	August	5,860
	September	6,002
	October	6,090
	November	6,283
	December	7,025

Source: Central Bureau of Statistics

B. The Government Savings for Housing Programs Administered by Tefahot

The Savings for Housing Scheme

Participation in this scheme has required an initial deposit of IL 300 plus minimum and maximum levels of new savings each year. The interest paid ranges from 4% to 6% depending upon the length of time the account is held. Interest and linking increments on deposits of less than IL 15,000 per year are exempt from income tax. After fulfilling the requirements of the scheme for a minimum of three years, the participant is entitled to a mortgage not exceeding 40% of the value of a home he may wish to buy or the loan limitations indicated below (whichever is the lesser).

The Savings for Housing Scheme has been closed to new participants since April 1974. It has been generally felt that the three-year term for eligibility has been overly generous.

Deposit for Housing Scheme (Land Deposit)

The purpose of this scheme has been to secure land at a fixed price and guarantee to the participant the rights of ownership and occupancy of an apartment to be constructed upon the site selected. The Deposit for Housing Scheme has been closed to new participants.

For participants who have been in the Scheme, the plan required an initial payment of 5% of the value of the site. The balance is deposited in eight consecutive quarterly installments. In addition, a minimum of IL 50 and a maximum of IL 250 must be saved each month. Cumulative interest of 5% to 6% is paid depending upon the time the account is held. The participant has the choice of linked increments or additional interest at the rate of 3% per year. Interest and increments on accounts of less than IL 15,000 are tax free. Completion of the requirements of the scheme entitles the depositor to a mortgage not exceeding 40% of the value of the apartment or the loan limitations indicated below (whichever is the lesser).

The Barmitzvah Scheme

Although anyone over 18 years of age may participate, this scheme is primarily designed to attract long-term savings for the benefit of children reaching Barmitzvah age, i.e., 12 years for girls and 13 years for boys.

An initial deposit of IL 250 and monthly savings of IL 25 to IL 50 is required. The account earns 6% cumulative interest and provides for a choice of increments and a premium of 7% to 15% depending upon how long the account is held. Increments, interest and

Premiums on accounts of less than IL 15,000 are exempt from income tax. The plan also includes all-risk insurance in the event of death. If the savings are used to purchase a home, a mortgage will be made available not to exceed 40% of the value of the home or the loan limitations indicated below (whichever is the lesser.)

The Barmitzvah Scheme is the only Government savings program for housing presently open to new participants.

Both the Ministry of Housing and Tefahot have under review the provisions of a new savings scheme expected to be announced in the near future. Since the plan is still under discussion, the Team was unable to determine its probable provisions.

C. Eligibility, Amount and Conditions of Assistance in Government Savings for Housing Schemes.

- Eligibility: Those who have complied with the terms of the savings scheme to which they contribute and are in possession of a Rights Notice.

- Amount and Conditions of Assistance:

1. Assistance is offered to those purchasing a flat built under the Savings for Housing Scheme, of another flat (including an existing flat or a new flat built by a private contractor).

2. Mortgages in Jerusalem IL 35,000; in other areas, IL 30,000. The mortgage will not exceed 40% of the cost of the flat. The loan is repayable over a period of 10 years, interest (non-linked) is independent of the price of the flat.

3. A saver eligible for assistance who is also eligible for assistance under another scheme (such as Young Couples, Overcrowding 3+) does not lose his rights to assistance under this scheme, but the total loans he receives under all schemes will not exceed 95% of the price of the flat purchased.

In addition to the above loans, persons falling into the following categories are eligible for additional loans, under terms identical to those applying for the above loans:

1. The head of a family not owning a flat and not living in rental accommodations protected by the tenant protection laws or in public housing can receive an additional loan of up to IL 15,000.

2. The head of a family living under conditions of two or more persons per room in a flat owned by the

family or in other protected property can receive an additional loan of IL 10,000. To receive this loan, the presently owned flat must be sold, or in the case of rented accommodations, returned to the renting company.

3. An individual man over 35 years old or a woman over 30 years old, not owning a flat, can receive an additional loan of IL 5,000, provided the flat being purchased has an area not exceeding 75 square meters.

The General Mortgage Bank Savings for Housing Scheme
(Optional "Hemed")

In operation since 1970, this program gives the participant the option to choose, at the expiration of the savings period of five to eight years, between taking interest plus increments from the linkabe to the consumer price index or a higher rate of interest without linkage. Savers who have participated in the plan for at least five years are entitled to an unlinked mortgage loan at 9% interest per annum.

XI ECONOMIC CONSIDERATIONS

A. The Domestic Economy

The economy of Israel has been in a transitional phase since the 1973 War. The post-1967 boom has continued in several important aspects through 1974 and into 1975. During 1974, Gross National Product (GNP) increased by 6.6 per cent, unemployment was virtually nonexistent at the 3 per cent level, and the Consumer Price Index increased by 56.2 per cent during the year which was more than double the rise of 1973 and quadrupled the rise of 1972.

B. Balance of Payments

During 1974, Israel's balance of payments was in deficit by nearly $800 million. The current account deficit reached $3.4 billion, a 31 per cent increase over 1973. The primary reasons for these developments were the operation of the Israel economy on a quasi-war footing since October 1973 and the expenditure of $1.7 billion for defense imports, both direct and indirect, in 1974. Also contributing to the deficit were the increases in international prices for petroleum, food, and raw materials.

Merchandise imports increased 41 per cent to $4.2 billion and direct defense imports totalled $1.2 billion. Service imports increased over 36 per cent to $1.5 billion. Therefore, total imports were $6.9 billion, or more than twice total exports or $3.3 billion. Commodity exports increased 25 per cent in 1974 to $1.8 billion, with diamonds accounting for $560 million, a slight increase in nominal terms over 1973. Citrus exports were $116 million of total agricultural exports of $187 million. Service exports were up 25 per cent to over $1.6 billion despite an 18 per cent decrease in tourist earnings to $190 million.

Net foreign investment declined from a record $159 million in 1975 to an estimated $50 million in 1974. Foreign investment has been rising strongly for several years preceding the October War. The war constituted a setback, but it is still not certain how serious this will be because investment remains one of the more volatile elements in the balance of payments. The GOI believes that the devaluation and economic measures taken in November will help to stimulate an increased flow of foreign investment.

Israel traditionally finances its current account deficit with massive capital imports. Unfortunately, 1974 was a poor year for the capital account, which totalled $2.3 billion compared with $3.2 billion, a year earlier. Unilateral transfers declined from an all-time high in 1973 to $2.2 billion to $1.6 billion in 1974, of which $650 million was from the United States Government.

C. Emergency Economic Program

On June 17, 1975, the GOI devalued the Israeli pound by 2% and announced a new system of currency management that provides for a monthly devaluation of up to 2% if the economy continues to decline. The devaluation was the second in seven months. On November 10, 1974, the GOI announced an Emergency Economic Program designed to ameliorate the economic situation. The Israeli pound was devalued by 42.9 per cent from IL 4.2 to IL 6.00 per dollar. Subsidies on basic commodities were reduced, and as a result, basic food prices rose by an average of almost 100%. Fuel prices were raised for the third time since the October War. The travel tax was increased. The import surcharge was reduced from 35% to 15% yielding an effective rate of exchange for imports of IL 6.90 compared to IL 5.67 previously, for a decrease of 22%. Imports of certain luxury items were prohibited for six months and an additional import duty of 10% was imposed on other luxury articles. Export incentives were changed so that the effective rate of exchange for exports was IL 7.23 and IL 7.64 per dollar, depending upon the value added, for a net increase of about 20%.

An important element in the Emergency Program was the GOI's proposal to eliminate the inflationary impact of the Program from the cost-of-living allowance (COLA) paid to wage earners in 1975. The Histadrut (General Federation of Labor), the employers and the GOI agreed to a January payment of 30% of the base salary, up to a maximum of IL 300 per month, with any payment over IL 200 made in five-year Government bonds linked to the Consumer Price Index. The GOI also requested that wage contracts be extended for a year as part of the Emergency Economic Program. The Histadrut agreed in December 1974 to extend existing wage contracts through June 1975. The resolution on the dispute of how much of a COLA to pay beginning July 1, 1975, and the extension of wage agreements will have important bearing on the economic outlook for the second half of the year. The Histadrut has emphasized that its future wage policy will be heavily influenced by government action in the field of taxation, specifically in reform of the income tax system.

As another facet of its Emergency Program, the GOI in February 1975 proposed an increase in the purchase tax of 7.5% on most commodities and the establishment of a payroll tax of 7.5%. It subsequently reduced the payroll tax to 4% effective in April in response to opposition by the Histadrut and the Manufacturer's Association. The GOI has promised to introduce a tax reform which would include the establishment of a value-added-tax (VAT) and the reduction of income tax rates: both elements will be implemented in the latter part of 1975, although not necessarily simultaneously, according to present plans. The additional revenues from the VAT will be used to offset the lower revenues from reduced marginal payments (income tax plus compulsory loans) which are currently 87.25% for annual incomes equivalent to $15,000. In addition to lower rates,

the proposed income tax will probably apply to a broader income base than presently. The net effect of the reform, if enacted, will be to shift some of the tax burden from the income earner to the consumer.

A free-trade agreement was initiated between Israel and the European Communities (EC) on January 23, 1975. The agreement is scheduled to go into effect in July 1977, when the EC will abolish duties on most of Israel's industrial exports. Israel's agricultural exports will also benefit under the agreement. The EC, in return, will receive certain reductions in Israeli tariffs. Final approval of the agreement is expected sometime in 1975.

D. Budget

The budget for GOI FY 1975 (ending March 31, 1976) projects total spending at IL 56.3 billion, compared to IL 40. 4 billion in FY 1974-75, a nominal increase of 38%. Total revenues are estimated at IL 54.8, which is IL 1.5 billion less than expenditures. The difference will come from the Bank of Israel lending to the GOI.

Of the IL 5.4 billion required to finance the 1975 Public Housing Program, IL 3.8 billion originates in the country's budget. This figure represents 6-1/2% of Israel's overall budget expenditures. The subsidy, both direct and indirect, for the housing sector amounts to IL 1.9 billion or approximately 3-1/2% of the country's total budget. It is the Team's understanding that the subject of the Israeli subsidy program and its corresponding cost to the Government was a topic of discussion by A.I.D.'s Office of Housing and GOI officials last year. We are pleased to note that the GOI took concrete steps to reduce its land subsidy program in its budget for FY 1975.

E. Monetary Policy

Monetary expansion was relatively slow until the November devaluation, but the trend was not uniform because of devaluation rumors throughout the year. The Bank of Israel's monetary policies were designed to stimulate the economy for the first five months of 1974 when it switched to restraint for the remainder of the year. Fines on bank reserve requirement shortfall were reinstated in May and a 100% liquidity requirement was imposed in July on incremental "nondirected" credit. From August to October, 1974, monetary expansion of governmental expenditures was even greater than the increase in governmental debt. Increased bank credit also contributed to monetary expansion until August because of the offsetting effects of foreign exchange purchases by the private sector. This accounted in large part for the decline in foreign exchange reserves from

$1.8 billion at the beginning of the year to less than $1 billion immediately prior to devaluation. By the end of the year, reserves had risen to $1.2 billion. There were fears that devaluation would stimulate massive conversions of foreign currency deposits and lead to further monetary expansion. These fears, however, did not materialize.

F. Foreign Debt

At the end of 1974, Israel's foreign debt amounted to $6.2 billion. While Israel's foreign debt is large, it must be measured in the perspective of the country's ability to service it. This in turn depends upon the term structure of the debt, the concessional element and the overall performance of the economy. While the GOI resorted to commercial borrowing to shore up its foreign exchange position in 1974, the bulk of Israel's foreign debt is in long-term maturities, at concessional interest rates. Israel's foreign debt burden in FY 1975-76 will total $716 million, $321 million for interest payments and $395 million for principal.

G. Future Prospects

For GOI FY 1975, the Government of Israel estimated that GNP will reach IL 76.4 billion, up 41% in nominal or up 3% in real terms over the previous year. The increase in the Consumer Price Index is optimistically forecast at 18% to 20%. The current account is projected to be in deficit by approximately $3.3 billion. Unemployment while officially forecast at 5% still remained at 3.3% at the beginning of May 1975.

XII CONSTRUCTION INDUSTRY

- Summary

The general conditions for implementation of the planned GOI housing development program appear favorable.

The Israeli construction industry, as it has shown over the past decade, can mobilize sufficient production capacity to meet its schedules with little or minimum delay.

In evaluating the seemingly high construction costs in Israel, consideration has to be given to special (and unfortunately expensive) features required for Israeli housing. These features are:

A limited supply of suitable land due to the GOI effort to preserve the maximum amount of land for agricultural use;

Difficult project sites and the costly expenditures necessary for their development;

The necessity for air raid shelters;

The extreme climatic conditions in Jerusalem, Galilee regions and Eilat; and

The high demand for housing and short-term schedules combined with a limited supply of construction manpower which tends to force production costs upwards.

Notwithstanding these features the GOI has managed to keep the construction costs of public housing at an average of $220 per M^2 which, considering the type and quality of dwelling units, is relatively low.

Inflation, devaluation of the Israeli pound, higher labor costs, and various domestic and external influences resulted in a substantial increase of construction costs from 1972 to the end of 1974. Due to such increase, it must be considered that an apartment unit completed in 1972 for IL 67,000 ($16,000) would now cost IL 147,000 ($24,500) and possibly 5% to 8% more by the end of 1975. It should be noted, however, that the GOI has applied various saving methods in public housing developments in order to keep the costs to a reasonable minimum.

The productivity of the industry should be steadily increasing with the application of advanced technology, standardization and industrialization of construction.

The on-going training program will soon affect the degree of skills in construction trades and quality of product, as well as the supply of manpower.

Although there may still be some fluctuation in construction materials supply, its magnitude does not appear to be critical enough to substantially affect production schedules.

Considering the economic conditions and certain restraint on market capability due to inflation, the GOI has lowered its standard design requirements in public housing and reduced the useable floor area in some apartment types. The lower design standards, however, do not reduce the quality of dwellings. The GOI planners apply all available and applicable modern design techniques to create communities conducive to healthy living, and a socially and physically advanced environment.

Nevertheless, the steadily increasing production costs of housing present the major handicap in an otherwise well-performing system.

In general, the entire Israeli housing program for 1975 appears to be well-prepared. Considering the successful delivery process in the past, it may be expected that the GOI will again meet its goals.

- General

As the largest branch of the Israeli economy, the construction industry may be accepted as an accurate mirror of the country's overall economic activities. In terms of production and employment, construction has assumed a large share in the Israeli economy and a fluctuation in demand for buildings immediately affects the whole economy, particularly the industries supplying raw materials and the employment.

(The construction industry strongly contributed to full employment during the boom years but also critically affected the unemployment during the recession.)

Since independence, immigration and the resultant need for housing has been a most decisive factor in the volume of construction. Consequently, the amount of immigration has directly affected the construction industry and obviously the entire economy.

(Housing represents approximately 50-54% of total construction.)

- **Production**

The following Table 16 shows the fluctuation in construction investment. The factors which have influenced this fluctuation are outlined below and letter-referenced in the Table.

(a) A sizeable drop (18% in output) in construction was influenced by a slowdown in immigration during 1966 and 1967 and the GOI's shift in priorities in an effort to diminish the gap in the balance of payments. Simultaneously, the situation was amplified by a decline in demand for new apartments in the private market. These conditions continued or accelerated until the Six-Day War in 1967.

(b) The post-war increase in immigration resulted in an invigorated economy and an increase in construction activity. Due to GOI priorities given to construction for immigrants' housing and defense installations, and due to limitations on non-essential construction, since 1968, there has been a decline of 23% in non-residential general construction but a 40% rise in total construction.

(c) In 1970, construction activities slowed down to an actual increase of only 7% as compared to an annual average advance of 25% in 1968 and 1969.

(d) In 1971, building starts totaled 6.8 million M^2, completions 5.9 million M^2, and the area under construction at the end of the year was 9.2 million M^2.

While non-residential and commercial construction declined considerably, there was a tremendous increase in residential buildings. Nevertheless, the construction boom continued throughout 1971-1972 due to starts during the previous 3-4 years.

(e) In 1974, although investments in construction and housing were projected at a 44% increase over 1973, the actual conditions turned out differently due to the nation's military engagement.

Table 17 (see page 62) shows the substantial drop in actual spending for housing during the fiscal year 1973-1974 due to other priorities in the GOI's development plans and in its national budget.

- The estimated FY 1974-75 housing budget, however, shows an increase of 30% over 1971-72 considering the 1974 devaluation of the Israeli pound.

A similar increase is projected for FY 1975-76.

The Israeli construction industry is engaged in three major categories of work:

TABLE 16

HOUSING AND CONSTRUCTION INVESTMENT

IN COMPARISON TO TOTAL GROSS INVETMENT

(I.L. Million)

	1965	(a) 1966	1967	1968	1969	1970	(d) 1971	1972	1973	(e) Estimated 1974
1. **Total Gross Investment**	3.077	2.605	2.039	3.222	4.251	5.388	7.369	9.317	12.987	18.615
2. Housing Investment	977	787	532	667	1.082	1.736	2.348	3.521	4.480	6.450
3. Construction Investment	1.978	1.689	1.345	1.688	2.308	3.044 (c)	3.980	5.700	7.133	10.270
4. Housing Investment as % of Total Gross Investment	31.8	30.2	26.1	20.7 (b)	25.5	32.5	31.9	37.8	34.5	34.6
5. Construction Investment as % of Total Gross Investment	64.3	64.8	66.0	52.4	54.2	57.0	54.0	61.2	54.9	55.1

Source: Central Bureau of Statistics

TABLE 17

HOUSING BUDGET

IN COMPARISON TO THE DEVELOPMENT AND TOTAL BUDGET

FOR THE YEARS 1964/65 - 1975/76

(I.L. million, at current prices)

	1964/65	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1973/74	Estimated 1974/75	Projected 1975/76
1. Housing Budget	233	194	130	275	558	670	1,142.6	1,061	2,265	3,485
2. Bond Issues (I.L. thousand) for housing	-	-	-	-	-	-	120	217	560	798
3. Housing and Bond Issues	233	194	130	275	558	670	1,142.7	1,061.2	2,266	3,486
4. Development Budget	1,122	1,354	1,620	2,096	2,390	2,282	3,435	5,832	8,727	11,780
5. Total Budget	3,425	4,495	5,650	6,887	8,788	10,980	14,339	31,224	40,650	56,300
6. Housing Budget as a % of the Development Budget	20.8	14.3	8.0	13.1	23.3	29.4	33.3	18.2	26.0	29.6
6. Housing Budget as a % of the Total Budget	6.8	4.3	2.3	4.0	6.4	6.1	8.0	3.4	5.5	6.2

Source: National Budget

1. Residential construction, approximately 52% of total in recent years.

2. Construction of productive sectors such as factories, hotels, agriculture, etc., approximately 30% of total in recent years.

3. Construction for institutions approximately 18%.

- Sectors

The construction industry is divided into two initiating sectors:

- Private Sector

This sector represents private builders, including Histadrut, who are profit motivated and whose major area of activities is apartment building.

The share of private construction is greater in monetary, rather than in physical, terms since apartments built by the private sector tend to be larger and offer more conveniences.

The private building sector has been constantly expanding since 1958 except for a short setback in 1965.

- Public Sector

This sector is composed of Governmental departments, national institutions, local authorities, etc., motivated by social and political objectives.

All public construction work, with the exception of work for the Public Works Department and work for Mekerot (National Water Authority) is performed by private contractors.

No housing construction is carried out directly by Government agencies.

GOI Departments Involved With Construction

(a) Public Works Department

Construction of Government buildings such as offices and hospitals; and the construction of highways.

(b) The Defense Ministry

All defense installations.

(c) Ministry of Housing

The responsibility of the Ministry of Housing with respect to the construction industry is to:

(1) Secure adequate and economical housing for the population at large, but especially to provide housing for groups which the GOI has decided to help: new immigrants, young couples, needy large families;

(2) Serve as the GOI instrument in its policies of settlement and population distribution and in supervising and coordinating the stability of the construction industry;

(3) Promote and introduce methods, means and materials to advance the construction industry.

In the process of fulfilling its functions, the Ministry has been involved in the initiation of planning and construction of urban housing projects and rural settlements; assembling and disseminating information; promoting research in building types, construction methods and systems materials; and encouraging prefabrication and industrialization of construction.

Although in the past the Ministry used to be its own contractor, all construction work is now done under contract by private builders-contractors.

- Research

  - Organizations and Institutions

Assisting the GOI as well as private industry in advancement of the construction process:

  - The Building Center of Israel

The Center was established as a Government company in 1969. The Minister of Housing is Chairman of the company's Board of Directors. The Board includes representatives of the Ministries of Housing, Labor, Defense, Finance, Interior, Commerce and Industry; Institute of Technology, Standards Institute and numerous labor, scientific and professional organizations and private construction industry.

The Center's basic functions are:

- Coordination, encouragement and initiation of applied research in construction and the application of its findings in the actual construction process;

- Compilation, processing and dissemination of data on materials, building systems and equipment;

- Publication of technical information and know-how on developments in the building field through printed material. Exhibitions, lectures, symposiums and courses;

- Advice and guidance on building matters to public and private organizations and individuals;

- Advice on building legislation.

The research activities of the Building Center are carried out in cooperation with other scientific and professional institutions, such as:

- Building Research Station
- Technion Research and Development Foundation
- Standards Institute of Israel
- Building Research Institute of A.E.A.I.
- Productivity Institute

Most of these programs were sponsored by the Ministry of Housing; however, in recent years, building departments of the Ministry of Defense, and the Public Works Department have also begun to initiate and finance building research.

Since its inception the Israeli's research institutions have greatly contributed to the advancement of the construction industry in the area of materials and construction technology, advanced planning and engineering, standardization of materials and components, engineering economy, computerized controls, functional design, and utilization of resources.

- Industrialization of Construction

Due to the limits in natural material resources, Israeli construction has been utilizing cement/concrete as primary construction and structural material.

Use of concrete, however, dictates unavoidable minimum time schedules and, when applied in conventional construction approaches, requires considerable manpower. Since the use of concrete cannot be avoided for economical reasons, Israel is looking into other, more economical, less time-consuming and cheaper methods, for its application.

Over the past several years a considerable number of prefabrication systems have been applied, tested and evaluated, and a number of them are being utilized in current construction processes. Comparing the experiences with conventional and industrialized construction, some benefits in the industrialized process were realized.

While materials do not cost less, sometimes even 2-5% more, and the overhead expenses are not less than in conventional building, the total labor output in the industrialized process varies between 10-14 hours per square meter in conventional construction.

The GOI recognizes two types of prefabrication systems:

Closed System

A system in which all major parts of a building are produced in a factory, shipped to the site and erected. In this system the plant manufactures a complete set of major parts for the erection of buildings of its own design only. Such systems are also known as "Prefabricated Construction".

Systems currently being used are:

- Modul Beton (Carmiel), based on the Danish "Modul Beton" system
- Yuval Gad (Ashkelon), based on the French "Coignet" system
- Yavneh Building Industries, Ltd. (Yavneh), based on the French "Balency" system
- Subtrum Co. (Arad), based on the French "Balency" system.
- M.B.T. Co. (Sderot and Holon), developed over the years based on principles accepted in Europe and Israel
- Astrom (Ashdod, Jerusalem, Rishon le-Zion), developed on principles to the system designed by French Engineer Bori
- Rimon (Africa-Israel Investment Co.) (Savyon), developed on the basis of Engineer Bori's system
- R.M.T., based on Engineer Bori's system

The production output of the Closed Systems is approximately 8,000-10,000 units per year. The main market for this industrialized housing is provided by the Ministry of Housing.

The Closed Systems, however, represent in some ways a monopoly which do not offer sufficient flexibility in marketing and require a total involvement of the manufacturer in all major phases of construction.

For this reason the GOI has encouraged other programs in industrialization of construction.

On Site "Industrialized Construction"

These systems represent use of industrialized methods of mechanization and on site precasting or in-place casting (tunnel systems, reuseable forms, inflated forms, etc.) combined with conventional methods.

This system is identified as "Industrialized Construction" and is presently being favored and encouraged by the GOI.

"Open Systems" of Prefabrication

These systems represent the manufacturing of standardized building components which may be produced by one or more manufacturers, catalogued and sold on open markets. The builder will have a choice of securing all needed components from one manufacturer or from a combination of several manufacturers. The standardization of various building components (stairs, ceiling planks, lintels, beams, etc.) on a national basis, has already been initiated.

Industrialized Components

These components for various building trades such as bathroom units, kitchen cabinets, plumbing trees, electricity panels, etc. are manufactured and pre-assembled to various degrees in the factory, prior to shipping to the construction sites.

With the initiative of the Board of Directors of the Building Center of Israel, special committees on Industrialization of Construction and on Standardization and Modular Coordination were created. After an exhaustive survey, the Committee on Industrialization presented its recommendations on the following subjects:

- Integration of prefabricated materials in conventional construction
- Efficiency of construction sites (traverse walls method)
- Prefabricated construction with large-sized manufactured materials
- Speeding up the production of finished products (standard sanitary units, finished joinery, etc.)

In addition, the Committee presented recommendations on setting up an equipment rental company; on the use of concrete pumps, and on a rational choice of cranes for building construction.

The Committee on Standardization and Modular Coordination studied the following items:

- Introduction of the use of modular coordination

- Prescribed use of standard building products

Following the presentation of the Committee's reports and acceptance of their recommendations, the Building Center launched a series of lectures in major cities, initiated specialized studies concerning standardization of certain building components, organized consulting services on construction systems, methods, economy of technology and participated in drafting of the bill for modular coordination.

Consequently the Building Institute has been recognized by law as a statutory body and will be consulted by the Ministers of Defense and Interior before publication of amendments to the law. Since that time, aside from numerous technical seminars, consultation and dissemination of the technical materials, the Building Center has published the following:

- The Catalog of Controlled Building Products (with Standards Institute of Israel)

- Modular Coordination Handbook

- Catalog of Construction Equipment

The official gazette "Reshumot" announced under Regulation No. 3032 of July 8, 1973, the passage of "The Modular Coordination Law of 1972" obligatory in planning and building of residential buildings, in the production of rectangular doors and windows for residential buildings; requiring consultation with the Minister of Labor in the design and building of all types of hospitals, clinics, telephone exchanges, radio and TV stations, receiving stations, power buildings, laboratories, archives buildings, meteorological institutions, medical institutions, airports, post offices and special structures.

The modular increments "M" applicable to various conditions, spans and dimensions are defined in "Israeli Standard S.I. 617", issued by the Israeli Standards Institution. The implementation of the modular coordination regulations is under continuous observation and adjustment, and modifications are made as necessary.

- Architects, Planners, Engineers

A sufficient number of well-qualified professionals practice in Israel. Most of them were trained and gained experience in various European, North or South American countries, although the Israeli universities already have supplied numerous younger generation, talented architects and engineers.

Registration and a permit to practice in Israel are required for architects and engineers.

A fee for A&E work is charged on the basis of project cost and it may vary from 0.62% (for repeat work to 9.0% for new design). Periodic construction inspection by the architect or engineer is charged extra.

For all public housing projects the Ministry of Housing provides the selected architect-engineer with detail design criteria which fully reflect the currently accepted standards for the type of housing units to be built.

- The design and construction plans are then reviewed and approved by the Ministry of Housing.

- Construction permits are issued by the appropriate municipality.

- The Ministry's and the municipality's inspectors periodically inspect the project under construction.

Projects under the responsibility of other public housing institutions, such as Amidar Housing and Development Co., etc., are inspected by the institution's inspectors.

- Design Standards

Due to the rising costs of construction and, therefore, a potential need for higher subsidies, the GOI revised and lowered the floor area requirement for public housing as follows:

	March 1973	March 1974
Slum clearance - Large Families	80 M^2	80 M^2
New Immigrants	70 M^2	61 M^2
Development Towns	75 M^2	75 M^2
Young Couples	68 M^2	55 M^2

Originally, public housing projects were designed and oriented to one type of occupancy - immigrants, young couples, etc. The GOI has been experiencing some problems with this type of orientation, particularly in the case of new immigrants who were given limited opportunity to adjust themselves to the new style of living.

Therefore, it has been decided that all public housing projects shall be fully integrated and should accommodate a complete socio-economic mixture of Israeli population, and in addition, should also include higher priced units.

The reduction of standards and the community integration resulted, in 1974, in an increase in construction starts of one-bedroom

apartments. These units should be completed and available for market in 1976-1977 and their selling price should range between IL 89,000 to IL 102,000 depending on the location.

Accepted standards for public housing units:

Large Families and Slum Dwellers	3-4 or more bedrooms at special consideration 75 - 93 M^2 or more
Young Couples	1-2 bedrooms 50 - 70 M^2
New Immigrants	2-3 bedrooms 61 - 83 M^2
Development Areas	2-4 bedrooms 75 - 93 M^2

A two-bedroom apartment having 70 M^2 * of floor space may be considered as the average. It should consist of the following:

Living Room:	Minimum width 3.10 M.
Main Bedroom:	11-12 M^2 ; minimum width 2.8 M.
Second Bedroom:	10-11 M^2
Bathroom and Separate Toilet:	External ventilation is preferred but vent-shaft is acceptable.
Kitchen:	Minimum 7 M^2 ; minimum width 1.90 M.
Balcony:	Minimum depth 1.9 M. Only in coastal areas, otherwise as additional area to the living room.
Service Balcony:	At kitchen; it is essential in Israel.

A three-bedroom apartment is of similar layout with a third bedroom or 9-10 M^2 added and an extra toilet installed in the bathroom.

The apartments built by private industry are considerably larger (150 M^2 or more) , and provide substantially more luxury and quality of finishes and fixtures.

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* The above areas are gross and include walls, balconies and prorated share of stairs and circulation areas.

- Type of Structures

A majority of the buildings are apartment-block types with three to four floor levels and four apartments at each level. No elevators are required for four-story structures.

The ground floor is usually semiopened providing only a central entry hall, storage and garbage room.

All buildings must have air raid shelters which are usually built as a basement.

Recently, it was agreed that shelters at ground level or adjacent to the building are, under certain conditions, acceptable. The current air raid shelter design also includes filtration equipment against poisonous gases.

It is also now permitted to utilize the shelters as community rooms provided that no changes to reduce their safety and effectiveness are made.

Several samples of apartment layouts for coastal and non-coastal areas are included in Appendix 2.

- Construction Contractors

There are several large construction companies and many smaller contractors in Israel that, given sufficient manpower, can supply the production capacity required for completion of the GOI housing program.

As stated previously, the GOI does not maintain an in-house construction capability and all construction work on public housing is done under contracts with the Israeli private construction industry. The construction contracts are awarded on a bid basis directly by the Ministry of Housing or, pursuant to yearly agreements entered into by the GOI with leading housing corporations, private or public.

It is expected that the construction of the urban housing projects planned for 1975 will be secured as follows:

Public Bidding	11,000 units
Agreements with Housing Corporations	16,000 units

Under a Government contract, the construction contractor is held to a one-year maintenance period of the completed work. To secure the performance thereof he is required to furnish the Government with a bank guaranty in the following amounts:

For the first IL 50,000 of the contract price	10%
For any additional sum exceeding the first IL 50,000 and not exceeding IL 250,000	5%
For any additional sum exceeding the first IL 250,000 and not exceeding IL 1 million	2.5%
For any additional sum exceeding IL 1 million	1%

The progress payments to the contractor are based on the approved work-in-place and usually 5% is retained from each payment and held until the settlement of the final bill is reached.

Under Clause 54(2), the following stipulation is included in every GOI contract:

> "If a defect in the works is discovered within five years from the end of the maintenance period, arising out of the works not being in accordance with the contract, then the contractor shall be liable to repair the defect and anything else involved at his cost and if the defect cannot be repaired then the contractor shall be liable to pay damages to the Government."

- Construction Standards

Approved standards are published by the Israel Standards Institute and provide a supplement to the appropriate code and regulations.

Foundations

Based on typical soil conditions, Israel can be divided into four major zones:

Mountain Zones: Hard limestone with some pockets of chalk or expanding clay. Design load generally 4-8 kg/cm^2 for continuous or pad footings.

Inland Zones: Mostly clay with high expansion. Five to eight m. piles with structural slab are usual foundation methods.

Coastal Plain Zones: Sand, gravel, sand stone. Design loads for shallow foundation 1.5 - 3 kg/cm^2 for high rise structures in place cast piles.

Southern Zones: Mostly remolded loess (cl or cl-ml) with collapsing characteristics when in contact with water. Design loads 1 - 2.5 kg/cm^2 .

Framing

The areas of various earthquake intensity dictate the structural quality of the framing and construction. Generally reinforced concrete frame, columns and slabs.

Historically the strongest disturbances were recorded in the eastern part of the country along the Jordan Rift Valley (between 3.5 - 6.0 on "Richter" scale). The coastal region is considered the safest area.

Statistically, tremors of an intensity of 5 occur at approximately 30-year intervals, and of an intensity of 4 at approximately 10-year intervals.

Exterior Walls

- The following typical external walls are constructed in the areas indicated:

1. In the coastal plain: 20 cm pressed hollow concrete blocks, plastered both sides.

   'U' value 1.82 $\frac{K\ cal}{m^2 hr^o C}$

2. In the Galilee area: 20 cm 'Ytong' hollow blocks plastered both sides.

   'U' value 0.93 $\frac{K\ cal}{m^2 hr^o C}$

3. In Jerusalem: External walls have to be stone-faced and consist of a 25 cm stone and concrete-backed external skin with a 4 cm air-space and an internal 6 cm skin of concrete blocks plastered on one side.

- Concrete block walls are usually finished with a decorative spray plaster. In the case of pre-cast walls, the surface us usually finished with a washed or brushed terrazzo.

Interior Walls

- The following are typical interior walls:

1. Partition walls: 7 cm hollow conrete blocks plastered both sides.

2. Party walls and walls around staircases: 20cm. hollow concrete blocks plastered both sides.

3. Sound reduction factor, at average frequencies, not less than 45 dt.

- Interior walls of flats are generally whitewashed except that a total of about 10 M^2 of glazed wall tiling is provided around baths and shower stalls and over lavatory-basin and sinks.

- Walls to stairways are finished as external walls.

Ceilings

Typically ceilings are plastered and painted.

Floor Finishes

Floors are generally 20 x 20 cm terrazzo tile laid in bed of sand, with 5 cm terrazzo base.

Resilient flooring materials are now being produced in Israel and will be increasingly applied.

Heating and Cooling

Central heating (hot water) usually is provided only in mountain areas of Jerusalem and Galilee.

Cooling systems are not supplied with the exception of Eilat.

- Utilities and Services

Sanitary Sewer Systems

The responsibility for the sewage disposal system generally belongs to the municipal authorities with exception of the new settlements where an applicable system is developed simultaneously with the general development and becomes a part of the overall development costs.

Various disposal and treatment methods and systems are being used and the selection generally depends on the location, type, and size of community, and, of course, environmental conditions. The systems may range from central treatment facility in major cities, through oxidation ponds, in hof tanks and some septic tanks. In some locations, the effluent is being used for industrial and agricultural purposes.

Storm Sewer System

With the exception of major cities, a surface drainage system is used.

Potable Water

Supply of potable water on a national basis is the responsibility of the public corporation Mekerot. The municipalities are responsible for installation and maintenance of the water distribution systems in their areas.

Water is supplied by a system of wells and storage tanks, by inland waters (rivers, lakes, etc.) through filtration, chlorination and sedimentation processes. Some supply also is provided by desalination plants. Water is distributed by asbestos-cement, cast-iron iron, galvanized iron and p.v.c. pipes at a working pressure of 4.5 to 6.0 atmosph. (5 m head) Average consumption is calculated at 100 m^3 per person per year.

Electric Power

Generation and major distribution of electric power is the responsibility of a GOI-owned corporation. Thermo generating facilities provide power distributed at 220-380 volts - 50 cycles. In new communities and new settlements the electric power is now distributed by underground lines. Expansion of generating capacity is currently in progress although present consumption seems to be more than fully supplied.

Gas

Natural gas is generally used only for cooking in residential structures and is supplied individually by private corporations: Pazgas, Supergas, Petrogas, Amisragas, etc.

Telephone

The telephone network is controlled and maintained by the Ministry of Communication, and connects about 90% of the Israeli cities, communities and settlements. It was noted that the system works very efficiently.

Garbage Removal

The municipal and local authorities are responsible for collection and disposal of garbage in their areas.

Public Roads

Construction and maintenance of major roads and highways is a GOI responsibility. The GOI and the municipalities share the responsibilities for secondary roads while all other roads, streets and sidewalks are maintained by the various municipalities.

Public Transportation

A public transportation (railroad and bus) network is extended to all new settlements and development areas when first occupied.

Fire Protection

Municipal fire brigades.

Police Protection

National police corps, at this time strengthened by voluntary patrol units.

Schools

The Ministry of Education controls the entire school system. Construction of new schools in development areas and new settlements is secured and financed by the Ministry and the municipalities.

Commercial Facilities

All commercial and shopping facilities in new communities and settlements are planned and constructed as part of the development and then rented or sold to private enterprise.

Parks and Recreation

Parks, green areas, and recreation facilities are generally developed simultaneously with the project.

Medical and Religious Facilities

Land is generally allocated and reserved for both types of facilities in each newly developed community and settlement. Construction of both is mostly financed by public funds.

- Construction Labor

Employment

The reduced construction activities in 1974 brought about a drop in construction labor employment, and a shift of construction manpower to other types, mostly industrial. The construction trades seem to have lost the prestige and appeal to the industrial, or as it is called in Israel "under the roof" employment and as a result the construction industry is generally fighting a skilled labor shortage.

Trend of Construction Labor Employment

1970		91,000 workers
1971		105,000 workers
1972		125,300 workers
1973		127,800 workers
1974		123,800 workers
1975	(forecast)	119,500 workers

of which 60% are Israeli and 40% Arab workers. The labor from administered areas represent approximately 18% of the total force. Although still lower than average in the entire economy, the wages of labor increased as follows:

1968	100.0%
1970	114.0%
1972	152.6%
1973	191.8%
1974	259.5%

Productivity

The productivity of construction labor is, of course, affected by various factors: level of skills, material supply, type of construction and its location. Generally, it may be said that the quality of workmanship is slightly below average, particularly in some trades.

The increasing mechanization of residential construction may, however, favorably affect the general productivity, minimize the effect of labor shortages and possibly improve the quality of the end-product.

AVERAGE PRODUCTION TIME

Months for Completion of Average Dwelling Unit

1968	1970	1971	1972	1973	1974
14.0	12.0	13.4	17.3	17.8	19.6

Training

The Israeli Government in cooperation with the private construction industry is making every effort to improve the level of skills among construction labor, attract new forces and improve the image of the building trades at all levels.

- Institute for Training and Productivity in Building

Supervised by the Ministry of Labor, the Institute is a joint operation of the Ministry of Labor, National Union of Building Workers - Central Committee, Federation of Contractors and Builders of Israel and Solel-Boneh Building and Public Works Company.

Its 22-man Council is headed by the Minister of Labor; its 9-man Board of Directors, by the Director of the Institute. Currently operating with a budget of IL 2.5 million per year (shared by GOI, labor unions and industry), the Institute's primary functions are to:

- Train skilled labor in various building trades;
- Promote establishment of building trades schools;
- Train foremen in advanced construction and management skills;
- Organize and conduct short courses for construction supervisory personnel and skilled labor;
- Conduct courses in advanced construction methods and systems for contractors and builders;
- Maintain a technical advisory station for contractors and builders;
- Promote increasing productivity in construction by introducing incentive payments, improvement of methods, organization and techniques;
- Promote a higher image of the building trades; and
- Publish technical literature related to the building industry.

At present, the Institute is exploring the application of incentive payments for construction trades based on objective measured norms. It is expected that application of incentive payments or lump sum payments for determined work will substantially increase the productivity of construction labor.

- Construction Materials

As shown in the following chart of construction components, construction materials represent 43% of total construction costs. It is, therefore, understandable that the fluctuation in costs of materials supply and delivery, directly affects construction costs as well as production schedules. Due to more sophisticated construction systems, higher standards, and a sizeable demand for housing, imports of construction materials, primarily fixtures, equipment and some luxury items for high cost dwellings, increased to about 40% of total materials costs in 1975.

Material	Percentage of Construction Cost	
Sand, stone, lime, etc.	4.77	
Marble, tile	1.06	
Cement, cement products	11.40	
Steel, metals	9.02	
Lumber, wood	5.91	
Misc. building material	0.36	
Paint, glass, asbestos, etc.	4.42	
Heating, water installation (material and equipment)	5.09	
Electrical wiring (fixtures and material)	0.95	
TOTAL Materials		43.03%
Equipment and tools		2.98%
Transportation		1.71%
Total labor		44.48%
Supervision and management		5.56%
Misc. expenses		2.13%
TOTAL COSTS		100.00%

Basic construction materials which have to be imported to supplement insufficient domestic production are cement, white cement, steel (particularly heavy profiles), and all lumber. A general shortage of cement has continued through 1973 and 1974 while consumption has been steadily increasing:

CONSUMPTION OF CEMENT

1968	948,000 tons
1970	1,423,000 tons
1971	1,671,000 tons
1972	2,045,000 tons
1973	1,939,500 tons
1974	2,148,500 tons

It is expected that a new cement plant scheduled to start production in October 1975 will considerably improve the supply situation and reduce the need for import.

Some new materials and components which are appearing on the market are expected to further reduce costs and construction time.

Materials such as gypsum boards and steel studs to replace the heavy masonry partitions; resilient (asphalt, vinyl floor tiles to replace terrazzo or heavy cement floor tiles; standard size doors and windows (factory-finished and quality controlled) to replace made-to-order products; various types of wall covering to replace plaster and paint; factory-finished bathroom units; standard cabinetry and fixtures; use of p.v.c. piping, and others will undoubtedly increase the efficiency of the Israeli construction industry.

Standardization of building products that will make possible effective quality control and provide encouragement and incentive for the manufacturers should soon have a favorable effect on the construction process.

Unfortunately, the general inflation and the heavy demand have strongly affected material prices. Comparing the 1975 unit prices with the second half of 1973, it must be realized that there has been an average increase of better than 100%.

- Domestic Materials - Unit Prices

A current listing of average prices of construction materials and products compiled by the Team is on file at A.I.D.'s Office of Housing.

- Construction Equipment

Efforts to promote mechanization, prefabrication and industrialized building have necessitated increased investment in construction equipment.

The investment in imported equipment and machinery are reported as follows:

IMPORTED MACHINERY AND EQUIPMENT INVESTMENT
(Millions IL)

1962	1970	1971	1972	1973	1973*
70	79	83	103	136	153 or $ 36.2 million

Domestically manufactured equipment represents an investment of:

1972	1973	1974
24	28	30

- **Land Availability**

The majority of available land, particularly outside of the large urban areas, is owned by the GOI. It is estimated that only 8% of the available land is privately owned.

Government land is administered by the Israel Lands Authority (ILA) under supervision of the Ministry of Agriculture.

For public housing developed by the Ministry of Housing, ILA makes land available on a long-term lease basis, generally for 49 to 99 years. A lease is automatically renewed if the original use remains the same. The GOI maintains a policy of not selling land to private owners, individuals or organizations.

Privately Owned Land

Privately owned land, because of its limited availability and high demand by private developers is extremely expensive and is not often utilized for public housing projects. Prime land in Tel Aviv may sell for up to IL 1,200 per square meter. In other areas the rough land cost allocation to an 80 M^2 apartment may amount to IL 4,000 to IL 8,000. Nevertheless, in cases of public housing projects developed on such land, the GOI has, in the past, subsidized the sale of such land.

Subsidies in Government Owned Land

The selection of land for public housing developments in Israel appears to be based more on principles of usability in the overall economy rather than on its suitability for construction.

It seems to be GOI policy to preserve land which can be developed agriculturally for that purpose, and to utilize other land, often rather difficult for construction, for housing developments. Therefore, it is not unusual that considerably higher costs of land development and urbanization have to be incurred in addition

*/ At a rate of US$ 1.00 = IL 4.20 (1970 prices.)

to extended construction schedules.

In order to save time, the Ministry of Housing is currently initiating a land development program which will provide a supply of housing sites, prepared for construction. Such work will be financed by the GOI budget.

XIII CONSTRUCTION COSTS

The selling price of public housing units developed under the GOI program are based on construction cost (Cost-of-Building COB).

Over the past several years, construction costs have increased considerably and it is expected that additional increases will be experienced although it may not be at the same rate as in previous years.

- Comparing costs since 1972, we note that the first A.I.D. Housing Guaranty Loan set the maximum selling price per unit at IL 67,200 = US$ 16,000 (Exchange rate US$ 1.00 = IL 4.20).

- As a result of an 18.2% increase in COB, the maximum unit price was determined at IL 79,430 = US$ 18,912 (Exchange rate US$ 1.00 = IL 4.20).

- In March 1974, an additional 48.5% increase in COB set the maximum price at IL 117,252 = US$ 28,084 (Exchange rate US$ 1.00 = IL 4.20).

- In November 1974, the devaluation of the Israeli pound changed the exchange rate from US$ 1.00 = IL 4,20 to US$ 1.00 = IL 6.00.

- During the period between March and September 1974 another 24.7% increase in the COB took place and increased the maximum price to IL 147,087 = US$ 24,515 (US$ 1.00 = IL 6.00).

It may be criticized that the prices of the housing units in the Israeli Public Housing Program are above the level which could be generally accepted for low cost housing programs experienced elsewhere.

Such a straight comparison with experience in other areas and countries would not present a fair evaluation. For proper evaluation and a determination of the projected costs we must consider the conditions and circumstances which the GOI has to accommodate.

Conditions Affecting the Cost of Construction

Inflation

The population expansion due to natural growth and immigration, during the recent 5-6 years, and the traditional desire for ownership and security generated a mass demand for housing.

There is no immigration quota and immigrants are permitted to come when they can or want. For that reason the inflow cannot be controlled or planned. At the same time, the GOI has assumed responsibility for new immigrant placement and accommodation, and therefore has to be prepared to do so.

Young couples, married after completion of their military duty, also enjoy certain privileges related to housing, and the GOI feels responsible for their housing needs.

At the social level, the GOI sees the necessity and recognizes its responsibility to improve conditions in the slum areas and for proper accommodation of numerous large families.

Considering such a demand and the ready-made, Government-supported market, one can only accept the fact that, even in a controlled economy, inflation of prices cannot be totally prevented.

Increased Costs Due to Special Conditions

- The seismic conditions in Israel require an appropriate structural design which adds to the basic cost;

- Limited availability of land and its cost dictate multi-story structures which, due to the Israeli construction standards, seismic conditions and limited variety of construction materials, are more costly;

- Additional costs generated by construction of air raid shelters required by law for each multi-unit building;

- More costly and more time-consuming construction methods due to a limited selection of locally available major construction materials (concrete, concrete products and stone only);

- Cost of imported materials and equipment;

- Labor cost which accounts for 44.48% of the total (43.03% material).Due to an overemployment in the construction labor supply, wages have been steadily rising, while productivity is decreasing; and

- Prolonged completion time due to temporary material and labor shortages, and therefore, increased overhead and financing costs.

As stated previously, the cost of construction and selling prices of housing are relatively high, and we have identified many justifying reasons. However, it appears that our desire for such a justification is probably more related to our past experience in other countries and economies, and to the psychological effect generated by a major change in the pattern.

Comparing the selling prices of housing and the selling prices of other commodities with those in the United States, we realize that while all Israeli prices are generally equal to or higher than the same in the United States, the cost of construction is still substantially low. ($22/sq. ft. against $28/sq. ft.)

Sociological Aspects of Cost

The relationship between the selling prices and the Israeli market capability offers a basis for another type of analysis:

Income data on Urban Employee Families is shown in Section VI of this report. However, it may be useful to look beyond the dry tables and figures to understand the considerations which exist in the Israeli housing program with respect to GOI philosophy and motivation:

Israel is a rapidly-growing country, economically and numerically, and its stability and security depend on satisfactory growth.

To maintain and support such growth, total involvement, the participation and effort of the entire population, is necessary.

Satisfactory accommodations, pride of ownership and personal security provide the driving force for such participation.

In the GOI's view, man will protect and support, if there is something to protect and support; that his satisfaction with his personal life will stimulate his public involvement.

Israel is a young country and for all practical purposes, a country of young people (33% below 14 years of age; 59% below 33; 75% below 45 years of age). These young people will in the near future, assume ever greater responsibility in Israel's economy, administration and politics.

The GOI feels responsible for the conditions under which these young people prepare themselves for their future civic duties. Suitable housing is one of the major elements in providing conditions opportune for growth. However, this philosophy applies not alone to the need for new housing for young couples, but also it applies to slum dwellers and large families.

Present slum conditions are undesirable and are not conducive to a progressive population (not to mention that internal security problems are related to slum conditions) and overcrowded dwellings do not present a suitable environment for the psychological development of children.

The inflow of immigrants, regarded from the GOI's standpoint, is partly advantageous and partly cumbersome. Depending on their age, background, training and, to some degree, their country of origin, immigrants being their skills, knowledge and experience, additional manpower and protective force, and in some cases, make a monetary contribution. At the same time, however, this inflow also includes immigrants

who do not have this capacity to contribute: the aged people, the people without skills or with skills which are not relevant to conditions in Israel. The GOI, however, does not differentiate between immigrants. All immigrants are accepted equally and are accorded the same rights. One of these rights is the right to an appropriate housing accommodation.

In view of the above considerations, it is obvious that cost economies although important are not yet the primary objective in public housing supply.

Costs cannot be evaluated strictly in terms of good business principles, but rather the sociological and humanitarian aspects have to be accepted as the definite motives.

The GOI has been willing and is prepared to balance out the occasional inequalities with various forms of financial assistance, i.e., grants, special types of financing, reduced interest rates, etc., for it feels that it has an obligation towards its people.

Such a policy, however, generates an increasing demand on the housing supply which logically results in increasing costs.

Based on these conditions and considerations, the Ministry of Housing in cooperation with the Ministry of Finance, has developed and the GOI has accepted the Housing Development Plan and Budget for 1975 which is shown on page 87.

Analyzing this 1975 Development Plan it appears that the planners have followed a pattern consistent with the general philosophy of the GOI and with current costs.

AVERAGE CONSTRUCTION COSTS PER UNIT

		1975 US$ Equivalent
Average Cost per Dwelling Unit Nationwide	Ib 147,620	$ 24,604
Dwellings for New Immigrants	112,620	18,771
Dwellings for Young Couples	116,030	19,338
Dwellings for Slum Clearance	134,870	22,478

AVERAGE FINANCIAL ASSISTANCE TO HOME PURCHASERS

Average Assistance to Home Buyers Nationwide	Ib 63,000	$ 10,500
Assistance to New Immigrants	88,550	14,759
Assistance to Young Couples	34,015	5,669
Assistance to Slum Dwellers	71,070	11,835

Variations in construction costs relate to the geographic location of the unit and in financial assistance to the economic and social status of the purchasers and the location of the unit.

		HOUSING DEVELOPMENT PLAN AND BUDGET FOR F.Y. 1975	NEW IMMIGRANTS	YOUNG COUPLES	SLUM CLEARANCE	SAVINGS PROGRAMS	OTHERS	OUTSTANDING OBLIGATIONS	TOTAL
CONSTRUCTION BUDGET	PLAN	NO OF UNITS	10,650	1,000	5,300	(2,000)	4,100	--	21,650(2,000)
		FINANCING PLAN - IL	1,533,880,000	148,790,000	1,019,800,000	80,000,000	1,690,220,000	--	4,472,690,000
		$							745,448,333
	BUDGET	BUDGET FOR PLAN - IL	460,164,000	44,637,000	305,940,000	30,000,000	508,409,000	--	1,349,150,000
		$							224,858,333
		CARRIED OVER FROM 1974 - IL	739,270,000	71,392,000	489,819,000	30,000,000	811,719,000	--	2,142,200,000
		$							357,033,333
		TOTAL 1975 BUDGET - IL	1,199,434,000	116,029,000	795,759,000	60,000,000	1,320,128,000	--	3,491,350,000
		$							581,891,667
ASSISTANCE BUDGET	PLAN	NO OF UNITS -	16,213	12,862	15,873	(2,000)	8,545	--	53,493 (2,000)
		FINANCING PLAN - IL	1,435,700,000	437,500,000	1,127,140,000	80,000,000	458,020,000	--	3,538,360,000
		$							589,726,667
	BUDGET	BUDGET FOR PLAN - IL	1,049,860,000	263,570,000	780,570,000	30,000,000	542,450,000	-278,000,000 +461,270,000	2,849,720,000
		$							474,953,333
		CARRIED OVER FROM 1974 - IL	333,590,000	22,100,000	131,990,000	20,000,000	177,600,000	--	665,280,000
		$							110,880,000
		TOTAL 1975 BUDGET - IL	1,383,450,000	285,670,000	912,560,000	60,000,000	720,050,000	-278,000,000 +461,270,000	3,545,000,000
		$							590,833,333
		NO. OF UNITS EXPECTED	16,213	18,642	15,873	(2,000)	4,445		55,173 (2,000)

Source: Ministry of Housing

Geographic location and related building codes affect construction costs as follows:

Region 1 - Coastal Strip: Nahariya, Ashkelon	100.0%
Region 2 - Some communities within the Coastal Strip: Lod, Haifatown, Acre(Akko)	106.0%
Region 3 - Western Negev, South Yehuda	108.0%
Region 4 - Carmiel, Galilee, Central Negev	116.0%
Region 5 - Eastern Negev, Northern Galilee, Jerusalem District	126.0%
Region 6 - Eilath, Jerusalem City, Safad	140.0%

Assuming average budgeted construction costs of IL 147,620 (US$ 24,604) per unit or 120%, we may project the costs for the six regions as follows:

	Average Cost Per Region	1975 US$ Equivalent
Region 1	IL 123,016	$ 20,502
Region 2	130,397	21,832
Region 3	132,857	22,143
Region 4	142,699	23,783
Region 5	155,000	25,834
Region 6	172,724	28,703

The above average construction costs include all related development costs, i.e., cost of land at market price, cost of construction financing, contractors' profits, etc.

In implementing public housing, the Ministry of Housing and related institutions use various methods of contracting for construction of their projects to reduce costs. Such methods may utilize low or no interest construction financing to the contractor, provided that he will limit his profits to 15%; low or no cost land for the project, particularly in rural areas; utilize existing utility mains under construction from other budgetary allocations; utilize urbanized land, etc.

In light of the foregoing, assuming a construction cost of $220 per M^2 and an average of 27% of this cost expended for the other development costs, such as land, infrastructure, etc., the total cost of the various units may be estimated as follows:

	Average Floor Area	Cost of Dwelling Only	Total Price
Slum Clearance	80 M^2	$ 17,000	$ 22,352
New Immigrants	61 M^2	13,420	17,044
Development Areas	75 M^2	16,500	20,955
Young Couples	55 M^2	12,100	15,367

BREAKDOWN OF AVERAGE DEVELOPMENT COSTS IN 1975
FOR A STANDARD 72 M^2 APARTMENT UNIT IN REGION I

	Full Development Cost	GOI Cost Saving Effect*
Construction Costs (including prorated share of public areas)	Ib 86,280 $ 14,380	Ib 86,280 $ 14,380
Prorated Share of Costs for Air-Raid Shelter	Ib 7,732	Ib 7,732
Prorated Share of Costs of Infra Structure	Ib 16,004	Ib 10,000 (Est.)
Total Construction Costs	Ib 110,016 $ 18,336	Ib 104,012 $ 17,335
Prorated Share of Land Cost	Ib 5,798	0
Prorated Share of Planning, A&E, Supervision, Taxes, etc. Costs	Ib 11,598	Ib 9,000 (Est.)
Total Costs	Ib 127,412 $ 21,235	Ib 113,012 $ 18,835
Prorated Share of Cost of Construction Financing and Contractors Profit & Overhead	Ib 11,182	Ib 10,000 (Est.)
TOTAL COSTS	Ib 138,594 $ 23,099	Ib 123,012 $ 20,502

*/ Average cost per M^2 of construction (Unit only)....$209.39

Average cost per M^2 apartment's floor area
All development costs prorated $316.52

APPENDIX NO. 1

INDIVIDUALS AND INSTITUTIONS CONTACTED

Avner Cassuto, Legal Advisor to Ministry of Finance

Philip Mandelker, Assistant to Legal Advisor to Ministry of Finance

Haim Stoessel, Accountant General, Ministry of Finance

Giora Gazit, Deputy Accountant General, Ministry of Finance

Eli Ramon, Assistant, Accountant General Department, Ministry of Finance

Ephraim Dovrat, Economic Advisor to Ministry of Finance

Shaul Jamal, Assistant to Economic Advisor, Ministry of Finance

Shlomo Schattner, Assistant, Housing Affairs, Department of the Budget

Doodi Ben-Yishasi, Senior Project Engineer, Jerusalem District, Ministry of Housing

Israel Shaham, Deputy Director General, Ministry of Housing

Abraham Attias, Assistant to Deputy Director General, Ministry of Housing

Zvi Oren, Director, Planning and Engineering, Ministry of Housing

Avraham Alweyl, Director, Israel Building Center

A. Borokhovitz, Israel Building Center

M. Hareli, Israel Building Center

Joseph Sharon, Chairman, Board of Directors, Israel Housing and Development, Ltd. (Chikum-Ve-Phituach B.M.)

Avraham Cahanov, Managing Director, Israel Housing and Development, Ltd. (Shikum-Ve-Phituach B.M.)

Menashe Rosen, Deputy Managing Director, Israel Housing and Development, Ltd. (Shikum-Ve-Phituach B.M.)

Isiah Landau, Deputy Managing Director, Israel National Housing Corporation for Immigrants, Ltd. (Amidar)

Yohanan Peled, Director, Department of Population Dispersal, Israel National Housing Corporation for Immigrants, Ltd. (Amidar)

APPENDIX NO. 1 (Cont'd.)

INDIVIDUALS AND INSTITUTIONS CONTACTED

David Golan, Director, Department of Coordination and Control, Israel National Housing Corporation for Immigrants, Ltd. (Amidar)

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David Weinshal, Director General, Ministry of Housing

David Alfandari, Deputy Director General, Population Dispersal, Ministry of Housing

Ze'ev Barkai, Director, Programming Division, Ministry of Housing

Shlomo Avni, Director, Department of Rural Construction, Ministry of Housing

Amon Rubin, Senior Economist, Department of Research, Bank of Israel

Victor Medina, Senior Economist, Department of Research, Bank of Israel

Ben-Ami Zukerman, Deputy Director, State Revenue Administration

Joseph Gabbai, Director of Research, State Revenue Administration

Arieh Meir, Mayor, Qiryat Gat

Avraham Shragai, Director of Public Relations, Qiryat Gat

Akibah Feinstein, Director, Department of Minorities, Ministry of Housing

Avraham Ben Dor, Director, Galilee District Office, Ministry of Housing

David Yanir, Director, Technical Division, Galilee District Office, Ministry of Housing

Moshe Mann, Director General, Tefahot Israel Mortgage Bank, Ltd.

Gideon Eiges, Deputy Director General, Tefahot Israel Mortgage Bank, Ltd.

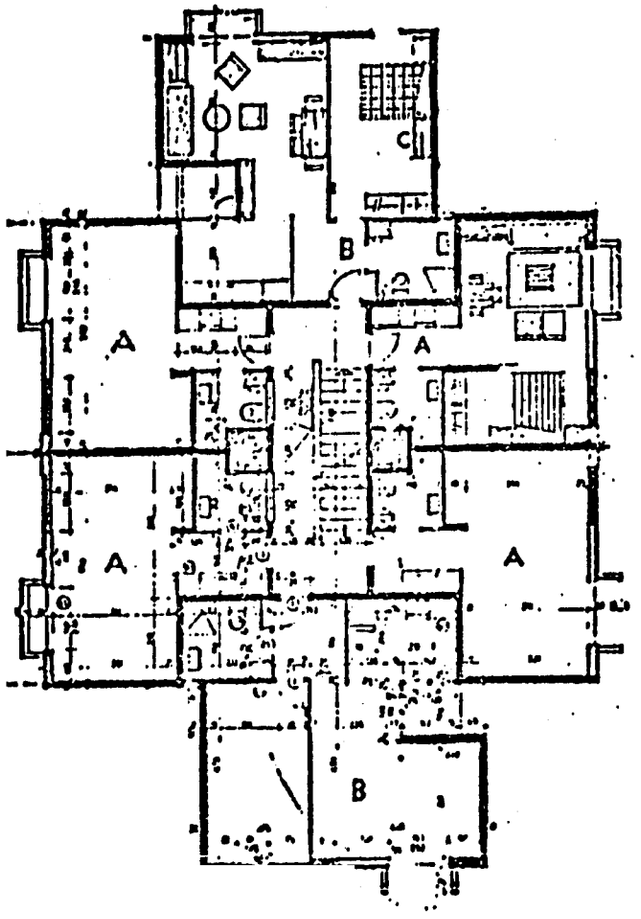
Mrs. Shula Ganor, Assistant to the Deputy Director General, Tefahot Israel Mortgage Bank, Ltd.

Moshe Kahan, General Manager, General Mortgage Bank, Ltd.

J. Levinson, Chairman of the Board of Management, Bank Hapoalim

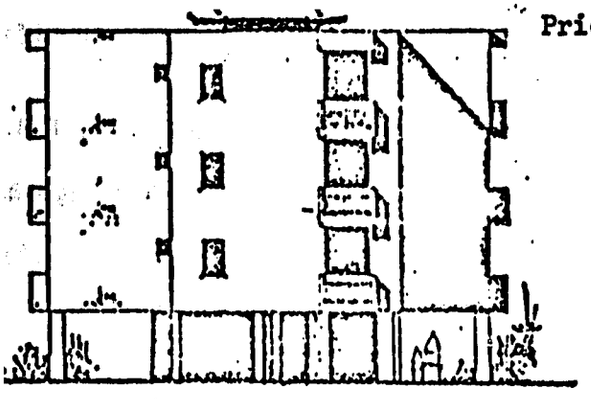
APARTMENT UNIT TYPES

APPENDIX No. 2.



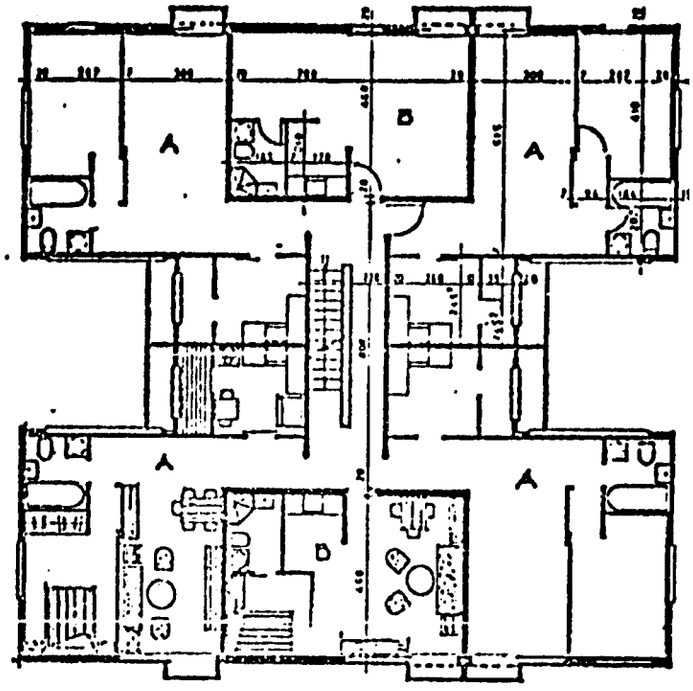
One Bedroom
Apartment - 56 M^2 Floor Area
Estimated Average Price $15,650
*Price Range $14,000 to $18,200

Efficiency
Apartment - 35 M^2 Floor Area
Estimated Average Price $ 9,770
Price Range $8,200 to $11,900



FRONT ELEVATION

*Price range relates to regional location of the project.



One Bedroom
Apartment - 56 M^2 Floor Area
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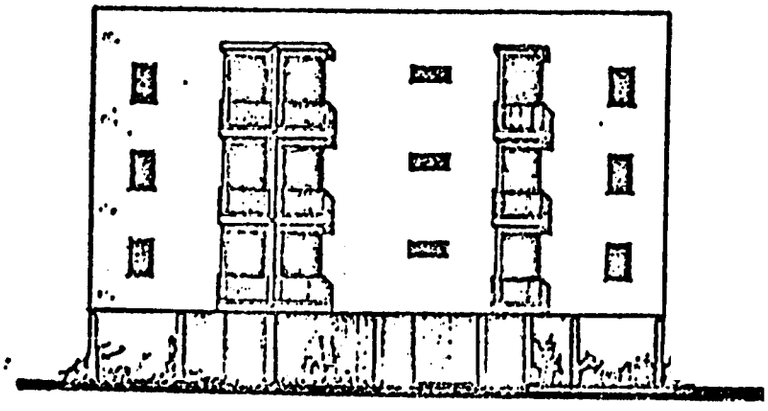
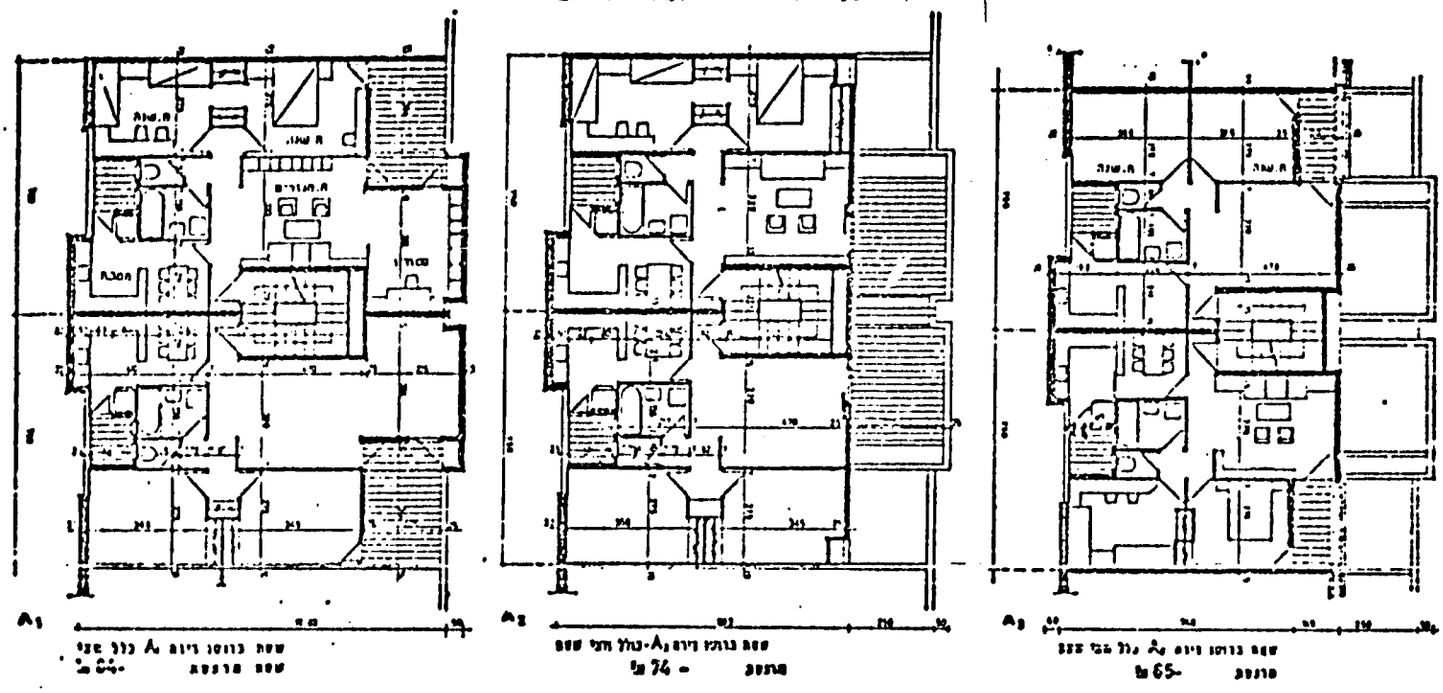
Estimated Average Price $ 9,770
Price Range $8,200 to $11,900



בית מרוכב, 4 דירות קטנות כקומה. דירה A
56 מ"ר. דירה B 37 מ"ר.
תכנון: אדריכלים ב. קומפורטי, א. זרחי

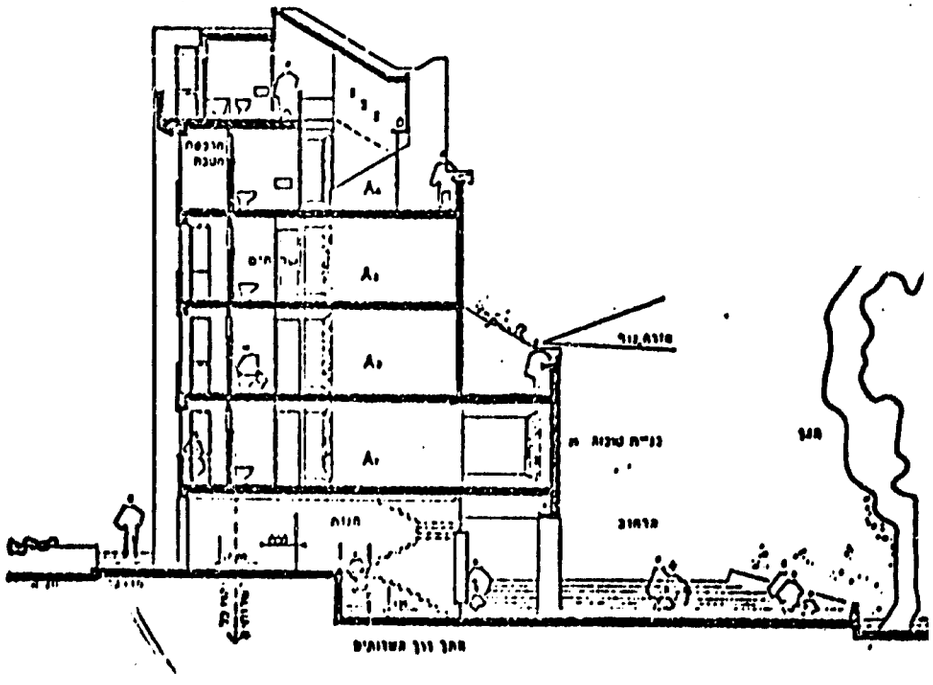
HOUSING TYPE 61/64/37. APART. A. 56 SQ.M.
APRT. B. 37 SQ.M.
PLANNING: ARCHITECTS B. COMFORTI, A. ZERAHI

Two Bedroom
Apartment - 74 M^2 Floor Area
Estimated Average Price $ 20,955
Price Range $ 17,500 to $24,500



Large Two Bedroom
Apartment - 84 M^2 Floor Area
Estimated Average Price $23,470
Price Range $19,600 to $27,400

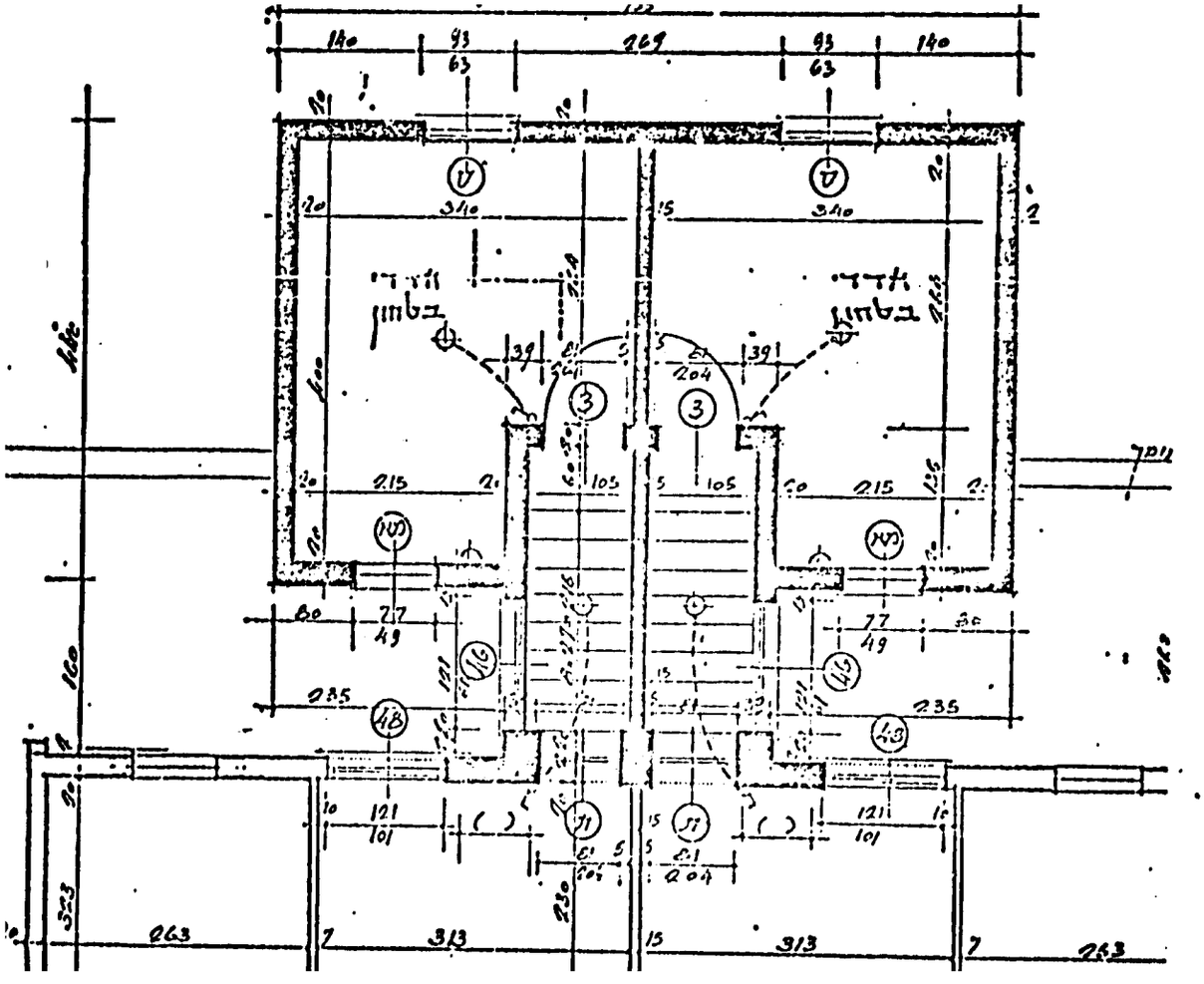
Two Bedroom
Apartment - 65 M^2 Floor Area
Estimated Average Price $18,160
Price Range $ 15,200 to $ 21,200



APARTMENT UNIT TYPES (Continued)

Examples of Existing Units Enlargement

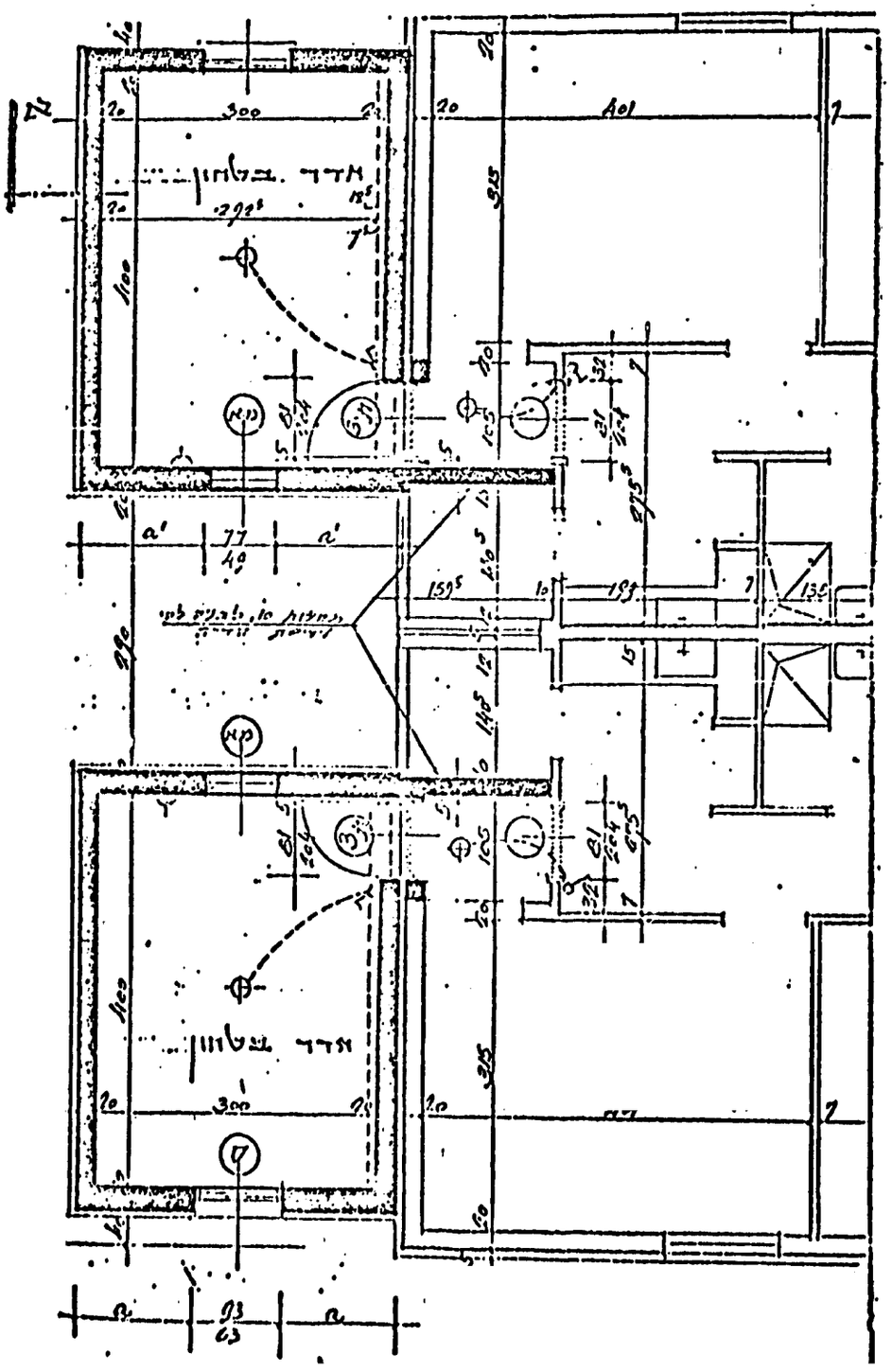
Blastproof rooms to substitute for absent air raid shelters and to serve as additional bedroom to each apartment are constructed vertically along the exterior wall of the existing structures.



APARTMENT UNIT TYPES (Continued)

Examples of Existing Units Enlargement (Continued)

Blastproof rooms to substitute for absent air raid shelters and to serve as additional bedroom to each apartment are constructed vertically along the exterior wall of the existing structures



APPENDIX 3

EXAMPLES OF GOI ASSISTANCE SCHEMES

I Young Couples Assistance Scheme

A. ELIGIBILITY

1. Couples married after October 1, 1969, and couples about to marry, living in urban settlements, and buying a newly constructed flat form a contracting company or buying an existing flat, including flats requiring the payment of key money.

2. Assistance is given to those purchasing a flat of up to 75 square meters, the cost of which does not exceed IL 150,000 (in Jerusalem, up to IL 170,000). (In development areas, there is no limitation on purchase price.)

3. No assistance can be given to couples that have already received assistance under a Government or municipal housing assistance scheme, or to couples who have or had their own flat, or who live in a flat for which key money has been paid.

B. AMOUNT AND CONDITIONS OF ASSISTANCE

1. Mortgages of between IL 40,000 and IL 95,000 are offered; the repayment terms are determined in accordance with the number of points* the couple have, and the settlement in which the flat they wish to purchase is situated.

2. The mortgages and monthly repayments are listed by point groupings and the area in Table A.

3. In development areas, in addition to the normal loan, there will be a standing loan** of between IL10,000 and IL 30,000

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*/ Mortgagors are rated and eligibility is established according to a points system. For example, young couples are given: 0-200 points depending on their marriage duration; 0-300 points depending on size of family; 0-300 points depending on density of present home: 0-600 points depending on total family income. Additional items for consideration make for 0-2000 total points. As can be seen from Table A, the greater the number of points a couple has, the greater the Government assistance in maximum loan amount and in providing for lower monthly payments.

**/ Also referred to as a grant. The homebuyer is technically obligated to repay a portion of a grant or standing loan if the home is sold within five years from the date of occupancy. The standing loan obligation is reduced by 20% each year. After five years, it becomes an outright gift to the homebuyer.

depending on the settlement. This standing loan will be given in the case of purchases of new flats only.

II Overcrowding 3+

A. ELIGIBILITY

1. (a) Families living three or more persons to a room.

(b) Families occupying housing with less than nine square meters per person, even though there are less than three or more persons per room.

(c) Families living in housing for which a demolition or sealing order has been issued on housing unfit for occupation, even if the above amount of overcrowding does not exist.

2. Assistance will be given to families living in urban settlements, and to families moving from one development area to another.

3. Assistance will be given if, in the new or enlarged flat, overcrowding is reduced as follows:

(a) For families of up to six persons -- up to two persons per room.

(b) For families of six or more persons -- up to 2.5 persons per room.

4. The scheme is intended to assist purchase of a new flat, purchase of an existing flat, renting of flat requiring key money*, and building of additional rooms on an existing flat.

NOTE: Families are eligible for assistance under this scheme, if they have been living in their present housing since March 31, 1973.

B. AMOUNT AND CONDITIONS OF ASSISTANCE

1. Mortgages of between IL 20,000 and IL 90,000, repayable over 17-25 years, are offered reasonable repayment terms. For the maximum loan, during the first three years, the monthly payments will be IL 250. Subsequently, the payments gradually increase.

2. The amount of the loan will be dependent on the following:

(a) The number of people living in the flat.

*/ Two-thirds of the amount of key money is payable to the prior occupant of the flat, one-third is payable to the property management company, such as Amidar.

(b) The additional housing necessary to reduce the family's ocercrowding and improve its housing conditions.

(c) For loans to purchase a flat or acquire a key money flat, the value of the present flat (if the family has one) and the price of the flat being bought will be taken into account in fixing the amount of the loan.

(d) For loans for the enlarging of a flat, the following will be taken into account in determining the amount of the loan: the area of the flat before and after enlargement and the price per square meter of construction. Those eligible for such a loan will also receive a loan of IL 5,000 for internal improvements and for design and registration expenses. Families of six or more persons will receive an additional loan of IL 4,000 for the building of additional sanitary services.

3. Families moving to a development area will receive a standing loan of IL 5,000.

4. A disabled or chronically sick person, in need of special housing facilities, will receive a standing loan of IL 5,000.

5. Where elderly parents transfer to a retirement home or similar institution, the family will receive an additional standing loan of IL 6,000 for one parent or IL 10,000 for a couple.

6. A family that returns to the Government its temporary housing (asbestos house, hut or structure scheduled for demolition or sealing) will receive a standing loan of IL 10,000 (in Jerusalem, IL 15,000).

III Housing for Veteran Settlers in Development Areas

A. ELIGIBILITY

1. Those employed in "required" occupations who move to a development town or are residents of a development town, and are in possession of an authorization issued by the Center for Direction to Development Towns, or by an official appointed by the Ministerial Board for Development Towns.

2. Among those who are residents of a development town or are moving to a development town, and who are not employed in a required occupation, the order of priority will be as follows:

(a) Families who do not own a flat.

(b) Families living under conditions of two or more persons per room, and selling their present flat. A flat will not be offered to those who do not sell their present flat.

(c) Individual men and bachelors not older than 35; spinsters not older than 30; bachelors and spinsters who have recently completed their army service and are aged 21 or older, and who are moving out of a household of six or more persons.

NOTE: In each category, priority is by family size.

B. AMOUNT AND CONDITIONS OF ASSISTANCE

1. Mortgage amounts for those employed in required occupations who move to a development town and are residents of a development town are listed in Table B.

2. The assistance to those moving to a development town and to residents of a development town not employed in a required occupation is also shown in Table B, but the monthly repayments will be different. (Other monthly payment schedules govern.)

3. Assistance for purchase of existing flats: Those moving to development areas can obtain loans (but not standing loans) for the purchase of existing flats, the amounts of the loans being in accordance with Table B. Those interested apply directly to area offices of the Ministry of Housing, to obtain a "rights notice" and a letter of introduction to a mortgage bank.

4. Rental housing for those employed in a required occupation, and moving to a development area: Where such housing is available, it may be rented for up to 3 years. The rent will be 0.25 per cent or 0.30 per cent of the price of the flat, less the standing loan. (Tenants are accepted in accordance with special arrangements published by the Ministry of Housing.) Applicants must be in possession of a permit from the Center for Direction to Development Towns.

TABLE A

AMOUNT AND CONDITIONS OF ASSISTANCE:

YOUNG COUPLES ASSISTANCE SCHEME

Points	Costal Settlements	Immigrant Towns & Small Towns	'B' Development Areas	'A' Development Areas	Jerusalem
Up to 390	40,000 (750)	40,000 (750)	80,000 (600)	95,000 (690)	50,000 (930)
400-790	40,000 (600)	40,000 (600)	80,000 (600)	95,000 (690)	50,000 (750)
800-990	60,000 (490)	70,000 (590)	80,000 (600)	95,000 (690)	95,000 (850)
1000-1190	60,000 (440)	70,000 (530)	80,000 (540)	95,000 (630)	95,000 (770)
1200-1390	60,000 (340)	70,000 (420)	80,000 (430)	95,000 (500)	95,000 (620)
Over 1400	60,000 (280)	70,000 (340)	80,000 (370)	95,000 (400)	95,000 (500)

NOTES: 1. *The figures in parentheses are the monthly repayments during the first repayment years.*
2. *An additional loan of IL10,000 is available to those with 1400 points or more.*

SOURCE: Ministry of Finance

TABLE B
LOAN PROVISIONS UNDER THE VETERAN SETTLERS SCHEME

SETTLEMENT	Family without its own housing		Family with its own housing			Bachelors and Spinsters			
	1. Maximum mortgage	2. Standing loan	3. Monthly payments	4. Maximum mortgage	5. Standing loan	6. Monthly payments	7. Maximum mortgage	8. Standing loan	9. Monthly payments
Yeruham	95,000	20,000	500	63,000	20,000	332	40,000	20,000	551
Shlomi, Maalot, Hazor, Kiryat Shmona, Beit Shean, Mitzpeh Ramon	95,000	25,000	500	63,000	25,000	332	40,000	25,000	551
Eilat	95,000	30,000	500	63,000	30,000	332	40,000	30,000	598
Safad, Beit Shemesh	80,000	25,000	430	53,000	25,000	287	40,000	25,000	574
Carmiel, Dimona, Arad, Tiberias	80,000	20,000	430	53,000	20,000	287	40,000	20,000	574
Netivot, Ofakim, Afula, Nazareth, Yokne,am, Migdal Ha,emek, Aderot	80,000	15,000	430	53,000	15,000	287	40,000	15,000	574
Kiryat Melachi, Acre, Kiryat Gat	80,000	10,000	430	53,000	10,000	287	40,000	10,000	574
Yavneh	80,000	--	430	53,000	--	287	40,000	--	574

NOTES: Columns 1, 4, 7: In no case will the assistance exceed 95 percent of the price of the flat.
Columns 2, 5, 8: Standing loans are not available for those buying a not-new flat.
Columns 3, 6, 9: The monthly repayment figures apply for the first three years.

SOURCE: Ministry of Housing

Criteria for Eligibility as a Young Couple (1973)

The Subject	Sub-Subject	Code	Points	Weight	Notes
Marriage duration	0-6 month 6-12month 1.1- 3years 3.1-3years 3.1+ years	01 02 03 04 05	0 40 100 150 200	10%	
Number of persons in family	2 persons 3 persons 4 persons 5+persons	06 07 08 09	10 80 160 200	10%	The size of the young couple's family = (a pair of parents) + (number of children) + (1 for a pregnant woman).
Density per room	0-1.5 1.6-2.0 2.1-2.5 2.6-3.0 3.1-4.0 4.1+	10 11 12 13 14 15	0 100 200 250 350 400	20%	The density in one room $\frac{\text{The number of persons in the flat}}{\text{The number of rooms}}$
Kind of tenure	In parents of the husband's flat In parents of the wife's flat In a rented room (private property) In a rented room (Amidar) In a rented room with key money In a rented room without key money In his own flat In flat the couple live apart Otherwise		16 17 18 19 20 21 22 23 24	(1) 300 (1) 300 300 (2) 150 (2) 120 (3) (3) 100 (4) 200 150	1) Till 6 months -100, 6-12 months 150. 2) Rent / Points: till 70; 101-200 100; 201-300 140; 301+ 170 3) Gains more points according to density.
The situation of the flat	Services outside the flat Recognized as unfit for dwelling	25 26	140 140	7%	If there exist the two code, gets 140 points, for one of the two.
The income per capita	Up IL.160 per capita IL. 161-260 per capita IL. 261-360 per capita IL. 361-460 per capita IL. 461-560 per capita IL. 561+ per capita A working woman	27 28 29 30 31 32 33	500 400 300 200 100 0 100	25%	1) If the whole income of the couple is higher than 2700 no points awarded 2) As addition for a working woman only to the first four groups. 3) Student for the first degree whohas an income less or equal to 800 is estimated as IL. 600. 4) Student for the second degree with an income less or equal to IL. 1000 is estimated as IL. 1000 5) If the husband doesn't work the income is estimated as IL.500. A cripple or other reasons of sickness = IL. 400
Number of persons on family of origin (husband)	till 4 persons till 5 persons 6-7 persons 8-9 persons 10+ persons or without parents	35	80	4%	1) If there are no parents 30 points added limited to 80 points maximum.
Number of persons on family of origin (wife) husband	1 2 3-4 5-6 7-8 9+	39 40 41 42 43 44	30 50 70 80 90 100	5%	
The size of the woman's family (including the woman)	till 4 persons till 5 persons 6-7 persons 8-9 persons 10+ persons or without parents	45 46 47 48 49	0 30 60 70 80	4%	Each of a parent means getting an addition of 30 points with a limitation of 80 points maximum.
The number of brothers & sisters in the woman's family (till 21 years)	1 2 3-4 5-6 7-8 9+	50 51 52 53 54 55	30 50 70 80 90 100	5%	

Source: Ministry of Housing

APPENDIX 5

CASE STUDY*

DRAFT RESOLUTION TO ESTABLISH A GOVERNMENT COMPANY (TEFAH, LTD.)

To approve entry of the Government into ownership, in partnership with Tefahot Bank for Mortgages, Ltd., and others in Koshon Company for Investments, Inc., whose name shall be changed as said in Section A below, (hereinafter - the Company); and also, to empower the Minister of Finance and the Minister of Housing to act and to participate, in the name of the Government, in establishing the Company and in everything involved in its establishment and to appoint the persons who shall represent the Government at the general meetings of the Company and its Board of Directors, subject to the conditions set forth in detail as follows:

A. Name of the Company

"Tefah,Ltd." or if this name shall not approved by the Company Registrar, a similar name that shall be approved by him.

B. Main Objectives of the Company

1. Financing building by the supplying of running capital in the period of construction.

2. Financing neighborhood planning and development operations.

3. Receipt of payments from occupants and savers and its safekeeping, liens, giving of security and carrying out other operations connected with the financing of building activities.

4. Execution of other operations arising from the transactions of the Company in the area of building and its financing.

5. The Company's profits will derive mainly from its loans for funding of the building and development. The amount of profit will be equal to that which the hypothecating banks are entitled to for directed mortgages given by them.

C. Nature of the Company

The Company shall be a Public Company with limited shares.

D. Capital Structure

The registered capital of the Company shall be Twenty Five (25) million Pounds ($4,133,333) and shall be composed of ordinary shares of One (1) Pound each.

*/ Quoted from "Running Capital for the Financing of Government-Directed Building" by David Weinshall.

E. Rights of the Shares

All shares shall be equal in rights, including voting rights, appointment of Directors, and participation in distribution of profits upon dissolution.

F. Funding of Company Operations

The independent paid-in capital of the Company upon its establishment shall be Twenty (20) million Pounds. The other sources of financing shall be:

1. Funds to be received from the emission of debenture bonds in the Company and from receipt of deposits from the State budget. The size of these sources is dependent on the scope of the directed building that the Company shall be required to finance from time to time.

2. Advance payments of occupants who, in the course of the construction, have contracted with the building contractors, to finance the running capital of the Company.

G. Shareholders of the Company

The principal shareholders of the Company shall be:

1. The Government of Israel, through the agency of the Ministries of Finance and of Housing, which shall own 51% of the said paid-in shares of capital and shall therefore own the same proportion of the Company.

2. Tefahot Bank for Mortgages, Ltd. which shall own 49% of the paid-in shares of capital and shall therefore own the same proportion of the Company. (It should be noted that the Government and Government Companies control more than 50% interest in Tefahot itself).

3. The Company being a Public Company, a number of its shares are held by other bodies.

H. The Board of Directors and the Chairman of the Board of Directors

1. The Board of Directors shall consist of an odd number of persons, no less than seven and no more than thirteen in number, as the designated ministers shall decide.

2. The number of Directors who shall be appointed by the Government (hereinafter - Representatives of the Government)shall be the number arrived at by division of the total number of Directors by two, when it is rounded off to the next higher integer.

3. The representatives of Tefahot on the Board of Directors shall

be appointed by the Board of Directors of Tefahot and the number of its members shall be the number arrived at by division of the total number of Directors by two when it is rounded off to the next lower integer.

I. The Chairman of the Board of Directors shall be chosen by the Board of Directors from among its members who are representatives of the Government, in consultation with the designated Ministers.

J. The Administrator General of the Company shall be appointed to his office by the Board of Directors; in his capacity as such he shall serve as a member of the Board of Directors on behalf of the representatives of Tefahot, within the framework of Section C above.

K. Compensation and Conditions of Work

The compensation and conditions of work of employees of the Company shall be the same as those of employees in similar position in Tefahot.

L. Appointment of Auditor

The Auditor of the Company shall be appointed in accordance with the recommendation of the committee appointed for this matter by the Minister of Finance.

M. Appointment of a Legal Advisor

The Legal Advisor of the Company shall be appointed in accordance with the recommendation of the committee appointed for this purpose by the Minister of Justice.

N. Company Documents

The memorandum and Articles of Association of the Company shall include the provisions included in this resolution and shall be approved by the Company Authority before registration of the Company.

EXPLANATORY NOTE

Appended to the Draft Resolution in the matter of the entry of the Government into ownership of Koshon, Ltd. (Tefah, Ltd.).

1. It is proposed that the Government participate in a financing company to operate a method of financing public building, by providing running capital during the period of construction.

2. The funds to be supplied by this Company shall be stages in place of the assets flowing today through the budget of housing projects (including the assets designated for the financing saving schemes for housing,) and by bonds earmarked for financing building activities.

3. In order to illustrate the scope, we point out that in the 1974 budget year approximately 30,000 starts in public building are foreseen (about 20,000 from budget funding and about 10,000 from bond financing), out of about 50,000 to 60,000 building starts expected this year in this sector.

4. In the course of the construction, the Company will fund 60% of the overall cost (remainder being profits of the contractor and private assets the contractor is obligated to procure for the construction), while the advance payments of the occupants will, in the course of the construction, be paid to the Company and not to the contractor (and partially transferred to the contractor). Today the proportions of funding received by the contractor in public building are as follows:

   100% when the building is budgetary, and 50% of this, (one half from bonds and one half from bank monies) in construction for young couples which is executed outside the budget.

5. The advance payments of the occupants to the Company, in the course of the construction, will constitute a means of insuring the monies of the occupants, thus advancing the objective of the Ministry of Housing to increase the number of solutions to the problem of dwellings achieved by loans for purchase in the open market.

6. The Company will collect interest on the running capital in a percentage to be fixed from time to time by the Board of Directors of the Company with the approval of the designated ministers or their accredited agents. (The budgetary funding if given without interest today, and the interest on bond monies and bank funds in building for young couples is 11%.) The interest will include profit equal to that which is accepted in hypothecary banks, and will be set by the designated ministers or by their accredited agents. The possibility of changing progressive interest according to length of the construction period will also be examined, in order to provide incentives for more rapid construction.