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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

PROJECT PAPER Sept 77

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

ISRAEL - HOUSING INVESTMENT GUARANTY , 005

AID-DLC/P-2246

UNCLASSIFIED

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

UNCLASSIFIED  
AID-DLC/P-2246  
September 12, 1977

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: ISRAEL - Housing Investment Guaranty

Attached for your review is the recommendation for authorization of the issuance of guaranties pursuant to Section 221 of the FAA of a face amount not to exceed Twenty Five Million Dollars (\$25,000,000) assuring against losses (not to exceed one hundred percent (100%)) of the loan investment and interest with respect to loans made to finance housing in Israel by eligible U.S. Investors (Investor) acceptable to A.I.D.

This housing investment guaranty is scheduled for consideration by the Development Loan Staff Committee on Thursday, September 15, 1977, at 2:30 p.m. in Room 3886 New State. Please note that your views are requested at the close of the meeting. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee  
Office of Development  
Program Review

Attachments:  
Summary and Recommendations  
Project Analysis  
Annexes A - E

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## ACRONYMS

AID	- Agency for International Development
FAA	- Foreign Assistance Act
GNP	- Gross National Product
GOI	- Government of Israel
HG	- Housing Guaranty
IL	- Israeli Pounds
MOF	- Ministry of Finance
MOH	- Ministry of Housing
NSLL	- National Savings and Loan League
SER/H	- Office of Housing
SSA	- Shelter Sector Analysis

AGENCY FOR INTERNATIONAL DEVELOPMENT  <b>PROJECT PAPER FACESHEET</b>	1. TRANSACTION CODE <input checked="" type="checkbox"/> A ADD <input type="checkbox"/> C CHANGE <input type="checkbox"/> D DELETE	PP 2. DOCUMENT CODE <b>3</b>
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5. PROJECT NUMBER (7 digits) <b>[271-HG-005]</b>	6. BUREAU/OFFICE A. SYMBOL <b>NE</b> B. CODE <b>[03]</b>	7. PROJECT TITLE (Maximum 40 characters) <b>[Israel-Housing Investment Guaranty]</b>
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8. ESTIMATED FY OF PROJECT COMPLETION FY <b>[78]</b>	9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <b>[77]</b> C. FINAL FY <b>[77]</b> B. QUARTER <b>[4]</b> (Enter 1, 2, 3, or 4)
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10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$1 - )						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	L. FX	F. L. C	G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT)	( )	( )	( )	( )	( )	( )
(LOAN)	( )	( )	( )	( )	( )	( )
OTHER U.S. 1. Housing Guaranty		25,000	25,000		25,000	25,000
2.						
HOST COUNTRY		6,250	6,250		6,250	6,250
OTHER DONOR(S)						
TOTALS		31,250	31,250		31,250	31,250

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1)									
(2)									
(3)									
(4)									
TOTALS									

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVAL. SCHEDULE
	P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1)							MM YY <b>[04 79]</b>
(2)							
(3)							
(4)							
TOTALS							

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PIO FACESHEET DATA BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PIO FACESHEET.

1 NO  
 2 YES

14. ORIGINATING OFFICE CLEARANCE SIGNATURE <b>C. Richard Zenger</b>	15. DATE DOCUMENT RECEIVED IN AID W. OR FOR AID W. C. COMMENTS, DATE OF DISTRIBUTION MM DD YY <b>09 01 77</b>
TITLE <b>Assistant Director for Operations, SER/H</b>	MM DD YY <b>09 01 77</b>

## I. Summary and Recommendations

### A. Project Paper Facesheet

### B. Recommendations

A request for assistance from the Government of Israel (GOI), attached as Annex C, and the review of the Israel Housing Sector in November 1976 by the Office of Housing (SER/H), forms the basis for the proposal described in this paper. Based upon review of the proposal set forth, it is recommended that the subject guaranty be approved as follows:

#### 1. Amount of Guaranty

\$25 million.

#### 2. Term

The \$25 million loan will be for a term of up to 30 years with a grace period of the payment of principal to be negotiated with the investor.

#### 3. Interest Rate

The interest rate payable to the U.S. investor shall not exceed the allowable rate of interest prescribed by the AID Administrator pursuant to Section 223 (1) of the FAA, and shall be consistent with rates of interest generally available for similar type loans.

#### 4. Technical Assistance

As requested by the GOI, SER/H will provide, and has provided, short-term consultants to assist in analyzing the existing Israeli housing delivery/financial systems and to develop alternative methods for achieving long-term housing goals; coordinate and fund visits by Israeli housing technicians to the United States in order to observe housing and urban development programs and maintenance techniques first-hand, and to initiate a dialogue with knowledgeable U.S. counterparts.

#### 5. Conditions

The terms and conditions are set forth in the Guaranty Authorization attached in Annex E and specifically include:

a. None of the guaranteed funds shall be used to finance housing located outside the territory subject to the administration of the State of Israel prior to June 1967.

b. A repayment guaranty from the GOI to AID.

c. The AID fee will be 1/2 of 1% per annum of the outstanding guaranteed amount of the loan, plus a one-time fee of \$250,000.

## 6. The American Embassy Position

The Embassy recommends that a new authorization be issued. Cable, Tel Aviv 5365, dated 21 July 1977.

### C. Description of the Project

The goal of the proposed program is:

1. To assist the GOI in implementing its national housing policies particularly by addressing the shelter needs of families of below median income.

The proposed HG loan will provide up to \$25 million to the Ministry of Finance (MOF) to provide mortgage financing for new construction and for upgrading and renovation of existing dwellings. The program designed will directly benefit low-income families by providing 3,700 mortgage loans for the purchase of new housing and the renovation of existing substandard units.

Table 1, provided by the Ministry of Finance, indicates the distribution proposed by the GOI and also illustrates GOI participation in the program. Even assuming an exchange rate of IL 9.5 to US\$ 1 at the time of the first disbursement, the GOI contribution would approximate 25% of the program.

TABLE 1  
Projection of Use  
In Israeli Pounds

	<u>Total</u> <u>Amount</u>	<u>Average</u> <u>Mortgage</u>	<u>No. of</u> <u>Mortgage</u>
Young Couples	72,000,000	72,000	1,000
Minorities	30,000,000	60,000	500
Rural Projects	50,000,000	100,000	500
Large Families	80,000,000	80,000	1,000
Enlargement and Improvement of Housing Units			
New Immigrants	41,000,000	82,000	500
Developing Areas	<u>20,000,000</u>	<u>100,000</u>	<u>200</u>
	293,000,000		3,700

A summary of the sector goal, purpose, outputs and inputs is contained in the Logical Framework, located in Annex B.

The borrower of the HG loan and the administrator of the program on behalf of the GOI, will be the Ministry of Finance. The implementing agency will be the Ministry of Housing (MOH). The funds will be disbursed,

by the joint authority of the two ministries, through mortgage banks to provide long-term mortgage financing for the public housing projects described herein.

Based upon previous experience with GOI shelter related agencies it is confidently felt that sufficient technical and managerial capacity exists to carry out the project effectively. The MOF and the Israeli mortgage banks have had a long-standing and effective involvement in HG projects and are fully familiar with AID procedures and requirements.

The mortgage finance recipients will be families with incomes below the median level of the urban population. Governmental data will be used to determine median income in all localities where projects will be carried out.

#### D. Summary Findings

On the basis of similar programs previously completed with AID assistance, SER/H has found that the participating GOI agencies have technical and managerial expertise to successfully execute the Program in an effective and efficient manner. The Shelter Sector Analysis (SSA) Update noted that in Israel, housing remains a priority second only to national defense. The Israelis, following this priority, have invested both funds and talent in the housing sector. The GOI Public Housing Program has much experience in this area and is noted for its capable and responsive execution of projects.

The proposed project meets all applicable statutory criteria. (See Statutory Checklist, Annex A). Shelter Sector goals enunciated by the GOI are in full accord with AID policy.

The 1976 Israel SSA Update revealed that several of the recommendations made in the 1975 Analysis had already been implemented by the GOI. These include:

##### 1. Complex Mortgage Assistance Programs Simplified

Since the 1975 SSA, mortgage assistance programs have been changed to make them more equitable and responsive to the housing needs of the population. The system itself was simplified and mortgage programs, which describe the types and amounts of assistance available, as well as the specific indices used to determine eligibility, have recently been made public.

In 1975, for example, an applicant for "Young Couple" assistance had to provide information to satisfy 55 rating possibilities under 10 underwriting subject headings. Since that time, the eligibility criteria has been simplified to 44 rating possibilities under eight subject headings. An example of the new simplified procedures is found in Annex D.

## 2. Land Subsidies Reduced

A 1975 recommendation was the elimination of the land subsidy within the housing program. The GOI has taken the necessary action and this subsidy has, for all practical purposes, been eliminated.

## 3. New System for Interim Financing

Another recommendation was for a critical review of the possibility of establishing a banking institution to provide interim financing for housing development. The past system of interim construction payments to contractors and developers had the effect of increasing construction time and, ultimately, the cost for public housing. A new system of interim payments has eliminated the problem and the need for an institutional approach.

### a. Shelter Sector Analysis Update

The 1976 SSA Update included the following recommendations: to simplify further the criteria for participation in the Public Housing program; to review design criteria to minimize excessive architectural frills; and to facilitate and improve building maintenance to extend the serviceable life of housing structures.

The GOI is continually reviewing, improving and simplifying its various housing assistance programs. In May 1977, SER/H funded the services of two consultants who discussed with the Israelis various methods to further reduce the size and complexity of the program. One of the ideas discussed, the establishment of a savings and loan institution to grant mortgages to the middle class, could replace some assistance programs presently financed by the GOI, leaving more funds available for below median income families. This idea produced a very positive response from the Israelis. Completed reports will be sent to the GOI who may then review the recommendations for possible implementation.

Building maintenance remains a serious problem and a priority area of the GOI. In April 1977, SER/H assisted in the study visit to the U.S. of two Israeli technicians related to the problems of maintenance. SER/H, through consultations with the Director General of the Ministry of Housing, funded a 30-day study trip for three ranking Israeli technicians to review U.S. shelter solutions as well as related maintenance problems and priority areas. SER/H is also in the process of fielding a consultant to help address the maintenance problems of the Israeli Housing sector.

Through efforts such as this, both the GOI and AID have been active in improving the public housing program and introducing new methods of maintenance to rehabilitate dwellings and maintain the existing housing stock.

### E. Project Issues

There are no outstanding project issues.

## II. Project Background and Detailed Description

### A. Background and Overview

The State of Israel is a comparatively new country faced with housing problems both unique and disproportionate to its size.

The country was founded upon the concept, later formalized into law, that it would be the homeland, the refuge without restriction, for all persons of the Jewish faith. The flow of immigrants into Israel is restricted only by the emigration restrictions of their respective countries of origin.

In accepting unrestricted Jewish immigration, the GOI has also accepted the responsibility to provide housing for their new citizens, regardless of their ability to pay, but the lack of immigration control makes the planning and allocation of resources difficult. Current government projections through 1980 indicate an annual immigration level of between 25,000-40,000 people.

In addition to the housing needs of immigrants, Israel is also faced with the necessity of dealing with the more typical components of housing demands found in other developing countries. The most pressing of these are the formation of new families, the increasing urbanization of the country, the rehabilitation of slum areas in the urban centers, and the progressive obsolescence of existing dwellings into potential slums. An analysis of the housing needs for Israel for the period 1975-1980, prepared by Abeles/Schwartz, AID consultants, indicates the requirement of an additional 307,500 to 355,100 units, with the variation due to the uncertain flow of immigrants.

Because the State owns 92 percent of the land, it exerts tight control over all planning and development. Further growth in the heavily populated cities of the coast, such as Tel Aviv, places heavy demands on the environment and infrastructure. Therefore, the GOI maintains a national policy of population dispersion, of reducing the concentration of population and industry in the coastal strip by distributing it throughout the country.

In order to meet the housing requirements of a growing population, and in view of the limited resources of the State, the Israeli citizen shares in the burden by financing the purchase of his own home or apartment through a mortgage loan. 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. Minorities

comprise approximately 15% of the population and will receive about 15% of the program funding.

The government uses its subsidy program as one of the major tools to achieve its housing goals and to further its economic and social policies. The present subsidy program has developed through trial-and-error, as part of the evolutionary process of the GOI housing program. At the formation of the State, the government accepted responsibility for residential building and the allocation of housing. The overriding objective from the start was to ensure adequate housing for every citizen and to assist, in one form or another, those who needed help.

While the government continues to construct and to provide some subsidized rental units, the new direction, initiated around 1974, is to help the eligible citizen afford home ownership by subsidizing mortgages for purchase of flats from public or private companies.

The Government's assistance programs stimulate and encourage home ownership by providing long-term mortgages at an interest rate that is considerably below the prevailing market rate. However, the assistance provided by the government is seldom sufficient to purchase a home without additional resources and in most cases down payments of 30% or more may be required. Homebuyers assemble money from several sources: personal savings, loans from family, friends, builders and financial institutions. In addition, three to five co-signers are required for each mortgage, depending on the particular situation. The GOI is the guarantor on all mortgages given to minorities.

The high cost of housing relative to current income has necessitated the GOI's continued role in providing this mortgage assistance. In fact, as noted in the Shelter Sector Update, government credit establishes demand to the extent that the last quarter of 1975 saw 90 percent of all long-term housing finance directed by the GOI. The GOI public housing program activity is directed at assuring an adequate supply of housing units to meet current demands. Those individuals unable to afford housing in the private sector are thus given an opportunity to have suitable housing through governmental assistance, with the extent of assistance varying with socio-economic characteristics and with the location and type of housing.

Between 1949 and 1975, more than 982,000 permanent and temporary dwellings were produced by both the public and private sectors to accommodate immigrants and Israel's growing population, with the public sector providing 54 percent of these units. AID consultant Robert Nathan Associates note that despite this building phenomena, current levels of housing starts may soon result in a shortage of housing which could also result in speculative buying and skyrocketing sales prices. The government's role in housing has not been uniform and, in some years, public starts dropped as low as 35 percent of the total as the government adjusted its public housing programs to most effectively satisfy its perception of the changing needs of the population. Beside providing units for new households, there has been a substantial upgrading of living conditions throughout the country. Whereas 56.9 percent of the population was living at a density of two or more persons per room in 1959, it had dropped to 18.8 percent by 1975.

The Housing Guaranty (HG) Program has assisted the GOI in meeting its Public Housing goals by providing the following loans:

The first HG Program in Israel was a \$50 million loan, authorized in FY 1972, which was channeled through Tefahot, the Israel Mortgage Bank, Ltd., to provide mortgage financing to immigrants, newly married couples, slum dwellers and minorities.

This was followed by two successive HG Programs, both \$25 million loans to the Ministry of Finance, aimed at similar target groups

After conducting the 1975 Israel Shelter Analysis and reaching agreement with the GOI that the target group must be families with incomes below the urban median, as required by AID policy, a new \$25 million HG loan was authorized and disbursed.

#### B. Detailed Description

##### 1. Proposed Program

The type of apartments to be financed would be 3- to 4-storey walk-ups having two to four apartments at each level. Each unit would include from 3-1/2 to 5 rooms, including a kitchen and bathroom with shower and tub. A small porch usually opens off the living room and a small utility porch off the kitchen. Construction is usually of reinforced concrete frame with concrete block curtain and interior walls. Exterior walls are usually plastered and painted. Hallway walls may be faced with unpainted rough gravel and encrusted concrete which requires no maintenance. Floors are usually of cement tile. The ground floor is usually semi-opened providing facilities such as bicycle and pram storage, trash room and entrance hall. Open balconies are favored as work (laundry) areas when adjacent to the kitchen, or sitting areas when on the living room side.

The projects are planned and will be executed in accordance with GOI national and municipal planning policies, the national and local master plans, and will follow the GOI-approved standards for contracting and construction. Social, commercial and other community facilities are integrated elements of the planning, especially in the new development areas.

The GOI views housing solutions for its citizens as a priority undertaking. Within this priority, the government has focused attention on the problem of housing for immigrants, newly-created families (Young Couples Plan), families living in overcrowded conditions (Three Plus Plan), minorities and families living in developing and rural areas. It must be emphasized that recipients are eligible for government assistance on a one-time basis only.

a. Young Couples

This category includes all couples married after October 1, 1970, who have never owned an apartment or house.

This has become the most important single aspect of the public housing program as GOI policy now recognizes that all newly formed families should, as soon as possible, be able to establish their own households. In 1976, approximately 75% of all young couples interested in home ownership would have required GOI assistance with mortgage financing.

b. New Immigrants

Since Israel has assumed the responsibility of providing adequate shelter for all new immigrants, each immigrant is eligible for government assistance in buying or renting a home to meet the requirements of his family.

Although the number of immigrants arriving in Israel declined to approximately 19,000 in 1976, immigrants represent a serious, and at the same time, unstable aspect of planning for Israeli housing and finance institutions.

Despite the fact that emigration has been approximating immigration, GOI policy continues to emphasize a positive immigration policy. Immigration has been cyclical and the GOI anticipates increasing numbers of immigrants through 1980 and decreasing numbers of emigrants from Israel. Approximately 14% of the resources of the program will be expended for immigrant housing.

c. Families Living in Overcrowded Conditions

This program is focused on the special needs of families suffering from severe overcrowding. Three or more persons per room is the present criteria for eligibility in the program. Since overcrowding is usually the result of a lower level of family income and urban slum conditions, this program benefits those families whose marginal resources would otherwise make it impossible for them to become homeowners. Financing under this program is also made available to rehabilitate, upgrade and maintain dwelling units. To a large extent, the slum areas of urban centers are a result of continuous occupation of deteriorating temporary structures built to accommodate the flood of immigrants that followed World War II.

d. Minorities

As shown in Table 1, there is a special program for housing assistance to minorities. Minorities may also be eligible for assistance through the Young Couples Plan, the Three Plus Plan (families living in overcrowded conditions) and other housing improvement plans. As a result, the 1976 National Budget called for 1,300 housing solutions for Arabs and Druze, 300 in rental housing, and 1,000 in aid for independent house purchase. However, the MOH has learned through trial-and-error that the minorities have distinctive patterns of living and special shelter requirements that do not equate with the requirements of the Jewish Israelis. Since most Arabs prefer to build for themselves, GOI assistance most frequently takes the form of loan guarantees for independent construction.

e. Settlers in Rural and Development Areas

This program is directly related to the GOI policy of population dispersion. The GOI is firm in its belief that a highly urbanized metropolitan area will be more costly to the government than an urban pattern based upon a more reasonable distribution of the population. The GOI also maintains, for political and social reasons, the policy of growth in outlying and less developed parts of the country.

Development towns are divided into categories based on the quality of the living environment and assistance is varied with the attractiveness of the settlement and the employment opportunities that it offers.

The Rural Settlement Agency, an independent administration within the MOH, is responsible for the rural housing program which focuses on development of agricultural areas.

2. Criteria for Selection

The GOI has established a point system to determine an eligibility rating for all persons applying for assistance under the Public Housing program. The lowest income group with the largest family will receive the highest numerical rating and, thereby, receive priority consideration for housing assistance. (Please see Annex D).

3. Typical Example of Funding, Young Couples Program, Development Area

The monthly payment and interest rate table indicated below was provided by the National Savings and Loan League (NSLL), an AID contractor, from data collected by them during a fiscal and management audit of project 271-HG-004, performed in Israel in November 1976.

TABLE 2

Amount of the loan: I£ 100,000

Term: 20 years

Interest Rate: Variable

Monthly Payment: Variable

Years	Monthly Payment	Interest Rate
1 to 3 = I£	897.77	10.78%
4 to 5 =	1,068.88	12.83
6 to 7 =	1,201.11	14.42
8 to 9 =	1,355.55	16.25
10 to 11 =	1,516.66	16.25
12 to 13 =	1,704.44	16.25
14 to 15 =	1,914.44	16.25
16 to 20 =	2,169.41	16.25

Abeles/Schwartz estimated 1977 monthly median income level at I£ 3,900. As illustrated in Table 2, a required monthly payment of I£ 897.77 is within the 25% of monthly median income test.

This example assumes the average cost of a dwelling unit in the developing areas to be approximately I£ 149,000 which was projected by Abeles/Schwartz from the 1975 cost figures.

The young couple would make a downpayment of roughly I£ 49,000 (30.3% of the sales price), resulting in a mortgage of I£ 100,000. In addition, depending upon need and location of housing, the young couple may be given a loan to help offset the high initial downpayment requirement.

The GOI, in establishing the policy of adjusting upwards interest rates and monthly payments after the first three years, assumes future increases in monthly family incomes, and it is expected that home owners will be able to handle the increased monthly payments without difficulty.

### III. Project Analysis

#### A. Technical Analysis

##### 1. Suitable Technology

The Israeli construction industry, through past performance under the HG Program, has demonstrated that it has the competence and technology to implement this \$25 million Program at minimum cost to the target group.

Although the Israeli construction industry has begun using industrialized construction techniques, standardization of building components and factory finished materials, further improvements to reduce costs and delivery time may be expected from use of newer concepts such as modular design in construction. In addition, efforts are being made to improve and simplify architectural design to complement the new construction concepts.

As the Ministry of Housing is responsible for nearly two-thirds of all housing construction in the country, it can, by demonstration, promote these new, cost-saving construction methods in both the public and private sector. Unfortunately, the pressure of housing needs up to recent times has deterred experimentation with newer construction techniques, as the possibility of time and scarce funds being lost because of a failure could not be risked either financially or politically.

Major constraints which continue to impact upon the industry are: (a) the limited supply of suitable land because of the GOI policy of utilizing land suitable for agriculture for that purpose only, leaving the most difficult sites for construction; (b) several areas of the country experience extreme climatic conditions and/or seismic problems requiring specialized construction techniques and facilities for heating or air-conditioning and, in Jerusalem, stone facing is required for new construction; (c) the GOI requires the provision of a bomb shelter with all apartment units, adding from 3 to 10 percent to building costs; (d) elevators are required in all buildings taller than four storeys.

It is estimated that only 16% of construction components are now imported, principally lumber, steel and white cement. The other components such as sand, stone, gravel, lime and common cement, etc., are produced locally. No special problems are anticipated with regard to the supply of construction materials for this program.

As the construction industry remains labor intensive, it employs a large portion of the unskilled labor force, including both resident Arabs and Arabs from the occupied territories.

#### B. Environmental Analysis

A review of environmental aspects of this project has been conducted under the requirements of AID Regulation 16, "Environmental Procedures". This has taken the form of a negative declaration based upon a programmatic assessment of Intermediate Credit Institutions currently under preparation by the Office of Housing. This negative declaration forms the basis of a threshold decision by the Assistant Administrator, NE Bureau, in full satisfaction of the requirements of Regulation 16.

#### C. Social Analysis

##### 1. Population Characteristics

The total 7,993 square mile area of the State of Israel within its 1948 armistice frontiers (about the size of New Jersey) was multiplied fourfold by the territories occupied as a result of the 1967 war. However, the de jure population in 1976 totalled 3,600,000, of whom roughly 85 percent of the total are Jews and the remainder mostly Muslim Sunnites. of the non-Jewish population, about 75 percent are Muslims, 16 percent are Christians and 9 percent are Druzes and others. Most non-Jews are Arabs, but a small number of Europeans reside permanently in Israel.

The population density of Israel is 442 per square mile, with the population heavily concentrated along the coastal strip. The Tel Aviv-Jaifa area is the most densely populated area of the country

and accounts for almost 1/3 of the total population. Approximately 85% of the country is classified as urban.

The Jewish population has more than quadrupled since independence, with 2/3 of the increase due to immigration. Immigration accounted for 60% of the yearly increase in the Jewish population between 1958-1970. Of the Jewish population, 48% were born in Israel, 27% in Europe and the Western Hemisphere, and 25% in Asia and Africa.

The Jewish population is almost evenly divided into two ethnic groups: the Ashkenazim, or Jews of Northern and Eastern European origin; and Sephardim, or Oriental Jews, who came to Israel from the countries of the Near East and the Mediterranean Basin.

## 2. Target Group

The target group for the proposed HG Program, as established by GOI priorities and concurred with by AID, will be below median income families previously discussed in the detailed description.

## 3. The Role of Women

The State of Israel is an egalitarian society. Women serve in all positions of the society, determined only by ability, desire and need. Women serve equally and with distinction in the Armed Forces of Israel.

Women are prominent in the business community, government, and labor organizations, as well as the professional and political life of the nation; a prominent woman political leader even served as the Prime Minister of the State.

Women will benefit as equals with men in this project. They will receive equal access to employment generation, shelter and government assistance. This HG loan will not discriminate between men and women; each will have equal access to its benefits.

## 4. Family Income

Between 1959 and 1972, the Israeli population registered formidable gains in real income. At the end of this period, the median annual income of urban families was I£ 13,300. Since 1972, although median income has increased markedly, the rate of inflation has limited real income gains. In 1974, annual median income equalled I£ 21,000, a 42 percent increase over 1973. Estimates for 1977 urban employee median income have indicated an increase to approximately I£ 46,800 per annum. Those families earning less than I£ 46,800 annually would benefit under the program. Beneficiaries under the program will undergo an income analysis by the Administrator, and only those with requisite family income (i.e. incomes below the urban median) will be approved as eligible participants.

## D. Economic Analysis

### 1. The Domestic Economy

Israel produces a variety of goods for world and domestic markets. Highly industrialized, its economic growth had been among the fastest in the world. However, the economy of Israel has been in a transitional phase since the 1973 Yom Kippur War. Prior to 1973, the gross national product (GNP) has been growing at an average rate of approximately 11 percent. In 1973, the growth rate in real terms declined to 5.5 percent, improved slightly in 1974, rising to 6.8 percent, but dropped sharply in 1975 to almost no growth, 0.5 percent. In 1976, the GNP growth rate was 1.3 percent.

The GOI has recently taken significant measures to address its key economic problems, a balance-of-payments deficit and spiraling inflation. Inflation was 56 percent in 1974, 24 percent in 1975, and 38 percent in 1976. These problems are the result of both external as well as internal forces. They include the worldwide recession and inflation of 1973-1975, and the Yom Kippur War in 1973 and its aftermath. The Emergency Economic Policy adopted in November 1974 has had a direct impact on the structure of Israel's economy and on Israel's housing program.

The GOI, under its economic program, has sought to increase exports by encouraging export industries, and limit the growth of imports by curbing domestic demand. In addition, Israel has adopted a wage policy that attempts to control wage increases.

In November 1974, the government announced a series of austerity measures, including the devaluation of the Israeli pound by 43 percent, in order to reduce inflationary pressure and safeguard foreign exchange reserves. Another 10 percent devaluation was implemented in September 1975 and the government has continued to devalue the pound incrementally by a maximum of 2 percent at minimum intervals of 30 days. Subsidized credit and tax rebates for exporters were also designed to help the balance of payments by increasing import prices and making exports more profitable. Recent fiscal policy changes also increased revenues by means of a direct-value-added tax of 8 percent and a reformed income tax structure.

The Israeli civilian labor force in 1975 was 1,133,000, of which 26.1 percent was employed in public services; 25.3 in mining and industry; 12.2 in commerce; 6.4 in finance; 6.7 in personal services; 6.5 in agriculture; 8.1 in construction and public works; 7.7 in transportation, storage and communications; and 1 percent in utilities. Israel has nearly full employment; in fact, in 1975, some 66,000 workers from the occupied territories have found employment in Israel, many within the construction industry. Construction workers are almost equally divided between Jews and Arabs.

From 1971-1974, the price of dwelling units, especially the price of apartments, was fueling the rise in the general price index. The rate of increase in sales price began falling in 1975, and the real price of apartments, adjusted for inflation, dropped. It is reasonable to anticipate continuing declines in real sale prices. But the high price of apartments relative to average income remains one of the main economic problems in Israel's housing sector.

## 2. Balance of Payments and Foreign Debt

The balance of payments has traditionally been characterized by a large excess of imports over exports, which has been financed by a large capital inflow. Between 1948 and 1973, more than \$27 billion in gross capital imports entered Israel, \$13.9 billion of it in unilateral transfers involving no obligation to repay in foreign currencies, and the remainder in loans and investments. The outflow of capital in the same period was about \$5 billion, leaving net capital imports of some \$22 billion. Exports of goods and services as a percentage of imports, excluding defense imports, have risen from 14 percent in 1950 to more than 62 percent in 1975.

In 1976, net imports of goods totaled \$4.132 billion, a slight decrease from 1975. Major import items were fuel, \$681 million and rough diamonds, \$670 million net.

Net exports of goods in 1976 were valued at \$2.4 billion net, of which agricultural products amounted to 13 percent, and the remainder were industrial goods.

While Israel's foreign debt is large, it must be measured in the perspective of the country's ability to service it. This in turn depends upon the term structure of the debt, the concessional element and the overall performance of the economy. While the GOI has resorted to commercial borrowing to shore up its foreign exchange position, the bulk of Israel's foreign debt is in long-term maturities, at concessional interest rates. When the Israeli economy is reviewed exclusively in the light of this proposed \$25 million loan, the HG Program cannot be viewed as a serious cause of inflation, or as a factor which could seriously aggravate the current inflationary situation. The \$25 million HG loan would have a minimal impact on an economy which has a GNP of \$12 billion. This loan will only slightly increase the outstanding debt. Hence, given the terms, the HG loan will be economically beneficial to the State of Israel.

#### IV. Implementation Arrangements

##### A. Analysis of GOI Administrative Arrangements

###### 1. Public Institutions

###### a. Ministry of Finance

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

The MOF will be the borrower of the \$25 million HG Program loan as well as the administrator of the loan on behalf of the Government of Israel. The MOF, on behalf of the GOI, was the borrower of 271-HG-004, a \$25 million HG Program loan, as well as 271-HG-003 and 271-HG-002, both \$25 million HG Program loans. The MOF has, therefore, contracted for a total of \$75 million in prior programs and has the capability to handle this \$25 million HG loan.

###### b. Ministry of Housing

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

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

The Ministry of Housing will be the implementing agency in this \$25 million HG loan.

###### c. Israel Land Authority

The Israel Land Authority is under the control of the Ministry of Agriculture and owns more than 92 percent of the land in the country.

The Authority allocates land for housing projects, new communities and settlements; however, following GOI policy, it avoids the outright sale of land. Instead, it usually enters into 49-year leases containing provisions for automatic renewal for an additional 49 years, providing the use for which the land was originally leased continues unchanged. When the land is used for a housing project, the land is appraised and a one-time charge is included in the mortgage.

The Israel Land Authority will be responsible for the allocation of building sites for this project.

d. Ministry of Immigrant Absorption

In coordination with the Ministry of Housing, the Ministry of Immigrant Absorption's Housing Department controls the settlement process of providing housing and other related services for new immigrants. The Ministry encourages and assists new immigrants in obtaining mortgage financing for permanent housing.

2. Financial Institutions

HG funds will be disbursed primarily through the four largest mortgage banks in Israel which together hold 85 percent of all assets of the Israeli mortgage banking industry.

These mortgage banks are listed below in order based on present assets. However, the percentage of HG funds to be disbursed by each will be determined by the GOI. The banks listed herein have been utilized in previous HG Programs. SER/H contract auditors have found them financially sound and capable institutions.

a. Tefahot Israel Mortgage Bank Ltd.

Tefahot was founded in 1945 with the aim of granting mortgages for the promotion of public housing projects throughout the country. The Bank's major resources are provided from sales of debentures and from government deposits which are used for granting mortgages to purchasers of residential housing. It is the principal source of mortgage credit to families eligible for government assistance. It issued 20,000 loans in 1976, amounting to IL 978 million.

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

Tefahot was the borrower of a \$50 million HG Program Loan under 271-HG-001.

b. General Mortgage Bank, Ltd.

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

c. Housing Mortgage Bank, Ltd.

This bank, a subsidiary of Bank of Hapoalim, B.A., which is one of the major banks in the State of Israel, is also heavily involved in mortgage credit.

d. Mortgage Development Bank

This bank is the fourth largest mortgage development bank in Israel and will also be involved in the HG Program.

B. Implementation Plan

The Ministry of Housing will be responsible for project development and implementation procedures. Construction will be by private contractors under GOI established bid and tender procedures previously reviewed and approved by AID. These alternate procedures are used:

1. Through public bidding, the Ministry secures an A+E firm to provide the design and construction documents. When accepted and approved by the Ministry, public bidding is used to secure the construction contractor for the project.

2. Through public bidding, the Ministry may secure the design and construction contract for the project as one package.

3. Having secured the design package by bidding, the Ministry may negotiate the construction contract directly with a pre-qualified contractor.

This proposed HG Program is expected to be authorized in September 1977. After authorization, a letter of advice will be issued to the Ministry of Finance and a notice will be placed in the Federal Register. By mid-November 1977, an eligible investor, approved by AID, should have been found by the MOF and contract negotiations begun. The Loan Agreement, Contract of Guaranty, the Implementation Agreement and Host Country Guaranty should be completed and signed in January 1978. The first drawdown, based upon these documents, should take place by mid-February 1978. It is possible that the GOI will wish to drawdown the entire \$25 million in one disbursement, as was done under projects 002, 003 and 004.

C. AID Administrative Arrangements

There is no AID Mission in Israel, and AID affairs have traditionally been handled through the Economic Section of the American Embassy in Tel Aviv. This HG Program loan will be monitored by the AID Regional Housing and Urban Development Office (RHUDO) in Tunisia.

In addition to the close coordination involving SER/H direct-hire employees, periodic reviews of the program will be conducted by SER/H contract staff, particularly in the areas of fiscal and management reviews of the program. Selective consultant services will also be utilized on an as-needed basis; probable areas to be covered would include the upgrading of maintenance techniques and various alternatives, the simplification of a linked mortgage system, and possibly the development of a savings and loan system.

D. Evaluations

Evaluations under this program will be conducted on a regular basis. Periodic evaluations of fiscal and management operations will be conducted. It is also anticipated that annual evaluations will be conducted by the GOI. It is felt that the GOI has the necessary expertise to implement and administer their own program evaluation. If requested to by the GOI, SER/H will provide any necessary technical assistance.

STATUTORY CHECKLIST

State of Israel

Section 221

The total face amount of guaranties issued, outstanding at any one time, shall not exceed \$430,000,000.

Section 221 and 222 (b)

The proposed program qualifies under the following criteria:

1. The Guaranty will finance self-liquidating housing projects suitable for conditions in the host country.
2. It will promote the development of thrift and credit institutions engaged directly or indirectly in the financing of home mortgages.
3. It is a local participation project in which 25% or more of the aggregate mortgage financing will be provided from sources within the host country.

Section 223 (a)

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by A.I.D. in accordance with the powers delegated by the President.

Section 223 (f)

The maximum rate of interest allowable to the eligible U.S. investor to be prescribed by A.I.D. will not be more than one percent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223 (h)

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 238 (c)

The guaranty agreement will cover only lenders who are "eligible U.S. investors" within the meaning of this section of the statute at the time the guaranty is issued.

Section 620

There is no available information prohibiting the furnishing of assistance to the State of Israel.

GOAL

Assist the GOI implement its National Housing policies particularly by addressing the shelter needs of families of below median income.

Purpose

To provide new or improved housing to below median income families.

OUTPUTS

Mortgage loans to:

- a. Young Couples
- b. Minorities
- c. Families in rural areas
- d. Large families
- e. New immigrants
- f. Families settling in development areas

INPUTS

1. AID

- a. Housing Guaranty Loan
- b. Technical Assistance

Operation of a comprehensive policy where GOI action results in proportional and absolute increase in number of mortgage financing given to below median income families.

EOPS

2,700 units of new housing completed and occupied and 1,000 housing units improved.

- a. 1,000 loans averaging I£ 72,000
- b. 500 loans av. I£ 60,000
- c. 500 loans av. I£ 100,000
- d. 1,000 loans av. I£ 80,000
- e. 500 loans av. I£ 82,000
- f. 200 loans av. I£ 100,000

- a. \$25,000,000
- b. Israeli participant trainees on study tour of U.S. SER/H consultant staff on short term assignment in Israel.

Annex B

MOH Data  
MOF Data  
Mortgage Bank Data

Monitoring by SER/H and RHUDO/Tunis, combined with regular evaluations.

Mortgage Bank Records  
MOF Records  
MOH Records  
Project monitoring by AID including on-site inspections

- 1a. SER/H Disbursement Records
- 1b. SER/H Records

Continued GOI commitment to housing policy that stresses lower-income shelter objectives.

Income data for all localities available.

Inflation is kept within manageable levels.

Construction materials are available and the industry is capable of carrying out its role.

MOF, MOH and Mortgage Banks have the technical and managerial capacity to implement the program

US Investor available

People have sufficient capital, jobs so that they are willing to purchase housing.



MINISTRY OF FINANCE - ACCOUNTANT GENERAL

June 2, 1977

Mr. Peter Kimm  
Director, Office of Housing  
Agency for International Development  
Room 625 - S.A.12  
Department of State  
Washington, D.C. 20523

Dear Mr. Kimm:

On behalf of the Government of Israel, I am pleased to submit to you a formal request that the Agency for International Development guarantee a loan of \$25,000,000.- to be used to finance public housing programs for low income families.

Attached please find a preliminary projection for the uses of the funds.

The Government of Israel attaches great importance to this subject and I am looking forward once again to working with you and with the Agency on this matter.

With warmest personal regards,

Sincerely yours,

G. Gazit  
Accountant General

A Preliminary Projection of the  
 Use of the 25 Million Dollars Loan  
 =====  
 (in I£ Pounds)

	<u>Total Amount</u>	<u>Average Mortgage</u>	<u>No. of Mortgage</u>
Loans to Young Couples	72,000,000	72,000	1000
Minorities	30,000,000	60,000	500
Rural Projects	50,000,000	100,000	500
Large Families, Enlargement and Improvement of Housing Units	80,000,000	80,000	1000
New Immigrants	41,000,000	82,000	500
Developing Area	20,000,000	100,000	200
	<u>293,000,000</u>		

CRITERIA FOR BEING ELIGIBLE  
AS A YOUNG COUPLE

<u>Subject</u>	<u>Sub-Subject</u>	<u>Points</u>	<u>Weight</u>	<u>Note</u>
Marriage Duration	0-12 mo's w/parents	50	10%	
	0-12 mo's rented flat	100		
	1-2 years	100		
	2-3 years	150		
	3+ years	200		
Persons in Family	2	0	20%	Size=Couple + children + 1 for pregnant women
	3	150		
	4	300		
	5+	400		
Density per Room	0-1.9	0	15%	Density=Number persons in flat Number of rooms
	2.0	100		
	2.1-2.4	200		
	2.5+	300		
Family Income/ month (I£)	800-1599	400	20%	1)Neither husband nor wife working, family receives 200 points only 2)Husband not working or earning less than I£ 800/mo. points computed per schedule but in no case more than 200 points
	1600-1899	340		
	1900-2299	270		
	2300-2599	200		
	2600-2999	100		
	3000+ Working woman	0 +100		
Size of husband's Family of Origin	Up to 4 persons	0	10%	
	5	50		
	6	100		
	7	120		
	8	150		
	9 10+	180 200		
Size of Wife's Family of Origin	Up to 4 persons	0	10%	
	5	50		
	6	100		
	7	120		
	8	150		
	9 10+	180 200		
Number of Unmarried Siblings of Husband	1	0	7.5%	
	2	50		
	3	100		
	4	120		
	5 and more	150		
Number of Unmarried Siblings of Wife	1	0	7.5%	
	2	50		
	3	100		
	4	120		
	5 and more	150		

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty Authority

STATE OF ISRAEL

Pursuant to the authority vested in the Assistant Administrator, Bureau for Near East, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 221 of the FAA of not to exceed twenty-five million dollars (\$25,000,000) in face amount, assuring against losses (of not to exceed one hundred percent of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. for the financing of public housing programs through Israeli mortgage banks.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loans. The guaranty of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.
3. State of Israel Guaranty: The Government of the State of Israel shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.
4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount of \$250,000 to be paid as A.I.D. may determine upon disbursement of the loans.
5. None of the guaranteed funds shall be used to finance housing located outside of the territory subject to the administration of Israel prior to June 1967.
6. Other terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

\_\_\_\_\_  
Assistant Administrator, Bureau for Near East

\_\_\_\_\_  
Date