

PN-ABE-998

Best available copy -- pages 56 - 59 missing

PN-APZ-998
12165749

In all cases
HIG should be
changed to HG

AID'S HOUSING INVESTMENT GUARANTY PROGRAM IN ISRAEL

WORKING PAPER NO. 98
~~PROJECT IMPACT EVALUATION NO. _____~~

by

Robert J. Berg, Team Leader
Senior Fellow, Overseas Development Council

Aryea Cooperstock, Consultant in
Social Science and Urban Planning

Lynne D. Finney, Office of the General Counsel,
AID and Mortgage Finance Expert

Robert J. Muscat, Consulting Economist

U.S. Agency for International Development

~~September 1983~~
1983

The views and interpretations expressed in this report are those of its authors and should not be attributed to the Agency for International Development.

CHECKLIST OF ITEMS TO BE COMPLETED

- P. 19 Finney to check and report wording.
- p. 26 Berg to double check with Cooperstock
- p. 48. Finney to check re subsidy
- P. 60 Did AID "Began" or ~~κ~~"helped Begin~~κ~~"?
- P. 76 # 5, revise sentence
- Add ~~XXXX~~ rest of Appendix C..see draft.

- Add Map -Finney
 Photo- " (typical apartment buildings, development town,
 slum.., people)

- Retype and review for edits.

AID EVALUATION PUBLICATIONS

A complete list of reports in the AID Evaluation Publication series is included in the last pages of this document, together with information for ordering reports.

TABLE OF CONTENTS

	<u>Page</u>
Foreword.....	v
Summary.....	vi
Project Data Sheet.....	x
Map.....	xi
I. Program Description.....	1
II. History.....	7
III. Macro-Effects.....	10
A. Macro-Economic Effects.....	11
B. Financial Impact.....	18
1. Balance of Payment Impacts.....	18
2. Budgetary Impact.....	19
C. Macro-Social Effects.....	20
1. Young Couples.....	23
2. Immigrants.....	28
3. Development Towns and Rural Settlements.....	32
4. Large Families: The Three Plus Attack.....	34
5. Housing of the Elderly.....	36
6. Housing as a Socializing Factor.....	37
7. Minorities: The Controversy Over Arab Housing.....	39
D. Policy Impact.....	53
1. The Setting and the Process of Dialogue.....	53
2. Maintenance and Management.....	56
3. Distressed Neighborhoods.....	58
4. Encouraging the Private Sector: Mixed Results.....	65
5. The Price of Success: New Problems.....	67
IV. Conclusions and Recommendations.....	68
A. Conclusions.....	68
B. Recommendations.....	73
V. Lessons Learned.....	75

TABLE OF CONTENTS (continued)

Appendixes

- A. Housing Stock in 1980: Distribution
- B. Estimated and Actual Attributed Beneficiaries
- C. Housing Costs and Family Expenditures
- D. The Question of Additionality
- E. Factors in Assessing the Social Impact of Housing in Israel
- F. Proposal to Use Fiscal Incentives to Encourage Maintenance Improvements
- G. Reducing Differential Impacts: Some Proposals for Current Policy

FOREWORD

In October 1979, the Administrator of the Agency for International Development initiated an Agency-wide ex-post evaluation system focusing on the impact of AID-funded projects. These impact evaluations are concentrated in particular, substantive areas as determined by AID's most senior executives. The evaluations are to be performed largely by Agency personnel and result in a series of studies which, by virtue of their comparability in scope, will ensure cumulative findings of use to the Agency and the larger development community. This study of the impact of AID's Housing Investment Guaranty Program in Israel was conducted in November 1981 as part of this effort.

The study was conducted by Robert J. Berg, AID's Associate Assistant Administrator for Evaluation at the time. Mr. Robert J. Muscat, who had shortly before retired from AID, served at the team economist, and Ms. Lynne D. Finney from AID's Office of the General Counsel was the mortgage finance expert. The team very much regreted that midway in its study, team social scientist/urban planner, Aryea Cooperstock was injured in an auto accident and had to return to the States before the completion of fieldwork for this study.

The team wishes to thank all those who cooperated so fully in helping this evaluation take place. A study of this nature involves imposing upon the time and hospitality of numerous officials, and indeed intruding on the homes of scores and scores of unforwarned people. It can only be hoped that the conclusions and lessons drawn from this work will somehow recompense some of these people through improved public policies.

While the State of Israel has its unique aspects and history, the lessons learned in helping to house its people may well have wider applicability.

~~Richard M. Blue
Associate Assistant Administrator
for Evaluation
Bureau for Program and Policy
Coordination~~

SUMMARY

While the Agency for International Development's (AID) main assistance to housing took place after the period of greatest need in Israel, the housing provided through the guaranteed financing was a contribution to a very major Government ~~and private sector~~ program which has made major improvements to the housing of the ~~Jewish~~ population. The impact of the Government of Israel's (GOI) programs was strongly progressive, but perceived differentials in gains have contributed to political divisiveness.

TP AID's activities thus were part of a major success story.)

Although, as is inevitable in an evaluation, we go into some of the problems and shortfalls at greater length, this relative space in the report should not be taken as giving short shrift to the program's very substantial successes. ←

AID's technical advice on housing policies was excellent. It was carried out in a mature, ~~non-threatening~~ *cooperative* style and helped lead to important reforms, including policies favoring more privatization and more attention to maintenance. However, AID missed opportunities to foster experiments regarding more difficult housing problems, and in the one area of experimentation in which AID-guaranteed funds participated, the equivalent of inner-city housing renewals, AID showed a lack of understanding of the long-term nature of the process of community change which led to a rather precipitous withdrawal of AID support. Overall, the relationship of AID and the GOI was marked by a degree of professionalism which is perhaps to be expected of what, in essence, were peer relationships.

VII

P But AID did not probe the efficacy of two elements of the program: development towns, which probably were overbuilt, and housing for minorities (mainly Arab Israelis) who appear not to have benefited to any great extent from the programs supported by AID. The latter point is the more serious given the equity concerns of AID's policies and the fact that Israeli Arabs would appear to have relatively greater unmet housing needs than populations served by the programs.

The team made recommendations aimed at further improving housing policies in Israel:

- Policies to provide greater assistance to young couples;
- Policies to encourage more efficient organization of maintenance; and
- Policies to reduce the inequities of various mortgage finance policy changes which have occurred over the years.

Among the key lessons learned from the evaluation are the following:

- Underlying social and development assumptions and policies need to be probed even in dealing with sophisticated countries.
- In programs almost entirely carried out for political reasons there should be an examination of whether the content of the assistance contributes towards the political goals being sought. (The failure to address more adequately the housing needs of Arab Israelis was perhaps a lost opportunity in this regard.)
- The general rule that AID should assist the "poor majority" may be a less than clear and efficacious mandate for two classes of countries: richer countries like Israel where AID's social concerns ought to be more focused on the lower deciles, and the poorest countries, where social concerns could extend from the lowest deciles to nearly the highest deciles. This would encourage more consistency across programs and would lead to clearer focusing on poverty problems in richer countries, while also recognizing the extreme impoverishment of many above the medium income in the poorest countries.
- Longer term, peer technical assistance relationships have a great deal to commend them.

-- AID has the potential, particularly in better-off countries and in dealing with entrenched poverty, to *better* foster experimentation. It must ^{*better*} learn to sponsor experiments and to know the long-range and often difficult nature of social innovations.

PROJECT DATA SHEET--ALL HOUSING IN INVESTMENT GUARANTEES

Year	New Unite and Mortgages Amount	Estimated Use at Time of Authorization						Average Unit Cost
		Total Units	Young Couples	New Immigrants	Large Families	Rural and Agricultural Settlements	Minorities	
1971	\$50 M	11,550	5,340	4,014	1,332	799	58	
1973	25 M	2,392	1,250	a	517	625		
1975	25 M	2,400						
1976	25 M	2,000	1,000	200	400	200	200	
1977	25 M	3,700	1,000	500	1,000	700	500	
1978	18 M	1,850	600	300	300	400	250	
		mortgage						
		600	100		400	100		
		rent						
1979	<u>12 M</u>	<u>800</u>	<u>300</u>	<u>100</u>	<u>200</u>	<u>100</u>	<u>100</u>	
Subtotal	\$180 M	25,292	9,590	5,114	4,149	2,924	1,108	\$7,116.87
<u>Renovations/Improvements</u>								
1978	\$ 7 M	1,235 ^b						
1979	<u>13 M</u>	<u>9,366</u>						
Subtotal	\$20 M	10,601						\$1,886.61
Grand Total	\$200 M	36,893						

^aThis HIG paper states: "The policy of the GOI is to integrate, as far as practical, new immigrants into other housing groups; therefore, immigrant housing does not appear as a separate category. It will be noted that subsequent HIG papers overcame this problem.

^bBased on Project Paper. A subsequent (12/16/80) Office of Housing description of the Israel program stated that 600 units were involved.

11

I. PROGRAM DESCRIPTION

The announcement of the Agency for International Development's (AID) first housing investment guaranty to Israel was rather ~~extraordinary~~ ^{unusual}. On March 13, 1972, at a White House press briefing, ~~for the "American Jewish Press,"~~ AID's then Director of Housing stated that the \$50 million Housing Investment Guaranty (HIG) was "the first housing loan ever made by the United States or any country to Israel"; ~~"the largest international housing loan ever made any place in the world";~~ "the largest AID housing guarantee by 250 percent"; ~~"secured and the loan contracts written in the shortest time in AID's history";~~ and "will be fully disbursed in the shortest time in AID's history"--the first \$25 million to be disbursed in the following week.

Six \$25 million HIGs were to follow this assistance during the rest of the 1970s making the total \$200 million the largest HIG program in the world, utilizing about 25 percent of the total guaranty authority given to AID. Almost all of this assistance was program in nature and, although Israel is a small country, tracing the effects of this much money over an entire and complicated national program was certainly one of the most challenging assignments yet given an AID impact evaluation team. To understand the full effects of a series of national programs in a society made up of so many new and old

cultures is the kind of task fit for entire professional careers, let alone a month's study. At best, we hope the informed impressions presented below will stimulate both Israeli and U.S. policymakers to have both additional pride in the major accomplishments of the HIG program in Israel and to strive to remedy certain problems which concerned the team.

The HIG program provides U.S. Government insurance for 100 percent of the value of mortgage funds lent by U.S. institutions to developing countries for projects largely organized and managed (from the U.S. side) by AID's Office of Housing. (The insurance fees are split by the insured institutions and recipient governments.) In describing the impact of any HIG program, the effect of AID's role is thus technical and secondary to both the funds provided by U.S. institutions and to the leading implementation role taken by recipient governments and institutions. Throughout this report, we will speak of the impact of the HIG program as if it were a "normal" AID project or program (which of course it is not), since HIG activities operate under the same U.S. Foreign Assistance Act and are held to the same standards of performance as other AID programs. The team realizes that the clearest impact of the HIG program, per se, is to mobilize U.S. private sector finance (largely savings and loan institution funds) for housing schemes in overseas countries. Without the full HIG insurance, these funds would stay home. Surely, too, the rate of interest charged by the U.S. institutions in HIG projects is concessional, since the projects are basically risk-free.

The HIG program in Israel was part of a large program of U.S. balance of payments support to Israel, most of which was essentially conducted through check-writing arrangements (program loans, program grants, and commodity import arrangements). The Government of Israel (GOI) was fully capable of managing its housing programs from well before the start of AID's HIG activities (notwithstanding the fact that the first HIG was asserted to be for institution-building purposes) and there was general U.S.-Israeli agreement throughout on policies and priorities.

The program was conducted within the context of massive U.S. economic and military help to Israel (\$400 million in the first year of the HIG) which increased to over \$2 billion per year after the Camp David Accords. Thus, although the HIG program was large for AID's Office of Housing, it was so small within the context of total aid to Israel that in the words of a State Department Officer connected with the program both at the beginning and later on, "it was worth, at best, a paragraph in the annual Embassy cable on assistance requirements to Israel."

From 1972 through 1979, seven HIGs were authorized. The first five, totaling \$150 million, were solely to support Government mortgage programs to enable families to purchase units. The earliest HIGs were intended to support construction of housing, but later HIGs were for mortgages in any building where the mortgage and the unit financed met certain (often

including assistance toward a special program for distressed neighborhoods

changed) requirements.¹ The last two HIGs also were mainly for mortgage financing, but included \$20 million in renovations. The series of HIGs was estimated to result in assisting the financing of over 25,000 units and the renovation of an additional 10,000 units. This compares to a total housing stock in Israel of about 900,000 units. (See Appendix A for a summary of the main components of Israel's housing stock.) The average amount of HIG funds per mortgage was over \$7,000, an unusually high figure for the HIG program,

With each HIG authorization, there was an attempt by the GOI and AID's Office of Housing to estimate the number of beneficiaries in each major societal group defined for housing policy: young couples, immigrants, large families (the focus of "slum clearance"), rural and agricultural settlements, and minorities (largely Arab communities, but also including Druze, Bedouins, and some ^{non-Arab} Christians). After 1974, AID's Office of Housing applied to each HIG the legal and policy requirement that beneficiaries be below the median income of the recipient

... of the ...

This grant was outside the scope of this study.

¹It should be noted that in 1973 AID also provided a one-time grant of \$18 million for housing of new (largely Russian) immigrants. ~~This grant was outside the scope of this study, but in any case, U.S. Embassy records in Israel were not helpful in disclosing the exact use of these funds.~~

The team was unable to determine ...
... with respect to this grant

country, and this was carried out in Israel.² But it is critical to note that all mortgage beneficiaries were selected given GOI's rules and then attributed to AID, i.e., if AID required that its insured funds go to the poorer mortgages, the AID criteria were fed into the Government and financial institutions' computers and a list was promptly furnished of "AID" beneficiaries. This enabled not only income tests to be met, but also the requirement (throughout) that no units be financed beyond Israel's 1967 borders (known as the Green Line). The evaluation team was convinced that virtually any AID requirement could be met in this manner and that, in fact, the lists furnished to AID were meaningless for most purposes. The team is not criticizing this, only reinforcing the point that the program was not projectized in the main and was conducted de jure as a normal HIG (with real recipients who could be called beneficiaries), but de facto as additional Government resources implicitly helping to finance the country's national housing programs. Reinforcing this was the fact that once the first two HIGs were completed through an Israeli ^{mortgage} ~~banking~~ institution,

²AID policy is actually imprecise on what groups to focus on. AID Policy Determination 55 of October 22, 1974, "Shelter Program Objectives," states both that "AID's shelter activities will give the highest priority to...improvements in the lives of the poorest of [a country's] people" and that AID shelter resources "will be invested in projects either directly benefitting low income groups (i.e., the poorer half of the given country or city urban population), or indirectly benefitting such groups through the development of national housing policy and housing institutions." Clearly the latter guidance was used in the Israel HIG assistance as of 1975.

all subsequent HIGs were administered through the Ministry of Finance with the Ministry of Construction and Housing playing an important but distinctly secondary role in setting the policies regarding the use of the HIG-generated funds.

A final background note must be mentioned: housing in Israel can best be understood as the result of a series of overlaid policies. The vast majority of Israelis live in apartments, but the unit of policy is the flat, and generally not the building. People have obtained flats through various means including assignment as immigrants, assignment as renters, choice as renters, key money subrentors, subsidized mortgagees, unsubsidized mortgagees, open market buyers and renters, and state pensioners with rental subsidies. Typically a building consists of renters and owners representing these categories and subvariants, since Government policies regarding these groups have changed frequently over the years. Thus, each building has its own housing policy history, a unique archaeology, which must be appreciated to understand the human relationships in the building. This is particularly important in understanding the majority of buildings in the country which are managed as condominiums and contain a wider variety of economic and social backgrounds than would be found in most countries. As noted below, this mix of policies and socio-economic groups is both an amazingly strong social innovation and enormously complex to administer.

II. HISTORY

American assistance to Israel has been substantial and of long duration. A major resident assistant Mission existed in the country in the 1950s. Technical assistance to housing took place as early as 1952 with a resident housing advisor active from January 1954 through September 1956. (Accomplishments of this advisor included helping to arrange for training of a large number of vitally needed construction workers. The housing advisor also attempted to interest the Israelis in a U.S.-style savings and loan system, a concept the Israelis did not accept then nor in 1979 when the same effort was made by a different generation of U.S. technical experts.) Interestingly, although the greatest housing needs facing the country occurred in the 1950s and early 1960s, there was no notable U.S. Government financial assistance to this sector until the HIG program started in 1972, by which time virtually ~~every Jewish Israeli~~ ^{all temporary immigrant} ~~housing had been replaced.~~ *had a decent roof over his head.* The team was not able to learn why this policy of neglect to immigrant housing took place during the years of greatest need.³

In the years after the 1967 Middle East war, U.S. policy shifted to increase aid to Israel as part of the U.S. becoming

³One can hypothesize that reliance on France to take the lead in the Middle East in general, and private philanthropy to help Israel in particular, played a part in the U.S. policies of the 1950s and 1960s.

Israel's major foreign ally. But the biggest jump in assistance took place in the aftermath of the 1973 Middle East war when a massive outpouring of emotional and political support came from the United States. A few years later, the Camp David Accords added incentives for assistance, resulting in the highest per capita levels of assistance ever by the United States to another country. (U.S. aid to Israel also ranks as the second highest amount of assistance ever given by one country to another.)

A major rationale for U.S. assistance to Israel has been to provide political support for the survival, growth, and well-being of the state. Israel has deemed it necessary to pursue two major policies which have created the need for significant external financial support: very large defense expenditures (equal to nearly one-third of GNP, the highest such rate in the world) and very large balance of payments deficits. (Trade deficits averaged \$3.3 billion during 1973-1979 and even after rather extraordinary governmental and private transfers, the deficits of goods/services/transfers were averaging about \$1 billion in the 1970s, when the overall GNP was about \$13.2 billion per year.) Both these factors led to a search for means to assist Israel to meet its foreign exchange needs in major ways.

The genesis of the AID HIG program to Israel is reported by the Israelis to have been due to the then Economic Counselor of the Israeli Embassy to Washington (and later head of the

first recipient of the Israel HIG program, Tefahot Israel Mortgage Bank, Ltd.), who discovered in the early 1970s that AID's legislation had been broadened to permit housing guaranties outside of Latin America. On the strength of his reporting, Tefahot encouraged the Counselor to ^{contact} ~~use his contacts~~ with the presidents of the New York and Boston Federal Home Loan Banks to raise loans through various savings and loan associations. This package was then brought to AID which, with great receptivity from AID's head of housing, worked the proposal through Congress and the Executive Branch of the U.S. Government. AID officials at the time remember also the key interest of high White House officials.⁴ This active Washington support created a state of continued political backing which overrode potential and real opposition. Historically, such circumstances make it less ^{likely} ~~possible~~ to focus on development issues, ~~and perhaps explain why it took some years for a development dialogue to begin.~~

Even as the first \$50 million HIG was being disbursed, the Government of Israel proposed a second HIG for \$100 million. This was supported actively by then AID Housing Director Baruch (who personally handled the Israel HIG portfolio) and who called the first HIG a model of efficiency and effectiveness. However, due to a shortage of housing guaranty authority and to

⁴At the press briefing for the first HIG, President Nixon was mentioned as being personally interested in the assistance being given as was Counselor to the President Finch, AID Administrator Hannah, Assistance Secretary Sisco, and Israel's Minister of Finance Sapir. Mention was also made of others who strongly opposed the assistance.

legislation partly aimed at Israel which restricted any country to \$25 million per year in AID HIGs, the second and subsequent HIGs were limited to \$25 million per year. In the mid-1970s, technical assistance was added to the assistance packages, financed out of HIG fee income. This flow of advice was of extraordinary importance (see Section III.C, below).

During the mid and late 1970s, questions about the relative need of Israel vis a vis other existing and potential recipients began to arise in the U.S. House of Representatives even among some key Congressmen who had supported the Israel HIG program. By early 1980, the Government of Israel, ~~with~~ ^{to be} ~~consistently excellent political judgment,~~ ^{felt} that a continuation of the HIG program in Israel ~~was getting to~~ ^{would} be difficult given U.S. Congressional concerns and that HIG 007, then under negotiation, was likely to be the last one extended to Israel. One year later AID's Office of Housing so advised the GOI.

III. MACRO-EFFECTS

Because of the program nature of the bulk of the HIG assistance, this report must depart from the approach of most AID impact evaluations to give particular emphasis to the macro implications and results of the HIG programs. These programs have to be seen as an integral part of Israel's national

housing activities. Thus, the evaluation in large part centers on gauging the impact of the GOI's national housing programs assisted by the HIGs. This required that the team spend an unusually large proportion of its field time in consultation with officials at various levels of the Government. A fairly significant number of interviews also were conducted with residents who had been attributed as beneficiaries of the HIG funds. These were (and could only be) nonrandomly selected. The result of all these interviews is incorporated in the sections below.

A. Macro-Economic Effects

Among the countries that have received HIG loans, Israel is unique for its high income and living standards, its 90 percent urbanization, and its absorption of such a large number (1.6 million) of immigrants since statehood in 1948. From the start, it was GOI policy to provide a minimum standard of shelter to every immigrant family, eschewing the sites and services approach and leaving out only those few with sufficient resources to fend for themselves. Thus, in contrast with other LDCs, provision of universal, largely urban housing was a major claim on Israel's capital formation and Government budget. (Between 1965 and 1970 housing averaged 28 percent of gross

investment and 18 percent of the Government's development budget.)

Relatively little land is privately owned in Israel. In addition, since the capital market is closely managed by the Government, the financing of housing construction and its distribution around the country and among families were also largely Government managed.

As a first broad generalization on impact, it is clear that the primary shelter objective has been met. Virtually every family has a dwelling unit with individual interior water and sanitary facilities. But to ensure that resources would be sufficient ^{To provide housing} during the years of heavy immigration, the GOI ^{forced} policy was to stint on or ignore many ~~neighborhoods~~, external common facilities such as sidewalks, greenery, play areas, access lanes, etc., and to build small units to specifications below the national average for the pre-existing population. In addition, construction standards were poor due to both technical and economic factors, maintenance was grossly neglected, and initial location policies created unforeseen social problems.

~~Second, as the temporary housing areas (ma'aborot) were eliminated~~ many families found themselves housed in units of a higher standard than what they had left behind, reflecting the low income they had in their countries of origin. This was true of families moved directly into flats and of those original settlers who were moved from temporary housing (ma'aborot) to flats.

Third, large numbers of immigrants arrived with few assets and with skills that enabled them to earn only very modest

incomes in their first years in the country. The policy was to house immigrants regardless of their ability to pay, fitting rental or mortgage terms and conditions, as the case might be, to their financial positions, rather than to production costs. Provision of subsidized shelter became embedded in housing policy across the board.

Fourth, expenditure on shelter for mortgage or rent for the population as a whole now averages around 4 percent of family outlays (see Appendix C). This is low for a middle-income country, reflecting the two key aspects of shelter costs discussed below, Government subsidy programs, and the erosion of real mortgage amortization costs due to inflation. The big gap between social and private shelter costs enabled a large fraction of the population to enjoy a shelter standard higher than they could have afforded if they had to bear full market or real costs. This gap, and its implications for the GOI budget and the speculative nature of the private housing market, created serious economic and housing distortions in the 1970s that had to be met with major innovative policies discussed below. But its initial broad effect from the perspective of a real (but not asset) ~~income~~ distribution (that is, taking account of imputed income) was strongly progressive, shifting lower decile groups towards the median income. One physical facet of public housing is illuminating in this regard: rental units for lowest income families have been built to virtually

the same space and other specifications as units intended for sale to higher income families.

Fifth, in one important qualitative respect, density, the GOI has achieved substantial progress. The percentage of the Jewish population living at a density of 2 or more persons per room has dropped from 57 percent in 1959 to 13 percent in 1979. Between 1967 and 1979, people living three or more to a room (the "three plus" families are a priority group for receiving additional living space) fell from 10 percent to under 2 percent. Since high-density families tend to be the generally disadvantaged, the drop in high-density occupancy has been another strongly progressive development in the housing sector. Density among ~~non-Jews~~ ^{Arabs} remains much higher. Households living three or more persons per room comprised 37 percent of the non-Jewish population in 1979, a drop from the 45 percent level in 1974, but still far above the density ratio for the Jewish population.

Within a generally egalitarian framework, however, problems and differentials have emerged due to certain policies, inflation, and social and economic differences between the waves of immigrants from different countries, and between the new immigrants and the 1948 population. These issues will be discussed in Section III.C, Macro-Social Effects, below.

In 1974, the GOI revamped its housing policies in the face of wide dissatisfaction. To give more choice of dwelling, increase efficiency in the housing market, and rationalize the

allocation and extent of housing subsidies, the GOI ceased assigning immigrants to specified units, developed a mortgage entitlement system based on need, and allowed mortgage recipients to apply the credit to the dwelling of their choice, whether newly built by the Government or the private sector, or secondhand, within certain limits. Relative need was measured through a point system, under which applicants got scores based directly on number of years of marriage and family size, and inversely on income level.

Family size included people in the families of both husband and wife, and weighed heaviest in the point count, reflecting the widely held view that large family size was the single factor most strongly associated with a disadvantaged position and that income alone was inadequate as a measure of relative need or deprivation. High scores increased the mortgage amount and the degree of subsidy. Additional incentives were offered for settlement in the development towns. For young couples with high scores who could not, or preferred not to, buy their first apartment, the GOI provided monthly assistance to help meet rental payments. Lowest income, high-density families were eligible for free apartments. Special incentives were also offered to induce renters of Government flats to buy their apartments. New immigrants continued to be eligible for low-rental public housing.

This elaborate system was designed to be progressive and to induce a mixing of people of diverse origins by reducing the

and after 1974 by a comprehensive

portion of the population (15 percent) in rented flats and by skewing the subsidies toward the large and poor families.

Starting in 1977, this was supplemented by a rehabilitation program ~~carried out in so-called "distressed neighborhoods,"~~ *program.* ~~areas which tend toward concentration by country of origin.~~

The aim of the rehabilitation program was to restore the physical facilities, complete the site development, enable owners to build additional rooms where physical expansion was possible, and to add space to flats in public rental buildings. ~~These~~ *These* programs ^{are} reviewed later in this report.

No review of housing impacts in Israel would be complete without considering the effects of inflation. Since 1973 Israel has experienced accelerating inflation. After rising only 15 percent between 1971 and 1973, the consumer price index rose 36 percent between 1974 and 1977, 51 percent in 1978, 78 percent in 1979, and then soared 131 percent in 1980. Real wages were protected under a system of cost of living adjustments pegged to the consumer price index, dating back many years before the onset of double- and triple-digit inflation in the 1970s. A system of linking financial assets and liabilities to price increases, along with recurrent adjustments of tax rates and brackets and other fixed flows and obligations, was developed piecemeal in the 1970s as the GOI sought to eliminate distortions that could have seriously disrupted economic activity.

Not until July 1979, however, did the GOI decide to link mortgages (and development loans) to the price index. Failure to index in the early stages of inflation had major effects on the asset position of old mortgage holders, and made it increasingly hard for new entrants into the market (young couples and lower income families wanting to shift from rental to ownership) to afford mortgage financing. Holders of unlinked mortgages found their fixed monthly payments dwindling into insignificance along with the real size of their outstanding principal debt. One long-time mortgage holder said his monthly payments were now less than the cost of his daily newspaper and that the pocket money he normally carried was enough to retire his outstanding principal. Inflation has thus wiped out (or soon will wipe out) what is normally the largest debt item consumers carry in their lifetime, presenting a sizable fraction of the Israeli population with the windfall of unencumbered ownership of their dwellings. With housing prices rising faster than the general price level in the years 1960-1973 (the relationship has been sharply up and down since), housing became the major long-term inflation hedge for most families.

New entrants found their position greatly worsened. As dwelling prices rose, the GOI allowed the mortgage ceilings to fall as a percentage of the price of the unit to be purchased, and increased the nominal interest rate (in effect, front-loading the repayment schedule in anticipation of inflation eroding the real value of the fixed principal payments a few

years later). Those unable to mobilize the 50 percent or more downpayment or afford the substantial fraction of current income that would have been claimed by the first few years of payments, had to fall back on public rental housing despite their eligibility for subsidized loans under the point system.

With the decision in mid-1979 to link mortgage loans to the price index, this regressive anomaly was eliminated (although the system needs recurrent adjustment as housing prices continue to rise relative to any given mortgage entitlement ceilings). Financing could now range up to 78 percent of price, or even up to 95 percent in development towns. As a result, the proportion of eligible persons taking advantage of subsidized mortgages rose from 31 percent in early 1979 to 70 percent at the end of 1980.

B. Financial Impact

1. Balance of Payment Impacts

As is well known, Israel has received balance of payments support through large-scale philanthropy of the world Jewish community, German reparations, and intergovernment grants and loans. The seven HIGs totaled \$200 million. The first HIG of

\$50 million amounted to 6 percent of the unilateral transfers Israel received that year and added less than 1 percent to the country's external debt service. Later loans (at \$25 million each) added a diminishing fraction to total borrowing. The last (1979) HIG equaled 2.5 percent of GOI long-term borrowing that year and added one-sixth of one percent to Israel's external debt. The HIG terms were generally better than what was available in the commercial capital markets. For a heavy capital-importing country, the HIGs thus provided a modest resource transfer on terms that helped lengthen and ease the debt burden.

2. Budgetary Impact

The team pursued the question of what the budgetary impact of the HIG program was, and whether the funds provided were an addition to the housing budget of the GOI. This question was more complex than usual, since the funds went into national programs very much larger than the HIGs themselves.

By the time the HIG program began, the "back" of the housing problem in Israel had been broken, in the sense that temporary housing had been virtually eliminated and net immigration was down to a small fraction of the population. Indeed, housing starts by 1972 were exceeding estimated "core needs" for

housing by 10,000 units per year (50,000 starts versus an estimated 40,000 needed). By the end of the HIG program, the vacancy rate in Israel was estimated to be 6 percent (versus a normal 5 percent rate in the United States). This would have been a fully adequate situation had there not been a desire to upgrade housing and had not migration from the USSR been so uncertain.

For the first two HIGs, the funds appeared to be additive to the Ministry of Construction and Housing's budget. Thereafter, effective control of the program shifted to the Ministry of Finance, which routinely included receipt of the expected HIG flows as part of its analysis of the housing budget. It thus appeared to the team that the first two HIGs, accounting for \$75 million and about 14,000 units, were additional to the housing program level in Israel that would have prevailed otherwise. The remaining \$125 million may not have provided additional housing resources. The team understands, of course, the fully fungible nature of these kinds of resource transfers.

A fuller discussion of these points is found in Appendix D.

C. Macro-Social Effects

The social impact of housing is a complicated issue in stable societies; in complicated and dynamic societies such as

Israel's, analysis is far more difficult. (Appendix E outlines some of the dynamic factors in assessing the social impact of housing in Israel.) The team's approach to looking at the social impact of the HIGs was to review the major population groups in Israel as defined by the GOI's housing policies and to see how they have fared under the Government's housing programs.

The Government of Israel defined its housing policy in the 1970s in terms of special groups of citizens which it wished to benefit. These groups were young couples, immigrants, those living in rural projects and development towns, and large families. (There are obvious overlaps within these categories since young couples could be as old as 35 years, could be immigrants, could have a large family, and could settle in a new development town thereby fitting into all four categories.) During most of the 1970s there was a sharp preference in all the national housing programs for ^{families with} veterans of the armed services who, in Israel, form the great bulk of adult Jews, both male and female. In addition to these categories of programs, AID HIG papers identified "minorities" as intended beneficiaries.

AID consistently agreed with the GOI's categories of program emphases and rather easily listed in each HIG estimated beneficiaries by these groupings as the culmination of analyses of the needs for each of these groups. (See Appendix B for this breakdown.) The actual numbers chosen for attribution to AID were fairly arbitrary.

That these were only notional estimates is seen by the fact that loaned funds were fully drawn down, regardless of the number of units financed, and few attempts were made by either the GOI or AID to see whether actual use corresponded to estimated use. (The most careful monitoring, however, was done to ensure that allotted beneficiaries were within the 1967 borders of Israel and, after 1975, that they were below the median income.)

The team was able to locate good information on the use of mortgage assistance by social category under the first and next to last HIG (see Table 1).

Table 1. Planned vs. Actual Use of Mortgage Assistance¹
(expressed as a percentage)

Category	HIG 001 1973 ²		HIG 006 1978 ³	
	Planned	Actual	Planned	Actual
Young Couples	46.3	31.9	25.9	54.8
Immigrants	34.7	47.8	21.1	0.0
Large Families	11.6	0.6	17.8	6.3
Minorities	0.5	1.5	9.2	0.0
Other (including devel. areas, rural etc.)	6.9	18.2	26.0	38.9
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

¹This is a budget analysis and does not correspond to the unit analysis shown in Appendix B.

²Calculated from data as of September 30, 1981 submitted to AID November 1, 1981 by Tefahot.

³Based on June 30, 1981 evaluation by Samuel Peck, National Savings & Loan League.

Given the nature of the program support, the important point is not whether estimates were accurate, but what the effect was of the major program defined by the GOI.

1. Young Couples

The Young Couples Program really refers to young and middle-aged families desiring a first apartment or (in rare cases) a free-standing home, but lacking downpayment funds or sufficient income to service a mortgage. This has long been a social problem in Israel calling for a level of parental support which is often not available, particularly in the families of newer immigrants. This social group is also vital to the population, given their need for state service as income earners and their status as parents of children (official policy is strongly pro-natalist for the Jewish population) and as military reservists. Success or failure for this program could be measured in terms of the proportion of needed young couples actually helped by the programs, but in fact, was most often gauged by GOI and AID using net migration figures. This was only partially relevant since migration is a function also of income prospects, the lure of other cultures, the desire for psychological (and actual) security, and--more important in the case of Israel--the state of politics vis a vis the USSR. The

availability of adequate housing is also a factor in the choice to stay or leave, and is probably a more openly discussed factor than other reasons given for leaving.

The most recent statistical information available during fieldwork about the program and the market for it comes from the Young Couples Survey 1977 of the Central Bureau of Statistics.⁵ That survey of young couples married from 1973 to 1976 focused on the 58,700 Jewish households eligible for Government programs. Table 2 provides some of the relevant data on the Young Couples Program.

Table 2. Number of Jewish Households Participating in the Young Couples Program

Category	Number of Jewish Households
Owners or Occupants of "Key Money" Apartments	33,200
Of Which:	
Received Young Couples Assistance	17,000
Did Not Get Assistance	13,300
Did Not Specify	2,900
Nonowners	25,500
Of Which:	
Lived with Relatives	6,700
Renting on Open Market (Amidar or Amigur, 5,400 units)	16,900
Other Arrangments	1,900

⁵Special Series No. 595, Jerusalem, 1978.

Of the nonowners, 13,200 households did not plan to buy within the next two years and 12,300 did plan to buy within that period. Given the strong drive to ownership, we assume that the 13,200 households which did not plan to buy soon had insufficient income to meet downpayment or mortgage payment requirements, even if subsidized.

These statistics indicate a large degree of coverage by the program, but also the existence of a large group of non-owners who were not yet covered. Mere availability of housing was not sufficient to guarantee that eligible couples received housing. (Indeed, another study, I. Lithwick, Macro and Micro Housing Programs in Israel, Jerusalem, Brookdale Institute, 1979, Chapter 7, indicated that only 31 percent of young couple applicants with full eligibility for mortgages--over 1,400 points--received them, pointing to the likelihood that low income was the main cause of turndown.)

Young couples, unless they come from upper- or middle-income families, have great difficulties entering the housing market. Since almost 52 percent of those eligible for assistance during the survey period found themselves unable to take advantage of the subsidies, the program was demonstrably inadequate to the need. When family resources--often extended family resources--cannot be mobilized for the downpayment, a young couple has no access to homeownership. With considerable strain, a small family does manage, but with larger families, the needed capital accumulation is impossible. Some young

couples buy dilapidated units and then are stuck in them until their families are so big that they are eligible for the Three Plus Program designed to alleviate the problems of families living at a density of more than three persons per room.

There are a number of difficulties that result from this situation. People are forced to live in ^{locations} ~~environments~~ which they dislike, they have children before they ^{would have otherwise} ~~are ready for them~~ in the hope of getting better housing, or they have to postpone family growth because they cannot afford the upgrading. There is no systematic program for moving up a housing hierarchy, i.e., one in which the transitions from two-person to multi-person families could be accommodated. Thus, there is a tendency to over-buy, when possible, by those who can accumulate enough cash for the downpayment on an apartment too large for immediate needs, and even for their needs in the near future, since no intermediate units are available for trading up. On the other hand, there are frequent instances of older couples remaining in large apartments after their children have grown and left. They understandably wish to remain in familiar surroundings; but for struggling young couples living in congested rooms with small children, the continued residence by the elderly in too large quarters causes resentment, anger, and cynicism.

The difficulties young couples experience with adequate shelter is most poignantly expressed by those who have completed their military service, ~~with pride and commitment~~, even

served in a war or two, wish to have large families because that is what the state needs, yet are frustrated in that desire by the lack of sufficient space. Those who came from large families themselves acknowledge that they were satisfied with lesser accommodations in the past. But they now aspire to better standards for their children. They also have the example of the society around them, the greater aspirations that stem from what they see on television, and the understandable assumption that they deserve better. Impeded from acquiring the housing they want, concerned about their and their children's future in an uncertain economy, many of the young couples--what Israelis call the "good material"--opt for ~~imm~~^{e. m. i.} - ✓
gration. There is a consensus that these are the people the country needs most, and that this is the group it cannot afford to lose. The stigma attached to leaving the country has disappeared, or at least most of those now leaving reject it as inappropriate, although they no doubt retain some guilt about their departure. While housing is not the only reason for the decision to leave, it is certainly an important contributory factor. This applies especially to a marginal group--those whose families cannot help them with the crucial downpayment while they are not of sufficiently low income to qualify for public housing or any other substantial subsidies.

~~Three~~^{Two} substantial groups are not served by the Young Couples Program: the poorest, ~~the marginal,~~ and, as we will see below, the non-Jews. In the case of the poorest, this has ✓

notable effects on the whole array of their social relationships and family cohesion. The marginal need assistance to eliminate this serious contributing element to their emigration. It has been suggested that the point system of the program is counterproductive to its objectives, since recipients do not use their own devices to obtain satisfactory housing because they prefer to continue obtaining Government assistance. This is part of a welfare dependency syndrome that is found in many places. There might be some validity to this contention.

But the program is inherently equitable for those who do qualify for it. It has made available a wider range of housing on more favorable terms than would otherwise have been possible for large numbers of young couples. Although a significant part of the population is unserved, there are sufficient beneficiaries to justify its existence and continuation. It would be desirable, however, to find ways to include those presently unserved--the non-Jewish minorities, the poorest, and the marginal.

2. Immigrants

Housing for immigrants has always been a difficult issue. Perhaps no domestic issue in Israel has been so unpredictable

as the number of immigrants who will arrive (and therefore need to be housed) in any future year. Since the USSR in the 1970s did not permit its Jews to ~~emigrate~~ emigrate in a predictable manner, it was difficult for the Israeli Government to make long term housing plans, especially since Israel was but one possible choice for the emigrants. AID's senior consultant to the GOI on housing maintains that the oldtimers in Israel who have managed housing policy for most of the period have consistently been prepared for the worst in terms of influx and most of the time they have been right. Indeed, immigration has been the single greatest indicator of future new housing starts in Israel.

Given the importance to AID of predicted immigration, particularly from Russia, as a reason for the HIG program, it is interesting to examine data from AID for the immigration flows to Israel. In doing this, one must keep in mind that any estimate in, say, 1974 regarding immigration is in connection with a HIG which might be financing housing either then available or to be built over the next few years (see Table 3).

We conclude that AID rather consistently overestimated immigration and that this was compounded by concentrating on gross immigration rather than net immigration.

Table 3. Estimated vs. Actual Immigration, 1972-1980

Date of AID HIG Estimate	Estimate		Actual Immigration		
	Year	Number	Year	Gross	Net
1972	1972-1973	62,000	1972	57,600	46,400
1973	1973-1977	Min. range 64-74,000	1973	56,500	50,100
		Max. range 90-105,000	1974	33,500	14,300
1975	1975-1979	85,000/yr	1975	21,500	300
			1976	21,100	7,400
1977	1977-1980	25-40,000/yr	1977	22,800	7,400
1978	1978-1980	Above 9,000/yr with decreasing emigration	1978	28,800	16,800
			1979	39,600	29,900
1980	No estimate, but did include a table showing immigration from 1971-1980. The 1980 figure shown was 22,000.				

In part because fewer immigrants came than were expected and because these people had high expectations at a time when the state could afford good permanent housing for them, immigrants in the 1970s indeed were given good housing. While this was a noteworthy accomplishment, it also caused envy by older residents. Increasingly, established Jewish residents became more militant in their demands for housing improvements for themselves and their children on the basis of the treatment

being given the new immigrants--another case of an excellent solution creating the seed of yet another problem. That problem has proved to be serious indeed. Most of the earlier immigrants who invidiously compared their crowded, dilapidated housing with that of the new arrivals had come from Asia and North Africa. They are Sephardim Jews; the immigrants from the USSR are part of the European Ashkenazi group. Many of the Sephardim viewed the housing provided for the immigrants from the USSR as discriminating in favor of the new immigrants. In the context of considerable experience with other inequities based on country of origin--whether perceived through paranoia or real--it was not unreasonable to assume discrimination. After all, those who received the superior units were European, had not spent many years in the country under difficult circumstances, nor had they served in the armed forces with many in their families wounded or killed. If the country could now afford to provide housing superior to that provided during previous periods of large-scale immigration, why could not some of that money be used to ameliorate existing conditions, while lowering the standards of the new apartments?

It is widely believed that the current Government was elected with the support of the Sephardim largely because of accumulated dissatisfaction with previous governments which established the preferential treatment of so-called Western immigrants. Israeli social scientists contend that the disparities between Sephardim and Ashkenazim are increasing and that

this dichotomy is emerging as the most critical social issue facing the country, with serious conflict inevitable. Clearly housing is only one manifestation of the disparities. AID did not recognize this phenomenon in its HIG program nor try to direct attention to it.

But the dissatisfaction of older residents should not obscure the continuing success of Israel in housing its immigrant population. Certainly no other comparable economy has absorbed refugee and other immigrant populations with more dedication and success.

3. Development Towns and Rural Settlements

Israel has always had a strong cultural identification with rural society. Its kibbutz concept is known worldwide and is a source of continued national pride. Yet by the 1970s the urban population was so large and growing so quickly that the country's future as a distinctly urban society would have to be clear to all. (By 1970, Israel was 83 percent urban and the Jewish population was 89 percent urban; both of these figures have grown since.) National housing policy, in part motivated by defense and strategic political considerations, continued, however, to have a decentralized and rural basis, aimed toward decentralized development towns. Most of these have not fared

well in the 1970s, though some have done extremely well. The team saw examples of both.

In the 1950s and 1960s it had been relatively easy for Israel to fill its development towns and rural projects with immigrant populations. But the immigrants of the 1970s were not as docile. They have strongly preferred urban living. So have young couples. The Young Couples Survey 1977 indicated a large interurban movement of young couples (21,500 household moves), but only 1,400 to development towns while 1,300 were from development towns. Thus, despite strong economic incentives to live in the decentralized areas, dramatic growth of these areas was hard to find.⁶ The net effect of national (and HIG-supported) development town investments has been to upgrade housing for existing residents, with older housing often standing empty or being destroyed. The impact of programs for these areas then was to improve the lives of already heavily subsidized residents and not to promote the movement of new residents to decentralized areas.

⁶An exception was Arad, a bustling but still overbuilt town, thriving on new industry and its attraction as a retirement community and a burgeoning second and vacation home market.

4. Large Families: The Three Plus Attack

The program of addressing the problems of large families in crowded units (often rather erroneously titled a "slum clearance" program) has a large number of connotations for Israel. Such families are poorer, less educated, and tend to create social problems. They also tend to be families from North Africa and the Middle East (Sephardim). At the end of the 1960s, some 9 percent of Jewish families were in units where three or more slept in a room (Three Plus). Such families included 30 percent of the country's Jewish children. Dense living conditions give rise to a multiplicity of problems particularly when children of different sexes have to share bedrooms well into adolescence and beyond, or when children have to share sleeping quarters, often beds, with their parents. The lack of privacy and quiet, the constant presence of others, the exposure of children to parental intimacy, and the embarrassment and inhibitions of emerging pubescence witnessed by siblings foster numerous tensions, anxieties, and antagonism.

Through a combination of programs directed at these people and rising prosperity significant progress has been made in reducing housing density. Currently only about 1 percent of Jewish families live in such crowded conditions. Thus, it can safely be said that the housing problems of Israel's Jewish

poor, while not completely solved, are less than those of all but a handful of the world's richest countries. Unfortunately, due to time constraints, the team was not able to ascertain whether all the predicted social dividends had materialized for Israel (e.g., lowered crime rates for such families, etc.). But what has matured is a feeling by the next highest rung of being left out. Thus, the biggest complainers are apt to be people in units averaging two or more persons per bedroom (but less than three) who now think it is their turn for relief.

In general, then, the macro-social effects of the housing programs of Israel have been to remedy greatly its major Jewish housing problems while at the same time to engender a feeling of rising discontent. As a Government housing economist said, "We don't have a problem of technically unfit housing, as most units are new [the team would say "newer"] and only on the fringe of the fringe do we have housing without water and electricity." But a social analyst interviewed separately countered that nonetheless, each Israeli Government has "flunked the test" on housing policy, since expectations have risen far faster than any government or the free market could respond. A strong sense of this disgruntlement was found in the team interviews.

5. Housing of the Elderly

With their focus on the young and on immigrants, both GOI and AID housing analyses have not given attention to the housing needs of the elderly, a growing problem in Israel. Many of the elderly live alone in unsuitable housing. According to a report of the Brookdale Institute,⁷ 8 percent of the population--288,000 people--was over age 65 in 1976 and there were 130,000 households whose heads were over age 65. A significant number of households, 36 percent, consisted of one person, and 53.9 percent of two persons. Many of the elderly householders, 63 percent, own their apartments, 15 percent rent flats for which they have paid key money, and most of the rest live in public housing rental units. The Ministry of Housing estimated that 10,000 of the elderly households live in defective housing. While many elderly have serious problems of low income, the fact that a large proportion are owners eliminates housing per se from the problem, although increasing costs of maintenance, utilities, and taxes are problematic. There are no GOI programs for assisting the elderly in their housing needs directly, although a senior citizen counts as two people for a mortgage under the Three Plus Program. Very few elderly apply

⁷Brookdale Institute of Gerontology and Adult Human Development in Israel, American Joint Distribution Committee, Jerusalem, N.D.

for assistance under that program, however, which indicates an apparent unsuitability for their needs or lack of information about the program.

A number of very positive programs are underway. The elderly are not placed in ghettos for the aged but live in the same buildings with other residents. A number of special units have been constructed for the elderly: The apartments ~~for~~ for the elderly are built on the ground floor with patios so that elderly residents can visit outdoors and with their friends and family. Several neighborhoods also provide special walkways, and educational and health programs for elderly residents.

AID's last two HGs provided some assistance towards these kind of programs, however the housing problems of the elderly ~~were~~ were not addressed in AID's first six HGs and perhaps should have been.

6. Housing as a Socializing ~~XXXXXX~~Factor

~~XXXXXXXXXXXX~~

The founders of the State of Israel had an idealistic concept of housing: a system of cooperatives and condominiums were established as an urban counterpart to the rural cooperatives.

~~tablishing.~~ Housing technocrats eagerly embraced this concept for several reasons: apartments are at least 20 percent cheaper than unattached houses to construct on a unit basis, land was and is perceived to be in short supply, and the cooperative/condominium system lessens the need for state investment as opposed to rental systems. But Israel added an

additional twist by making its housing policy center on the unit, most often the apartment unit, rather than the building. This provided freedom to place or offer units in the same building to people of varying backgrounds and economic circumstances. More than this, it forced people to know their neighbors since all residents in a building with condominium units in it had to be consulted regarding the operation and payment of building maintenance. In contrast to the rather impersonal environment in most apartment buildings in America, most of Israel's buildings have an intricate and generally productive internal life. Neighbors boast of caring for each other and knowing when someone is sick, and are proud to state that they sometimes shop for the elderly or babysit.

To a population coming to a new society in which all were evolving enormously and all were suffering wars, this unit of social structure served as a remarkable way to socialize and integrate the Jewish society. Of course, the bickering of building committees is also legendary in Israel, yet from the standpoint of social process, even this forcing of democratic solutions has its positive societal role. If the choice is a housing policy which isolates by economic class in impersonal buildings versus the more egalitarian and democratic Israeli pattern, there is much to be said for the latter. While this pattern of housing had glowing results when it worked, housing policy in Israel also displayed a striking ignorance of non-European modes of living. Lessons about housing for those who

were not from Europe were slow in the learning and caused much unnecessary stress.

In sum, the macro-social effects of housing programs in Israel were highly beneficial and egalitarian for the Jewish population, who were the beneficiaries of as forceful, effective, and speedy a national housing program as one might find--so successful, in fact, that the very expectation of continued dramatic improvement is itself a major public policy challenge.

7. Minorities: The Controversy Over Arab Housing

The very success of the housing programs for the "Jewish homeland" creates an even sharper contrast than would otherwise be the case for the housing situation of the non-Jews. The non-Jewish population within the 1967 borders of Israel consists of nearly one-sixth of the population, and although a small number of these are Druze (49,000) and Christians (88,000), the Moslem population in Israel consisting of some 481,000 persons is popularly characterized as Arab and "the" minority problem. The 58,000 Bedouin are also part of this group and they constitute a somewhat different public policy question (involving relocation away from Sinai and the passage into a new lifestyle).

There are several reasons why concern for the Israeli Arabs (as most call themselves) is important: politically they are a vivid case to Arabs outside of Israel of how well Israel intends to live with Arabs; demographically they are a very high concern for Israelis since their population growth rate is substantially higher than that of the Jews; socially they represent an obviously difficult problem in terms of national policy; economically they are the poorest group in the country;⁸ and in terms of housing, they have by far the highest housing density (persons per room) and are the only group in the country where substantial numbers do not have adequate community infrastructure and where many homes are without lavatories, baths, or water heaters.

Unfortunately, the extent of relative deprivation has been hard to assess since both the Ministry of Finance and the Ministry of Construction and Housing (MOCH) state that they did not keep housing statistics separately for Arabs because there

⁸One of the best analyses of incomes differentials in Israel is Fanny Ginor's Socio-Economic Disparities in Israel (Transaction Books, Rutgers University, 1979), in which income data for the three main socio-economic groups (Oriental Jews [i.e., Sephardim], Ashkenazim Jews, and Israeli Arabs) are summarized. The latest surveys cited show the average family income for Arabs at 75 percent of that of the Jews, and Oriental Jews at 87 percent of the Ashkenazim, with fairly consistent narrowing of the gaps over the last 30 years (pages 106 and 115). Of course, given the large differences in family size, per capita income figures show a much larger gap, with Oriental Jews at 53 percent the per capita income of Ashkenazim Jews, and Israeli Arabs at 32 percent of Ashkenazim and 61 percent of Oriental Jews. (Corrections for age and education levels will narrow these latter gaps considerably.)

is full equality under Government programs. (Given this "equality," the MOCH abolished the staff position of its Arabs policy expert in 1976.) However, the team was able to locate independently a report compiled by Israeli Arabs as part of the Prime Minister's Advisory Public Council on Social Welfare (1977) entitled "The Housing Crisis in the Arab Sector," which characterizes non-Jewish housing as much inferior to Jewish housing (see Table 4).

Table 4. Comparison of Non-Jewish and Jewish Households

Item	Non-Jewish Households	Jewish Households
Total Number of Households	66,700	684,200
Percentage With Lavatory Installed	72.7%	97.0%
Percentage With Bath and Showers	54.1%	94.1%
Percentage With Water Heating	26.9%	85.2%
Average Number of Persons per Room	3.01 ¹	1.39

¹GOI surveys indicate that the bulk of overcrowded housing is now in the non-Jewish community although, as shown, this community is only 10 percent of the size of the Jewish community.

The disparities have narrowed since ^{the 1977} the report, given the continued high pace of construction activity in the Arab sector, ~~and~~ the general economic progress, but the gaps are still major.

~~Submitted to the Ministry of Housing and Construction, 1977~~
By ~~the Ministry of Housing and Construction~~
1977

Given the position of the GOI that its programs reach all parts of the population on an equal basis and given the position of the AID HIG papers both that AID funds were to reach the poor (indeed the last HIG in 1980 stated that "HG financing will help the most needy beneficiaries") and that a portion of the loans (cumulatively about \$10 million) would reach the minority population, the team attempted to trace what in fact happened.

First, it is worth noting that although minorities constitute some 16 percent of the population in Israel, the HIGs allocated a smaller share than that to this relatively more deprived group. HIG 001 allocated 0.5 percent of its resources. A review of all the HIG budgets indicates that about 5 percent of the funds and units estimated to be financed would be for minorities. Perhaps this was itself above normal Government budget practice since the 1972-1973 estimate of national housing needs submitted to AID as part of a \$100 million HIG request showed no mention of minorities, and the Government loan program for the same period of IB (Israeli pounds) 661 million showed only IB 5.5 million for minorities. The latter figure is consistent with the estimate in the 1977 Prime Minister's Advisory report, mentioned above, that "the maximum that can be considered to reach the Arab sector does not exceed 1 percent of the total budget of the Ministry of Housing."

Another indication of the skewed policies is found in the Central Bureau of Statistics Young Couples Survey 1977

regarding the pivotal Young Couples Program. For the period 1973-1976, 16,934 mortgages were approved, only 34 of which went to non-Jewish couples, although there were 7,000 non-Jewish marriages then. A statistically proportionate share of the mortgages available were to have gone to the non-Jewish new families, at least 2,500 of them would have received mortgages.

Even the small allocation of AID-guaranteed funds estimated to reach the Arab population did not reach it. Only in the first HIG arrangement did attributed HIG monies finance Arab housing (91 mortgages using 1.53 percent of the funds). A careful review of the mortgage lists of half of the remaining HIGs did not disclose a single other Arab name. This ~~should~~ ^{was due to the fact} ~~not have been surprising~~, because starting with the second HIG, AID restricted use of the funds to financing units within Government-linked apartment programs, of which there are next to none for Arabs.⁹ The absence in practice of Arab participation in HIG mortgages should be seen in the context of AID's general view on housing finance stated in the seventh HIG paper (1980):

There is no apparent discrimination in the use of housing funds in terms of participation by minority groups such as Arabs, Druze, and refugees in the housing programs within the 1967 boundaries. Parti-

However, the Ministry did not provide any information to support this assertion.

⁹In reviewing this, a high Ministry of Finance official conceded that perhaps AID funds did not go to the Arab sector, but the Ministry took account of the AID allocation and augmented other Arab programs accordingly. ~~This was an unprovable assertion and was probably the reason that after a long series of discussions, once the above statement was made, the official asked not to be quoted on anything. Indeed, there is no reason to credit the assertion that HIG money was additive to Arab housing or other budgets dealing with Arab social issues.~~

However, the Ministry did not provide any information to support this assertion.

icipation by minorities comprises approximately 15 percent of the total participation in the program which corresponds to their level of representation in the general population.

What, then, is the situation of Israeli Arabs, and what are the housing options for them? According to Israeli opinion at virtually all levels, Arab housing is the envy of the country. They have "large villas beyond the reach of any Jew," and indeed some sumptuous Arab housing is to be seen. Also to be seen are a large number of private homes in virtually every Arab community, and in the increasingly ^{Americanized} ~~Americanized~~ Israel of today, the private home is becoming ^{the highly desired possession} ~~the promised land within~~ ~~the Promised Land for which~~ Israelis fear they may have to wait ~~another 2,000 years~~. Knowledgeable Jews will state that if there is any gap, it is one wherein Israeli Arabs are way ahead of the Jews. Israeli Arabs will readily admit that much progress has been made by their people, but they point out that this has most often been done in spite of, not (as with the Jews) because of the Government, and that relative to the Jews, the Arab community suffers considerable deprivation. They claim that as Israeli citizens they are entitled to equal treatment which they say they have not received. The 1977 Advisory Committee report on Arab Housing quotes Galbraith: "Even if the family income in a given community is above the minimum required for subsistence, this family is deemed to be in distress if its income falls far short of the income of the families in the rest of the society. In consequence, this

family cannot afford the standard of living which seems to the rest of society to be the minimal standard for living."

Visiting with Arab politicians and community leaders, one is struck with how little statistical evidence even they have on what is happening within their communities. This is a keen source of frustration for them (as it was for the team). But they point to the following common problems in many Arab communities:

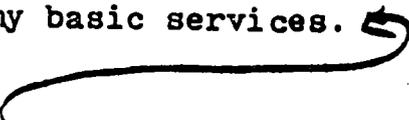
-- Land. The pattern of Arab housing is land intensive and mainly consists of single family residences. Arab communities have generally been unsuccessful in gaining additional land from the Government or other large holders (e.g., religious communities). (A key case in point is the city of Nazareth, which the Deputy Mayor alleges had ~~6,250~~ 6,250 acres ~~of~~ in 1942 for a population of 12,000, and now has 2,000 acres for a population of over 45,000.) With a shortage of land and a growing population, Arabs feel they are forced to build wherever they can. Thus, much Arab housing is built illegally on land which can at any ~~time~~ time be repossessed and the structure can be ordered to be torn down.

-- Approved City Plans. The Government requires an approved city or village plan in order to license construction within a locality. When the GOI wants to move, it moves quickly (e.g., the entire metropolitan area of Jerusalem was

planned and approved within 4 months of the reunification of the city in 1967). The Ministry of the Interior has a key role in this, and Arab officials charge that the Ministry has deliberately delayed approvals for their communities. Most Arab villages in Israel have tried since the early and mid-1960s to obtain approval of their plans. The situation assumed enough importance that the Director General of the Ministry of Interior in 1979-1980 urged that the plan approval process be speeded up.

Hard facts on the number of approved plans are difficult to come by. Even the Prime Minister's 1977 Advisory Committee had difficulty in this area and listed only five communities (of some 105) as then having approved plans. A leading Arab member of the Knesset told the team that he had not been able to get a straight answer from the Government on this issue, but that it was his personal belief that only about 10 Arab communities (none large) have approved plans. A high Minister of Interior official said that 49 plans have been approved, but when asked to confirm this, said he would have to check with Jerusalem. Finally, a key advisor to the Minister of Interior said that the true figure was "more than 10, but less than 50"! In any case, the team visited Arab communities which stated they did not have approved plans. Some Jews complain about plans, too, but adequate housing has obviously been supplied to them. Offsetting this legal problem has been Arab residential construction undertaken without licenses. While

some informants asserted that such construction had been widespread, the team had no way to judge the degree of the dampening effect of lack of approved plans in Arab residential construction. Clearly the 18-percent drop in Arab Three Plus density in the four-year period 1974-1979 reflects a substantial volume of room construction.

-- Lack of Social and Community Services. Social and community services varied greatly in the Arab Israeli communities visited by the team. These facilities ranged from low to substantial. Some Arab communities have new government-provided ~~ms~~schools, community centers and other services. In Jewish communities the level of such facilities was generally better, although there are a number of communities, designated "distressed neighborhoods" by the GOI, ~~ms~~which lack many basic services. 

~~housing areas.~~ The Prime Minister's Advisory Public Council on Social Welfare in its 1977 report on the housing crisis in the Arab sector noted the following:

Besides the inferior quality of houses, there is a grave dearth of action to improve the quality of the environment. Inferior health and hygienic conditions in the Arab villages are principally due to the complete absence of central sewage systems in the villages. This state of affairs gets worse from year to year and demands swift and vigorous action for the construction of sewage systems to safeguard the inhabitants' health....The defective municipal services in most villages and the lack of public grounds to

Arab municipalities impose a low (or nil) taxation. Unable to pursue the question of the extent to which differential local taxation contributes to differential facilities or services, the team was not in a position to clarify fully the determinants of these neighborhood disparities.

— Lack of Government-Supplied Housing. In the 1950s, the GOI experimented with apartments for Arabs and the experiment failed. Of course in the 1950s and 1960s the Government's priority was to provide housing units for immigrants and those without shelter rather than to provide improved housing for those already housed. In the late 1970s the GOI developed a special program to permit Arabs to purchase single family dwellings with government-supported mortgages. The team is aware of projects to improve Arab housing in Lod and Ramla in the distressed neighborhood program, in southern Tel Aviv to provide relocations for Arabs and in relocation communities for Bedouins in the Negev area. But less was done in areas where the main Arab communities live. Until the late 1970s there was some additional experimentation, but the results seem to have been mixed. A senior

housing planner in the Jerusalem area told the team, "The Government has made every mistake possible in this." But the experiments seem to have lacked a consistent search for solutions. In this respect, a former Director General of Housing told the team that he wished AID had insisted that some of the HIG monies be used for research and development on such difficult problems as Arab housing. In any case, Arabs with whom the team met stated that the apartment concept had increasing validity for Arab communities which now are so overcrowded that many families are willing to give up the dream of a house, but that the GOI might well wish to see if the Arabs could combine the concept of nuclear family housing areas and apartments through allowing Arabs to "choose their own neighbors." (In fact, there are a few apartment developments in Arab areas

(Arab Section)

When the foregoing problems are found in combination one finds a situation such as (old) Nazareth

which have succeeded.) But it is also clear that many Arabs will hold out for a house even though facing the requirements for (a) land, (b) a license only obtainable when a community has an approved plan in order to get eligibility for (c) a loan which restricts the size of the unit to be financed to an apartment-size area (a requirement throughout most of the 1970s), and then (d) gives a strong preference to Israeli veterans (again, a requirement throughout most of the 1970s).

This all results in an uphill battle at best.

-- The case of Nazareth. When the foregoing problems are found in combination one finds a situation such as ~~(old) Nazareth, a largely Arab city of over 45,000~~ (old) Nazareth. (Old) Nazareth, a largely Arab city of over 45,000 is adjacent to Upper Nazareth, a (Jewish) development town of 22,000. While Nazareth has been trying since 1962 to get a series of development plans approved, it has not been able to carry out a number of improvements. Thus one finds 220 classrooms for its children are

in rented space planned for offices and other nonschool purposes, and its infrastructure is in modest to poor condition. The city has received two modest-size Government-assisted housing projects, one in the early 1960s and one which is nearly new.

Upper Nazareth was created from scratch and includes not only excellent housing and community facilities, but shows evidence of overbuilding (as seen in some very wide roadways

and in numerous vacant apartments). Housing is so good in Upper Nazareth that some wealthier Arabs have paid high

^mpreiums to buy units there. Arab journalists and political leaders maintained this led to strong Jewish protests. (The fact that some surplus housing is kept in ~~de~~development towns in case there is unexpected immigration is lost on Arab citizens who say they deserve "equal treatment.") ^PIn Jewish distressed neighborhoods one finds substantial physical problems with social and educational facilities, but these are not the result of land or physical plan problems, but of the need to replace or rehabilitat older facilities.

The Arab housing sector is recognized in the HIG project papers as a distinct part of the overall shelter situation in Israel. Housing is an important aspect of the complex of "communal" differences, actual and perceived, that translate into social and political issues in Israel, with Israeli Arabs seeing themselves in a lagging relative position, similar to the differentials perceived by the Sephardim and the earlier immigrants discussed above. The data the team were able to examine showed significant improvements in recent years in the Arab housing situation (in terms of declining density and increasing availability of amenities) but also showed a continuation, ^{if narrowing,} ~~of the~~ substantial gap between the average Arab shelter situation and that of the majority of the population.

There are complex factors involved. And, as in other areas of this report, our data were not as complete as we would have hoped. The Prime Minister's Advisory Council report, cited above, lays out a fairly detailed picture of a minority housing situation well below average standards for the country. Unfortunately, it was not possible to hear an official detailed viewpoint on these issues ~~(aside from a general Government view~~

~~that no problem exists~~) because the GOI no longer has a "frame-
work" for Arab housing affairs, nor an official charged with
Arab housing policy (as it had until 1976), and there is no
longer a focal point comparable to the "Team for Arab Affairs"
which undertook the housing study. The Ministry of Housing no
longer keeps data on housing or mortgages in a form that would
enable one to separate out the Arab from the majority position
in the sector.

The status of Arab housing is closely bound up with other
factors which could not be explored, given time constraints.
We may illustrate this point briefly by noting some observa-
tions in the above report: the strong associations of income
level and head of household's educational level with housing
status in the Arab communities; the fundamental differences
arising from the fact that most Arab families live in single
family houses (the report notes the impossibility of intro-
ducing modern plumbing into many Arab houses, the lack of
courtyard space for digging cesspools, engineering problems
hindering sewage disposal in villages characterized by rocky
subsoil and narrow lanes); and shelter inadequacies caused by
the very rapid increases in other aspects of Arab living
standards (a 300 percent increase in water consumption in 10
years and "mass introduction of sanitary and electrical instal-
lations"). In addition, as noted, the team was told that Arab
~~income is taxed more lightly and that~~ this contributes to the
inability of Arab communities to provide more services.

Communities import water and

Finally, the Arab housing situation is further bound up with the problems of overall municipal development of Arab communities, including especially the plan approval process that appears to have been a major stumbling block, as described above.

In the interviews which the team was able to conduct with Arab officials and individuals, the same perceptions of the overall Arab housing situation were conveyed to us as were contained in the report of the Prime Minister's Advisory Council, noted above, especially with respect to "mixed" towns where existence of differential neighborhoods contributes to a sense of sharp relative deprivation.

It is impossible to say after the fact whether deliberate attention to Arab housing under the HIG projects could have been useful in the face of these complexities. The atmosphere for dialogue with Israeli housing authorities was certainly positive and could have sustained AID inquiry, virtually absent in this area. The team spoke with GOI officials who have been associated with earlier HIGs and who maintained that AID might have provided useful leverage in stimulating the GOI to experiment in addressing Arab housing problems. If AID had carried out more analysis and had made some effort to use HIG funds more programmatically in a search for innovations that could have addressed some of the problems identified, such a departure from the attribution approach to the allocation of the funds might have enabled the HIGs to be of positive use in an important area of low-income housing that, in the event, was not addressed.

D. Policy Impact

1. The Setting and the Process of Dialogue

Housing has demonstrably been a high domestic priority in Israel. Since the creation of the State of Israel, the budget for the Ministry of Construction and Housing has been second only to the budget for defense.

Housing policy has been based on these tenets:

- The provision of homes for all refugees, ~~no matter what their economic condition.~~ ✓

- Heavy emphasis on home ownership. Strong subsidies and encouragement are given to facilitate ownership of apartment units in order to ^{give people a stake in the} ~~give people a~~ country and to help eradicate a long history of discrimination which prevented ^{many} Jews from owning ^{land} property. ✓

- A strong hand for Government in the use of land (and in development in general). The state owns 92 percent of the land and exercises strong control in its use. A major example of state power has been in the promotion of growth in development towns and other

strategic regions, such as Jerusalem border towns and the West Bank, while discouraging development in such highly populated areas as Tel Aviv and the coastal strip. Housing policy has consistently favored areas where the state desired growth.

These policies had demonstrable success: virtually no one is without a home, and there is an abundance of supporting community facilities in most parts of the country. Thus, it was perhaps natural for AID to accept this policy framework without question. Indeed the program, balance of payments approach to this assistance discouraged an atmosphere of dialogue. AID did send teams to do feasibility studies and to do routine, audit-like checks of progress, but the general nature of the exercises was to collect data to justify continuation of an ongoing program in which the United States had confidence in the capabilities of the Israeli policy makers and the implementors. As the U.S. aid legislation changed in 1973 to focus on the poor, and as congressional concern mounted as to the ^{the program's} ~~efficacy~~ of the Israel HIG program, these studies became more elaborate, but the essential reason for them did not change.

What did happen is one of the most interesting cases of technical assistance to be reviewed by an impact evaluation team.

In carrying out its (routine) studies, AID's Office of Housing chose a U.S. consultant well matched to Israeli offi-

erals. Peter Abeles had done graduate work on Israel's housing sector in the early 1950s. Over the course of many trips to Israel as AID's main housing consultant, ~~and~~ Abeles and the Israelis developed a close professional relationship and the Israelis increasingly sought his advice on core policy areas. Abeles, along with other advisors, was able to influence changes toward increasing emphasis on maintenance and rehabilitation of existing housing stock, the development of sophisticated community renewal projects, combining fiscal rehabilitation and the provision of social services, and participation by the private sector in Israeli housing.

The technical assistance relationship was exemplary. The advice stood on its own merits and was not forced by covenants or other pressures; the main advisor was considered a peer to whom you could tell your problems as you would a close friend; the advisor came when you needed and did not overstay his welcome; and AID had the good grace not to interfere in the process of his studies and advice. There are limits to this kind of relationship: it thrives best when sophisticated parties are involved, and one cannot ~~refer~~ ^{give} advice where it is not invited (e.g., in the case of Arab housing where Abeles knew there were problems). But the productivity of the approach so far exceeded the norm as to warrant particular attention. Some of the areas of greatest policy interest are discussed below.

All this led to a particular receptivity to learning about U.S. experience in ~~rehabilitating~~ rehabilitating distressed neighborhoods. AID financed a study tour to the ~~United~~ United States which acquainted Israeli officials with new approaches to rehabilitation of neighborhoods which included social programs as well as physical improvements. AID also stimulated the creation of a comprehensive program in Israel through provision of HG resources to begin the GOI's distressed neighborhoods program.

The distressed neighborhoods program, or "project renewal" as it is known in Israel, began in 1976. The program is a comprehensive one, designed to eliminate slums in Israel by addressing not only the problem of physical deterioration of buildings but a wide range of socioeconomic conditions. The program represents a new approach for dealing with neighborhoods as a whole and coordinating the services of various ministries. A major goal of the distressed neighborhoods program is to develop an awareness in neighborhood residents of problems and to increase their participation and involvement in finding solutions.

A total of 160 neighborhoods throughout Israel have been designated as "distressed" under this program. A great many of these have been "matched" with Jewish communities overseas to draw in large amounts of private philanthropy to assist in financing these neighborhood improvements.¹⁰ These neighborhoods are generally urban and contain a high concentration of underprivileged families. These neighborhoods have a relatively negative image and are characterized by a high percentage of families in dilapidated housing, perceived overcrowding, high

¹⁰This has created some interesting side effects by rather successfully shifting the focus of relationships from refugees and emergencies to slum clearance, a far more complex concept for philanthropy.

crime rates, and a low level of neighborhood infrastructure and community services. When AID began its participation in this program, only 11 neighborhoods were involved. These neighborhoods were chosen because they were the worst in terms of substandard living conditions, physical and organizational infrastructure, and other social factors.

AID influenced the distressed neighborhoods program both through technical assistance and the provision of funds. AID's assistance in this program during the design stage probably expedited adoption of the program by the GOI and assisted Israeli officials in refining the program. In 1978, AID provided a loan guaranty of \$7 million to be used for the physical rehabilitation component of the project. Although AID's monetary participation in this program was small, the \$7 million was a major portion of the Israeli budget for the program at the time, and AID's participation acted as a catalyst for obtaining greater GOI and private commitment to the program as a whole. The program was so successful that in 1980 the GOI expended \$61 million on the program without AID assistance. Technical assistance provided by AID was also useful in the development and evolution of the distressed neighborhoods program. GOI officials mentioned the joint AID-Israel funded trip to the United States as being especially useful in enabling them to learn from both the successes and failures of the U.S. slum rehabilitation programs. In fact, the distressed neighborhoods program is similar to the outstanding United States Neighborhood Housing Services program.

Our team visited eight distressed neighborhoods and the physical rehabilitation was evident to various degrees in all of them. (Seven of these neighborhoods were among the eleven neighborhoods for which AID funds were allocated.) Buildings had been repainted, gardens had been landscaped, and additions to buildings had been constructed. Many neighborhoods have new modern community centers, day care centers, schools, and clinics. New roads, drainage, lighting, and pedestrian walkways have been provided. While the team could not devote time to developing quantitative comparisons, it appeared that the rise in property value for the individual unit owner was several multiples of the reported \$2,000-\$3,000 per unit cost to the Government for the external and site work. By reintegrating these neighborhoods into the housing markets of their general areas, the program is enabling resident owners to realize the same increase in asset value as owners in nondistressed areas, wiping out an important wealth distinction between the groups involved.

Although AID money was not expended on social services, the distressed neighborhoods program is unique in Israel in that it combines social services with physical rehabilitation. The increase in social services in the neighborhoods visited was impressive, and ranged from early child care and day care centers to sophisticated clinics and programs for detection of birth defects and other problems in small children. Neighborhood women are given prenatal training, and child care and

followup visits are made after the children are born. Because people in the neighborhood are less educated, the women are trained by community workers to play with and educate their young children. Several neighborhoods have special community centers and programs for teenage dropouts. Neighborhoods with a large elderly population have special programs in the afternoon for senior citizens.

By far the largest majority of those interviewed appeared to be happy with the program and believed it had significantly improved the quality of life in the neighborhood. The complaints were mainly about delays in construction, disruption during construction, and beliefs that the Government was not providing enough money for the program, especially for the people complaining. ~~It is also evident that some families maintain their rehabilitated units no better than before.~~ An additional problem with the program is that it is highly publicized and has, in many cases, raised unreasonable expectations which limited budget resources could not meet. Since the neighborhood residents are responsible for choosing their priorities, some needed renovations may have to be delayed until resources can be obtained.

GOI officials pointed out that this program is especially significant because it is the first one in which a large number of different ministries have cooperated. This cooperation has led to the improvement of the project and also to savings, because Government buildings are being used for several

functions. For example, school buildings are used for community centers in the afternoons and evenings, and child care centers are used, in later hours, for programs for the elderly. This intragovernmental coordination is said to have spread into areas other than project renewal.

On the whole, we believe that the distressed neighborhoods program has been successful and that it was appropriate for the AID program to remain focused on this poverty program. But AID mortgage assistance was confined to but one agreement, the next-to-last HIG in 1978. Why did the 1979 HIG not include the distressed neighborhoods program?

The answer to this is that the distressed neighborhoods program was new, complex, difficult to administer for the Israelis, and frustrating since neighborhood community leaders were anything but shy about voicing their demands. (How, in fact, does one cope with a highly verbal community leader who advised the team that he "liked living in a slum. It provides special subsidies such as a 50 percent discount for my daughter's piano lessons.") Faced with this program versus the relatively "clean" financing arrangements of the traditional HIG programs in Israel, AID officials declared the distressed neighborhoods program a relative failure not warranting further support. In the team's view, this was an error of judgment. The program should have been favorably considered for further AID financial assistance while the HIG relationship existed.

4. Encouraging the Private Sector: Mixed Results

Another area in which AID technical assistance has had an impact is in encouraging the role of the private sector in housing. The impact was not due so much to specific advice given as to an experiential learning process resulting from the continuing dialogue between GOI officials and consultants provided through AID.

Prior to commencement of the HIG program in the 1970s, the GOI was the dominant factor in the housing construction industry. During the course of the HIG-Israel relationship, HIG experts pointed out that Government costs could be cut by placing more responsibility and risk on the private construction sector. This dialogue resulted in the imposition of a new system by the GOI in 1978, which increased the financing responsibility of private contractors. This system resulted in a reduction of the Government's financial burden and earlier completion of construction by the private contractor, because the contractor assumed a portion of the construction financing risk. As a result of this system, the total time for completion of construction was reduced from 34 months in 1979 to 20 months in 1981.

The GOI also changed its policy in order to allow people eligible for Government mortgages to use those mortgages to purchase apartments in buildings of their choice. Once

purchasers were allowed to choose their apartments, they naturally chose those which were better designed and constructed. The combination of purchaser selection and the imposition of additional risk on the private contractor weeded out a large number of ineffective, wasteful contractors, and reduced the cost of construction substantially.

HIG consultants also encouraged development of a private sector role in housing finance by recommending a U.S.-style savings and loan system. This recommendation was first made in the early 1950s and rejected on grounds that a heavy Governmental role was critical to solve the immense immigrant housing needs of the time. As part of the HIG program of the 1970s, a team from the (U.S.) National League of Savings and Loan Associations made a series of visits and urged the same advice with the same reaction from the Israelis--i.e., the nonapplicability of the U.S. system to the particular problems of Israel. Israel's financial markets remain totally controlled by the Government, and although mortgage institutions exist, they are required to invest all but a small portion of their deposits in Government securities. While certain Israeli officials believe that a reduction in the role of Government in mortgage financing is desirable, none interviewed believes that adoption of the U.S. system as a whole is possible. All of those officials interviewed suggested that the recommendations given in the area of housing finance would have been more beneficial if they had been specifically tailored to existing Israeli conditions

and institutions and had been designed to be adopted on a step-by-step basis over a period of years. (The team believes that a private mortgage financing market in Israel can be encouraged and that future GOI programs should include specific experiments designed to meet existing conditions and realities in the Israeli economy and financial markets.)

The comparison of the effectiveness of technical assistance approaches used in relation to the HIG program is instructive: the difference between an approach which allowed an evolving peer relationship focusing on the problems of underlying concern to the Israelis versus an approach which brought a pre-packaged solution is clear to all.

5. The Price of Success: New Problems

Because of the archaeological nature of housing policy in Israel, where new policies are overlaid on an ample history of past policies, each new policy, although perhaps wise in itself, may well have adverse impacts on beneficiaries of previous policies. The team was concerned that inadequate policy analysis had been given to these kinds of questions. It would be useful in the future to give more thought to differential impacts. Two areas of current policy were reviewed by the team as an exercise in this kind of thinking and the results are given in Appendix F.

IV. CONCLUSIONS AND RECOMMENDATIONS

Below are listed the team's conclusions and recommendations (as spelled out both in the foregoing pages and the appendixes). These points were discussed at length in Israel with Israeli officials. Except for the team's conclusions regarding the treatment of Israeli Arabs, the GOI agreed with the conclusions and took careful note of the team's recommendations.

A. Conclusions

1. For reasons which the team could not identify in Israel, AID's predominant efforts to assist housing in Israel took place after the main burden of creating housing for ~~Jews~~ ^{immigrants} had been met by the State of Israel. This does not at all mean that major needs did not exist by the time the HIG program started in 1972, but that these needs were far less critical than in earlier periods.

2. In the 1970s, extraordinary housing demands were met through a combination of private and public housing initiatives, the latter of which were largely financed by the GOI, but with help through the HIG loans which, while significant, were a small percentage of the total effort. As a provider of program

assistance, AID may share in whatever success or failure resulted from these GOI programs. Objectively, the reduction of housing densities and provision of a large volume of better housing ~~materially assisted the Jewish community, and~~ was due to massive programs diligently and intelligently administered by the GOI.

in the 1970s
3. ~~The~~ economic impact of the Government's housing programs was strongly progressive for the Jewish population. Likewise, the macro-social impacts were helpful in building citizenship and a national Jewish policy. Nonetheless, ~~the greatest gains have been registered by those with the greatest resources either of their own or of their families. Immigrants arriving with enough money to make a downpayment on a house succeeded in getting advantageous, unlinked mortgages.~~ Similarly, young couples whose middle-income families could provide the initial investment fared much better under the program intended to assist those in greater need. Some groups (those too poor to afford downpayments, and the elderly) hardly benefited at all in terms of ownership, but often received highly subsidized rentals.

4. While inflation of the real price of housing has taken place in the latter part of the 1970s, particularly, the inflation of expectations in housing has also been real and perhaps has risen at a more rapid rate. This is not a trivial point, given the close connection of housing and jobs as factors influencing some families to emigrate (and, for the first time,

emigration is exceeding immigration). The inflation of expectations also feeds on a strong egalitarian ethic in Israel which means that perceptions that any group is getting more than any other group are registered quickly and deeply. In this kind of atmosphere, any Government program is bound to set off new perceptions of inequality, even as it attempts to remedy an older perceived inequality. It appears not to help ^{sufficiently} ~~at all~~ that everyone is progressing, but some at different rates than others.

5. AID failed to adequately probe the efficacy of GOI programs in two areas: (a) development towns, where overbuilding probably took place, and (b) housing for minorities (mainly Arab Israelis) who appeared not to have benefited from attributed HIG funds to any great extent. Such housing could have been a positive contribution to harmony. Thus, the team views the omission as a lost opportunity.

6. By assisting only ongoing programs, AID missed an opportunity to foster creative experimentation. Some HIG funds could have financed new housing solutions to more basic social problems in a way which could have furthered thinking and a search for alternatives, i.e., AID could have enabled the Government of Israel to have made practical ^{needed and development} R&D efforts and this would have been additive to Government of Israel programs in housing.

7. Although AID acted with insight in helping to start the program, AID lacked sufficient appreciation of the long-

term and participatory nature of the distressed neighborhoods program and therefore precipitously left off support of this program, fortunately without noticeable adverse impact. Although the program was initially small and somewhat slow to start, it has proven to be successful in achieving neighborhood involvement and in improving the quality of life (and asset position) of neighborhood residents.

8. The nature of U.S. technical assistance was mature, nonthreatening, occasional, and usually of such quality that it was effective in reinforcing general policy-consciousness and encouraging specific actions in a number of key housing policy areas. The nature of the relationship developed through the Office of Housing's consultant, Peter Abeles, has been exemplary.

9. AID's technical assistance and later its financing assisted in bringing about a major and badly needed shift in the ^{support} ~~thinking~~ of public housing managers regarding care of the housing stock, i.e., maintenance, but the technical assistance dialogues had less success in leading to a ^{recognition} ~~recognition~~ of the problem of maintenance of owner-occupied apartment buildings.

10. The assistance relationship resulted in a mixed impact on construction practices. There was a positive effect in improving efficiency and reducing the time for construction through policy remedies. However, at the same time, there was not much effect on construction standards (which AID occasionally criticized as too high) or on construction techniques (which might have benefited from technical help).

11. The technical advice provided by AID in the 1950s and in the 1970s regarding establishing an American-style savings and loan system and secondary market in Israel was not accepted because the recommendations were not tailored to the conditions and institutions in Israel. (While developing a private sector housing finance system is desirable and has the support of some Government of Israel officials, such a system should be designed taking into consideration the existing Israeli system and in a manner which would cause minimum economic disruption during the implementation period.)

12. The team was generally impressed with the operations of AID's Office of Housing regarding the program, particularly after the first HIG loans were established. Introduction of technical issues had to be done carefully since the loans were seen as balance of payments support and as a small part of a program set within a heavily political context. While the team did note problems, the general consensus of the team is that a high degree of professionalism (on both sides) prevailed throughout and that the performance of the program was thereby materially assisted.

B. Recommendations

1. As Government of Israel officials believe, better housing may not be a sufficient condition for young potential emigrants to decide to remain in Israel. However, it may be an important and necessary condition. Some adjustment of policy for the Young Couples Program that does not involve significant concessional financing might be worth trying out for impact. On the assumption that these couples are likely, on the average, to have a fast-growing income stream but lack the savings at the start of their earning years to finance the down payment, the Government of Israel should consider a low-point young couple option that offers a high fraction of mortgage financing to dwelling price, with the interest and amortization schedule arranged so that the payments in the initial years are substantially capitalized rather than being currently paid.

2. The problem of building maintenance where there are privately held units should be explored again. The team suggests an incentives approach which gives focus to continuing maintenance in addition to rehabilitation. One approach might be to start defining whole neighborhoods where Amidar has organizational capacity to undertake and/or contract for maintenance. The municipality could impose a maintenance fee on every building (based on number of units, size, and other relevant considerations) that was not maintained directly by

Amidar. The fee would be paid to Amidar which would arrange for appropriate maintenance, preferably by contracting. If the fees were properly set, they could serve as an incentive to private firms (e.g., those run by graduates of the new Tel Aviv University course) to underbid the fee level and for building committees to undertake contracting for maintenance from private sources, thereby encouraging both the demand and supply sides of the maintenance service industry. U.S. firms do have considerable experience in this area and might be utilized to assist local testing of the feasibility of a program along these lines.

3. Because the GOI (a) did not link mortgages until 1979, and (b) has been reducing subsidies on new acquisitions, a significant "generation gap" is being created between the net asset positions of families who bought homes before and after 1979. This disparity could be reduced through application of a tax on capital gains on dwelling sales (net of amounts reinvested in another residence), or through allowance of income tax deductions. It is recommended that the GOI examine the magnitude of this potential problem and, if warranted, apply some ^{corrective} redressing measures through the tax system.

V. LESSONS LEARNED

Over the long term, bilateral assistance programs will phase down as development efforts succeed in more countries and/or as the need to be perceived as being free of aid relationships becomes more manifest. The HIG program to Israel offers some interesting lessons regarding assistance in a more developed setting.

1. Underlying social and development assumptions and policies need to be probed even in dealing with sophisticated countries.

2. In programs almost entirely carried out for political reasons there should be an examination of whether the content of the assistance contributes towards the political goals being sought. The failure to address directly the housing needs of Israeli Arabs was a lost opportunity to help carry out part of the underlying political aims of the U.S. aid relationship with Israel. (This is not to suggest that programs be politically run, but if political goals are involved, it is up to development specialists to see whether and how such goals can be efficiently maximized through the development efforts involved.)

3. As an international development agency, AID should have been much more attuned to the living conditions of the the relatively poorly housed among the below median income population, in this case the Israeli Arabs and the Separdim. To assist AID to better focus

on poverty in whatever setting it is in, there should be a policy that the richer the country being assisted, the poorer

in such programs as the distressed neighborhoods program in Israel as AID helps solve and moves from the perhaps easier development problems of the world.

APPENDIX A
HOUSING STOCK IN 1980: DISTRIBUTION

Housing Stock in 1980: Distribution Among
Occupancy Conditions

Dwelling Occupancy Status	Number (000)	Percent
Owner-Occupied	659	70.7
Key-Money Rentals ¹	55	5.9
Other Rentals of which:	192	20.6
Public Housing (subsidized)	46	4.9
Free Market ²	146	15.7
Other	<u>26</u>	<u>2.8</u>
Total Households	932	100.0

¹Old flats held under a system begun during the British Mandate. The renter can occupy the flat for life at low rent, but returns to the owner one-third of the lump sum obtained in open-market transfer under which the tenant can turn the flat over to a new tenant.

²Includes flats temporarily unoccupied by owners for various reasons (e.g., spending a year abroad, or being held for occupancy by a child when ready to establish a separate household). There are no commercial rental dwellings in Israel.

APPENDIX B

ESTIMATED AND ACTUAL ATTRIBUTED BENEFICIARIES

Year/ (Project)	Amount	Category ¹	Beneficiaries	Estimated Use		Actual Use		Estimated National Need	Planned AID Share
				No. of Units	%	No. of Units	%		
1971 (001)	\$50,000,000		Young Couples	5,340	(46.2)				
			New Immigrants	4,007	(34.7)				
			Slum Clearance (large families)	1,332	(11.5)				
			Agrigultural Settlements	799	(6.9)				
			Minorities	58	(0.5)				
		C		<u>11,550</u>		<u>8,593</u>	<u>41,000</u>	<u>28.1%</u>	
1973 (002)	\$25,000,000	C	Young Couples	1,250	(52.3)				
		C	Large Families and Slum Clearance	517	(21.6)				
		I	Rural Housing Enlargements and Improvements	625	(26.1)				
				<u>2,392</u>		<u>N.A.</u>	<u>49,500</u>	<u>4.8%</u>	
1975 (003)	\$25,000,000		Young Couples			1,866			
			New Immigrants and Improvements			1,229			
			Slum Clearance (large families)			73			
			Savings Schemes			241			
			Other			364			
			Minorities Rural Settlements			<u>2,400</u>		<u>3,773</u>	<u>49,500</u>

B-1

1971

ESTIMATED AND ACTUAL ATTRIBUTED BENEFICIARIES (cont.)

Year/ (Project)	Amount	Category ¹	Beneficiaries	Estimated Use		Actual Use		Estimated National Need	Planned AID Share
				No. of Units	%	No. of Units	%		
1976 (004)	\$25,000,000	C&I I	Young Couples	1,000	(50)	1,558	(51.2)	55,000	3.6%
			Large Families (Slum Clearance)	400	(20)	431	(14.2)		
			New Immigrants	200	(10)	295	(9.7)		
			Minorities	200	(10)				
			Rural Settlements	200	(10)				
			Other			757	(24.9)		
			<u>2,000</u>		<u>3,043</u>				
1977 (005)	\$25,000,000	C C C I C C	Young Couples	1,000	(27.0)			66,260	5.6%
			Minorities	500	(13.5)				
			Rural Projects	500	(13.5)				
			Large Families	1,000	(27.0)				
			New Immigrants	500	(13.5)				
			Development Areas	200	(5.4)				
			<u>3,700</u>		N.A.				

B-2

So.

ESTIMATED AND ACTUAL ATTRIBUTED BENEFICIARIES (cont.)

Year/ (Project)	Amount	Category ¹	Beneficiaries	Estimated Use		Actual Use		Estimated National Need	Planned AID Share
				No. of Units	%	No. of Units	%		
1978 (006)	\$25,000,000	M	Young Couples	600	(32.4)				
			New Immigrants	300	(16.2)				
			Large Families	300	(16.2)				
			Minorities	250	(13.5)				
			Rural Projects	200	(10.8)				
			Development Areas	200	(10.8)				
						<u>1,850</u>			
	(\$10,000,000)								
		C Rental	Large Families	400	(66.7)				
			Young Couples	100	(16.6)				
			Development Areas	100	(16.6)				
	(\$8,000,000)			<u>600</u>					
		I	Distressed Neighborhoods					23,000	2.6%
	(\$7,000,000)			<u>1,235</u>					
	\$150,000		Technical Assistance (funded from fee income)			N.A.		12,000	10.3%

Cost Estimated

B-3

19

ESTIMATED AND ACTUAL ATTRIBUTED BENEFICIARIES (cont.)

Year/ (Project)	Amount	Category ¹	Beneficiaries	Estimated Use		Actual Use		Estimated National Need	Planned AID Share
				No. of Units	%	No. of Units	%		
1979 (007)	\$25,000,000	M	Young Couples	300	(37.5)				
			New Immigrants	100	(12.5)				
			Large Families	200	(25.0)				
			Minorities	100	(12.5)				
			Development Areas	100	(12.5)				
	(\$12,000,000)			800					
								Investments	
		I	Exterior Renovation	7,176		6,138			
			Other Works/Gardens	1,840					
			Combining Apartments	172					
			Extending Units	NA		733			
	(\$13,000,000)			9,366		6,971		30,000	31.2%
	\$75,000		Technical Assistance (funded from fee income)						

B-4

- ¹C = Construction
P = Purchase existing equity
I = Proposed improvements
M = Mortgage, no improvements

16

APPENDIX C
HOUSING COSTS AND FAMILY EXPENDITURES

In the Israeli consumer price index (CPI), based on the 1980 market basket, housing has a weight of about 20 percent (housing is defined as cost of dwelling alone, i.e., excludes maintenance, utilities, etc.). About 17 percent of this amount represents imputed rent (i.e., depreciation and interest foregone) based on the estimated market value of an average dwelling among that 75 percent of dwellings which are owner occupied. The proportion of actual household outlays on housing is very much less, around 4 percent according to the Central Bureau of Statistics. This is not surprising since the large majority of owners have either paid off their mortgages or seen them reduced to insignificance by inflation.

In the United States the comparable expenditure on dwellings is around 16 percent of household outlays, in Europe around 10 to 12 percent. It is interesting to note that the discrepancy between the increase in housing costs on the margin (i.e., the rising market prices of flats actually bought and sold, and the rising downpayments and mortgage servicing that this entails) and the probably diminishing actual housing expenditure on the average as inflation erodes the real value of mortgages (mainly those taken out since the mid-1970s), probably makes the monthly increase in the CPI exaggerate the rise

in average housing costs even more in Israel than in the United States. The U.S. Bureau of Labor Statistics has recently decided to correct for this discrepancy because of its overcompensating effects on wages and pensions which are linked to the U.S. CPI. In discussion with a CBS economist, the team was told that the CBS lacked the data required to adjust for this effect, although it recognized that the same upward bias on wage adjustment was built into the Israeli adjustment process.

It might be argued that the actual outlay estimate of 4 percent understates the true cost to a family of its housing, since it is foregoing the interest it could be earning if the money tied up in the dwelling were invested in an income-earning asset instead. This economic concept is the basis for including imputed rent in the price index and for calculating the contribution of housing when estimating value added for the national accounts. For personal realizable income, however, this concept has limited applicability in Israel; one can realize a significant portion of the value (and capital gain) which is tied up in a dwelling only by moving to another dwelling that costs appreciably less. (There would be no capital gains tax on the portion of gain not reinvested in another residence, as there is in the United States.) But all dwellings outside distressed neighborhoods have appreciated at the same time, while the availability of lower cost residence in the outlying development towns has so far exercised little pull on the bulk of the population, with its strong preference for

. 54'

APPENDIX D

THE QUESTION OF ADDITIONALITY

Since they financed a largely local-cost activity, the AID HIGs enabled the provision of foreign exchange not encumbered for specific project imports. In these respects the HIG loans to Israel were no different from HIGs extended to any other country. In other respects, however, the Israel HIGs differed substantially from those elsewhere. They provided financial inputs to a housing program very much larger than the size of the HIGs. They largely took the form of mortgage financing, rather than direct allocation to physical construction, and they generally were not assigned to specific development locations. The identification of mortgage recipients as AID mortgage beneficiaries was recognized by AID as an attribution process, the beneficiaries being identified by the banks handling the mortgage system according to criteria which ensured (after 1974) that the bulk of the beneficiaries met AID's essential criterion of earning less than the medium income.

By the time the HIG program began, the back of the housing problem in Israeli had been broken, in the sense that temporary housing had been virtually eliminated and net immigration was down to a small fraction of the population (see Table D-1).

Table D-1. Immigration as a Percentage of Population Increase, 1948/1950 to 1979

Year	Annual % Population Increase	Immigrants as % of Total Increase
1948-1950	26.5	90
1951-1955	5.7	56
1956-1960	3.7	47
1961-1965	3.8	56
1966-1970	2.5	34
1972	3.5	42
1973	3.5	44
1974	2.5	17
1975	2.1	1
1976	2.3	9
1977	2.2	10
1978	2.3	20
1979	2.6	30

In 1972, it was estimated by the Bank of Israel that Israel had a core need for 40,000 new housing units, based on the number of immigrant households, newlyweds, divorces, etc., and taking account of additions and subtractions to the stock from emigration, deaths, conversions of flats to offices, joining together of apartments, dilapidations, and so on. With housing starts averaging around 50,000 units between 1969 and 1972, it appeared that private and public construction together were producing enough new units to meet the country's needs, defined in this manner.

From immigration and the high fertility rate of its Arab population, Israeli's rate of population increase during the 1970s has been at levels characteristic of fast-growing populations among developing countries. While housing "needs" have therefore fallen to a more normal range (as reflected also in the decline of construction as a percentage of GNP), the level of effective demand for new housing has swung sharply up and down during the HIG years, with the market sometimes being seen as in a state of "glut."

1. With dwelling prices rising faster than the general price level in the 1960s, people viewed flats as the best long-run investment and inflation hedge. Speculative demand shifted abruptly several times during the decade, responding to changing conditions.
2. Expectations of housing requirements--and levels of Government-financed residential construction--have been strongly affected by shifts in anticipated levels of immigration (mainly during the 1970s from the USSR).
3. Annual reports of the Bank of Israel describe how levels of effective demand have quickly risen or fallen in response to changes in Government policies or rules regarding mortgage levels and financing terms (and the decision to link).
4. There appear to be inefficiencies in the housing market that result in the vacancy stock operating poorly as a buffer to absorb short-run upswings in demand.

According to the 1980 AID Shelter Sector Assessment, the vacancy rate in Israel was then about 6 percent (vacancy information is poor), higher than the 5 percent rule of thumb in the United States for the amount of unoccupied housing required for

efficient operation of the housing market. Many of these vacancies, however, are located in development towns where the Government has overbuilt, anticipating an ability to attract people to move to these locations that has thus far proved weaker than was hoped. [^] In the urban areas bureaucratic and legal complexities make secondary market moves cumbersome. The private rental market consists only of units individually held and normally offered for rent for temporary occupancy only while the owners are abroad for a year, while a flat is being held by parents pending establishment of separate household by a child at school or in the army, or while the owner holds a flat as an investment for later sale, etc. ✓

Underlying these factors all along has been the general policy of providing housing at private costs that are below the social cost to the economy, through the various subsidy programs of the GOI, supplemented by subsidized mortgage funds available to smaller groups through various nongovernmental organizations. Long-run effective demand has been higher than it would have been if all households had been required to pay real costs for their housing. Finally, there have been the politically expressed pressures for higher levels of Government housing services, in terms of rising preferences for lower density, neighborhood facilities, rehabilitation of structures, etc. The fact that some immigrant groups look to the Government or consider it the responsibility of the Government to provide all upgrading of their housing standards is viewed by

*These housing Government
policy to keep stock of units
available for possible
immigrants.*

some officials as an unhealthy result of a dependency relationship or psychology that has been created by the way in which the whole process of immigration and resettlement has been handled by the Government. The swift escalation of expectations regarding housing and many other aspects of household living standards may also be a result of the dynamic environment and experience the immigrants have found in Israel, with the rising incomes and the whole gamut of change and widening options afforded by a rapidly developing and open society contrasting sharply with the conditions and expectations immigrants left behind in their countries of origin.

It was natural under these circumstances for the team to ask what impact the HIGs had had on housing construction and on the number of families enabled to enter the market. Since the HIGs were essentially providing budget support, was there any additionality? Did the HIGs make any difference? The team got three different views from Israeli officials. One view was that the first two loans were clearly additional, enabling the housing ministry to obtain extra budget funds it would not have gotten otherwise from the Ministry of Finance, but that the later HIGs were not additional once Finance began arguing that it had already "taken into account" the expected HIG receipts when it developed its housing allocations for the next budget year. A second view was that the HIGs always enabled the Ministry of Construction and Housing to acquire "extra" allocations, but through a process that was not clear enough to

enable the amounts to be identified. The third view held that the HIG incremental allocation was always clear and actual, as illustrated in the published budget accounting practice of separating guaranteed from conditionally allocated amounts, the latter being dependent (in the case of housing) on the expected HIG actually eventuating. The full incremental view was expressed in several GOI communications with AID, and was held by the Office of Housing as indicated in the project papers. The team concluded that additionality occurred for the first two HIGs (\$75 million) but was probably lacking thereafter.

It is important to note, however, that the search for "additionality" in this quantitative resource allocation sense, is a chase of the will-o'-the-wisp. As long as resources are fungible and aid funds add only small increments to a country's total investment resources, it becomes a moot point whether even a specific physical project constructed by aid funds was in fact the project on the margin that would have been foregone if total resources had been less by that amount of aid (implying--in any country where the planning, budgeting, and implementing processes are efficient enough to make for a fair degree of resource fungibility--that the aided project on the margin was the lowest-return project available for financing that year). In this perspective, it is meaningless to apply a stricter "test" of additionality to the HIG contribution to Israel housing than to HIG (or any other) projects elsewhere which are tied directly to specific sites.

APPENDIX E
FACTORS IN ASSESSING THE SOCIAL IMPACT
OF HOUSING IN ISRAEL

The social impact of housing is difficult to assess in any society. Many other variables simultaneously affect family life, access to education, social development, attitudes to community, position in society, etc. So it is difficult, if not impossible, to isolate housing and attribute precise causal effects to it. The intense history of the state with its massive immigration from diverse origins, constant defence preoccupations, economic problems, and complex politics has had an influence on the life of every household. GOI's directed settlement of immigrants to create heterogeneity and theoretically promote integration was sometimes successful and sometimes resulted in problems which would not have occurred in more homogeneous neighborhoods. Compulsory military service and subsequent reserve duties for most of the population are a highly disruptive influence in family relationships. And while economic pressures are universal, the disproportionate influence of religious parties on national politics creates social tensions. These elements probably have more important social effects in Israel than in many other countries.

New housing policies and programs were introduced as immigration and the economy fluctuated, resulting in a very uneven

housing picture. There is considerable variation in terms and conditions depending on when one entered the market. One family might be using an insignificant part of its income for house payments and so have that money available for other expenditures to enhance its standard of living while another is so encumbered with its housing costs that little is left for amenities or educational, cultural, or recreational activities; it could be a strain to pay for other necessities too. There are, of course, many shades in between, and it is impossible to determine how many people are at what point on the housing spectrum.

Nor can it be assumed that those who bought relatively early are necessarily better housed even if inflation has rendered their mortgage payments minimal. Housing standards have risen significantly. Apartments built in earlier periods are now often considered overcrowded: deprivation is sometimes measured by or perceived according to the possessions of others. The housing provided for immigrants from Western countries and the USSR, the main sources of recent immigration, is of considerably higher standards than units provided for previous immigrants because of their demands and the ability of the country to meet those standards. This newer housing is beyond the reach of earlier settlers bureaucratically or financially. Further, much of the older housing has deteriorated because of both inferior construction and inadequate maintenance. The poor construction is largely due to the economic situation of

the state when that housing was built. The poor maintenance is the result, inter alia, of the lack of skills--particularly in management--that the HIG technical assistance was intended to help correct.

Because the vast majority of households live in multi-family dwellings, unaccustomed relationships have had to be developed which affect maintenance as well as everything else: "A multi-apartment building requires a degree of cooperation and organization which may be beyond the capabilities of the residents. It increases their dependence on each other and puts them at the mercy of those who may ^{not} be inclined to cooperate. While this is a general problem in Israel, the situation in distressed areas sometimes reaches critical proportions, mainly because the people are so preoccupied with their personal problems, that very little time or energy is left for common problems."¹ People with mortgages linked to inflation in newer housing, then, could be considerably better off even if they pay much more for their accommodations. And those living in the newer units are invidiously resented by those who arrived earlier and who are now living in what have become substandard units. Such resentment, when added to the other perceived inequities among ethnic groups, increases social dissatisfaction.

¹N. Carmon and M. Hill, Neighborhood Rehabilitation in Israel, Research Report No. 1. Haifa: The Samuel Neaman Institute for Advanced Studies in Science and Technology, 1979, p. 47.

Some immigrants arrived in Israel with adequate funds to enter the housing market. But many were precluded from home ownership because of the high costs of housing. This was especially true during the periods of large-scale immigration and is even worse now. Without sufficient resources for the substantial downpayment required and sufficient income to make the monthly payments, a newly arrived family could not buy a house since the Government-subsidized mortgages available to immigrants were based on the price of the unit rather than income. Price was a function of location. The most expensive units were in the large metropolitan areas where many wanted to settle; even those with some resources could not obtain their first choice.

Private rental housing was scarce and expensive especially in the large metropolitan areas. Public rental housing (Amidar and Amigur) was the only possibility. The largest supply of public rental units was available in development towns. Those seeking reasonable accommodations had to go there. Because this was seldom their preference, their residence in Israel began with a built-in aggravation which was frequently exacerbated by interethnic conflicts due to the policy of deliberate mixing. A survey by the Central Bureau of Statistics in 1977² found that while most immigrants were satisfied with their

²Central Bureau of Statistics, Immigrants After One to Three Years, 1973-76. Cited in I. Lithwick, Macro and Micro Housing Programs in Israel. Jerusalem: Brookdale Institute, 1979, p. 111.

housing, a significant percentage was not (see Table E-1). Most of the dissatisfied came from Africa and Asia. The type of housing provided could have been an important reason for the discontent: "The desire to achieve cultural homogeneity led planners to design only European-style housing, completely ignoring the possible merits of the ways and customs of immigrants, e.g., from North Africa or the Middle East. This fact contributed to the disintegration of social and family norms which were considered inferior and expendable."³ This additional manifestation of official condescension deepened the annoyance of being forced to go to a development town in the first place. Besides being excluded from the mainstreams of national life, the cultural traditions of these immigrants were demeaned. Those who could, moved out of those towns as soon as they were able, seeking a social environment more amenable to their needs, as well as better employment opportunities and educational facilities for their children. Significant numbers went even further: the more ambitious, upwardly mobile North Africans, for instance, went to France or Canada--especially if they had relatives or friends there to assist them.

Clearly housing was not the only factor contributing to the responses. As noted, housing is only one variable in the social equation. The attitudes and responses to survey results such as those tabulated in Table E-1 reflect, too, the results

³Carmon and Hill, p. 49.

of the social engineering policies of the GOI, often carried out with the best of intentions, albeit at times wrong, and of which housing and housing policy were critical components.

"Today a larger degree of tolerance exists, as well as a new awareness of the dangers inherent in forced homogeneity. Unfortunately, not enough knowledge is extant regarding the variations to enable planners to answer the actual needs." Where there are policy problems in this area there will need to be major resources and an unusual degree of both political will and coordination between agencies and programs to find and carry out new approaches.

Table E-1. Immigrant Satisfaction With Housing One Year After Arrival, 1974/1975

Category	Percentage Satisfaction with Housing			
	Definitely	Fairly	Not So	Not At All
Total Population	56.1	23.4	9.4	11.1
By Country of Origin				
Asia-Africa	42.3	31.9	11.5	14.3
USSR	52.8	20.6	10.3	16.3
North America	67.3	22.3	7.0	3.4
Age of Head of Household				
18-29	55.7	23.6	9.2	11.5
30-54	58.2	20.9	11.3	9.6
55+	69.6	14.5	8.0	7.9

Source: Central Bureau of Statistics, Immigrants After One to Three Years, 1973-76.

APPENDIX F

PROPOSAL TO USE FISCAL INCENTIVES TO ENCOURAGE
MAINTENANCE IMPROVEMENTS

U.S. experience in condominium maintenance in the private sector might also be valuable for Israel, but does not appear to have been explored much yet under the HIG umbrella. Since the private sector is large and comprises thousands of individually owned units not under any organizational framework, the team raised the possibility of using fiscal incentives to induce owners to organize effective management systems, by making it cheaper for them to do so than to remain in their present state. It turned out that the GOI had developed a proposal under which municipalities would be empowered to arrange for rehabilitation of undermaintained buildings and bill the owners if they did not take action themselves after being given notice. The idea was not pursued however, after the mayors objected that they would be unable to enforce and administer such a law. (The above-described loan program through the condominium association was a practical alternative, but relies on Government funds and building-by-building loans.)

The team suggested that the Ministry of Construction and Housing (MOCH) should make another run at the fiscal incentive approach, perhaps getting around the objections of the mayors

by coming up with a system that is easier to administer. The system should also focus on continuing maintenance in addition to rehabilitation. One approach might be to start defining whole neighborhoods where Amidar (or some other organization) had the organizational capacity to undertake and/or contract for maintenance. The municipality could impose a maintenance fee on every building (based on number of units, size, and other relevant considerations) that was not maintained directly by Amidar. The fee would be paid to Amidar, which would arrange for appropriate maintenance, preferably by contracting. If the fees were properly set, they could serve as an incentive to private firms (e.g., these run by graduates of the proposed Tel Aviv University course) to underbid the fee level and for building committees to undertake contracting for maintenance from private sources, thereby encouraging both the demand and supply sides of the maintenance service industry. It might be possible to arrange for one or two U.S. building maintenance firms to assist in this process, through technical assistance or by establishing a local firm to test out the feasibility of a program along these lines.

Current legislation empowers the MOCH to require rehabilitation, but calls for a 30 percent Government contribution (through the betterment association). New legislation might be required for a fee system. The rationale would rest on the fact that windfall real wealth had been granted to many owners at least partly as a result of Government policy; that this

96

form of capital serves more than one generation, but in Israel is threatened with premature deterioration; and that deterioration of structure and appearance of any one building has diseconomies for the capital embodied in other buildings through the spread effects of slum emergence. Under these circumstances, society is justified in inducing or enforcing maintenance of this privately held, but public^{ly owned}~~ly gifted~~, capital stock.

99

APPENDIX G

REDUCING DIFFERENTIAL IMPACTS: SOME PROPOSALS
FOR CURRENT POLICY

New problems of differential impact will continue to emerge from the highly administered systems and rapid changes that characterize the Israeli economy. One problem commonly discussed during the team's visit was the position of second-generation young couples who come from typically small families (usually of European origin). In the Israeli euphemism, they are considered "strong" as compared with families designated as "weak" in terms of the income, family size, density, and low-educational attainment syndrome. They typically have benefited from substantial parental and societal investment in their education. Lacking the large family that weighs heavily in the point entitlement system, many of these young families score low and are not eligible for much mortgage assistance (unless they settle in certain towns where point-count criteria are either reduced or not applied) even though their income is low and they are unable to meet the large downpayment requirement. Many of these young families have been moving abroad where their earning power is higher than in Israel and where they can afford suitable housing. While housing access is often cited as a major reason for their emigration, housing officials and

100

social science professionals question the weight that should be accorded housing in this emigration phenomenon. Obviously the problem is not easily explained. If it continues however, the perception that housing is a root cause may force a revision in the entitlement system.

A problem the team raised with Israeli officials is the future gap being created between owners with pre-1979 mortgages, many of whom will have been granted a sizable asset windfall, and post-1979 dwelling owners whose linked mortgages will remain real financial liabilities for many years. (For a presumably short "interim period," new borrowers are still eligible for a small unlinked portion of their total entitlement, before linking becomes fully applicable.) Family distribution of net wealth in Israel will be strongly affected by this distinction for some time to come.

Retroactive linking of old mortgages in 1979 would have mitigated the differences to a small extent, but was judged politically unacceptable at the time. The real burden of retroactively linking now would be much less for mortgage holders, but might still have some moderating effect should this distinction become a problem in the future. Alternatively, old and new mortgage holders could be put on a more equal footing by the introduction of a tax on realized net gains to the extent such gains were not used by the owners to buy another dwelling (as in the U.S. treatment of capital gains on owner-occupied dwellings). There are doubtless several ways the

101-

differentials could be reduced if the GOI agreed that this anomaly is in fact significantly discriminatory and potentially troublesome. At this stage, the important first step appears to be a need to recognize the anomaly and give thought to its implications and possible correction.

104