CLASSIFICATION: PD-GAB 704

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number	NESA 84-3 (271-K-619)
2. Country	ISRAEL
3. Category	Cash Transfer
4. Date	December 30, 1983
5. To	M. Peter McPherson, Administrator, A.I.D.
6. OYB Change Number	N/A
7. From	W. Antoinette Ford, Assistant Adminstrator, N.E.
8. OYB Increase	None. To be taken from: Economic Support Fund
9. Approval Requested for Commitment of	$910,000,000
10. Appropriation Budget Plan Code	72-1141037 BPC NESA-84-33271-KG31 (437-62-271-00-50-41)
11. Type Funding	☐ Loan ☒ Grant
12. Local Currency Arrangement	☐ Informal ☐ Formal ☒ None
13. Estimated Delivery Period	N/A
14. Transaction Eligibility Date	N/A

15. Commodities Financed

N/A

16. Permitted Source		17. Estimated Source	
U.S. only	N/A	U.S.	N/A
Limited F.W.	N/A	Industrialized Countries	N/A
Free World	N/A	Local	N/A
Cash	$910,000,000	Other	N/A

18. Summary Description

This assistance is part of a continuing assistance program to Israel. Israel's political and economic stability have been deemed essential to achieving a comprehensive peace in the Middle East. U.S. assistance programs, both military and economic, tangibly reflect U.S. support and help give Israel the confidence it needs to take the risks necessary to reach a peace settlement with its Arab neighbors. The U.S. Economic Support Fund (ESF) directly supports Israel's civilian economy and helps Israel to manage its large balance of payment current account deficit. It is intended to give Israel greater economic flexibility for easing some of the pressure on its economy.

It is recommended that you approve a Cash Transfer Grant in an amount not to exceed nine hundred and ten million United States dollars ($910,000,000) at this time to be disbursed upon execution of the Grant Agreement and satisfaction of the Conditions Precedent.

19. Clearances	Date
GC:HFry	
NE/DP:CJohnson	12/27/83
GC/NE:GDavidson	
NE/EUR:RMisheloff	12-19-83
NEA/IAI:LPeters	12-22-83
FM/CM:CWChristensen	12-29-83
NE/PD:RBell	12/22/83
DAA/NE:BLangmaid	27 DEC 1983
A-AA/PPC:RADerham	

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: [signature] Date: 12-29-83

Title: Administrator, A.I.D.

AID 1120-1 (5-82) CLASSIFICATION: UNCLASSIFIED

I. SUMMARY OF POLITICAL AND ECONOMIC CONSIDERATIONS

Israel's political and economic stability have been deemed essential to achieving a comprehensive peace in the Middle East. U.S. assistance programs, both military and economic, tangibly reflect U.S. support and help give Israel the confidence it needs to take the risks necessary to reach a peace settlement with its Arab neighbors. The U.S. Economic Support Fund (ESF) directly supports Israel's civilian economy, thereby facilitating maintenance of a modest rate of economic growth and management of Israeli's large balance of payments problem.

Israel is attempting to maintain a high level of social welfare services and a modest economic growth rate, while at the same time expending large sums for defense and debt service (internal and external). Despite unique access to concessional resources from abroad, this had contributed to inflationary pressures and persistent balance of payments deficits. Both problems were considerably exacerbated after the 1973 Arab-Israeli War by world inflation, particularly in oil prices, recurring periods of recession in the economies of Israel's traditional trading partners and the need to rearm and to maintain adequate military forces.

Despite periodic attempts to dampen import demand and stimulate exports and foreign investment, it is clear that Israel has not yet made a full adjustment to the post-1973 international economic environment. Economic assistance is still needed to assure Israel of access to the resources it needs to maintain economic activity at a level high enough to assure reasonably full employment and a stable or slowly improving standard of living. The period of time during which Israel will continue to require assistance will depend on Israeli efforts to make necessary adjustments, on future international developments which affect the prices of traded goods and services, on the demand for Israeli exports and on the level of Israeli defense expenditures.

II. RATIONALE FOR ECONOMIC ASSISTANCE

A. Background

Israel's economic achievements in the first 25 years of its existence have been remarkable in view of its very limited natural resources. Fueled by very high levels of investment frequently exceeding 25% of GNP, Israel's real GDP rose at an average annual rate of 9% between 1952 and 1972. At the same time price levels were relatively stable; until 1970 consumer prices increased at an average annual rate of 7%.

Since the early 1970's, Israeli economic performance has deteriorated. Expansionary monetary policy in 1971 resulted in not only high GNP growth --11% in 1971 and 12% in 1972 -- but also a sharp increase in inflation to 13%

in 1971 and 12% in 1972. Inflation subsequently accelerated reaching 56% in 1974. In the face of reduced GNP growth of 2% annually between 1975 and 1977, inflation decelerated to an average annual rate of 34%. In addition the deficit on the civilian goods and services account declined from the peak $2.1 billion registered in 1974 and 1975 to $1.4 billion in 1977.

Beginning in late 1977, however, aggregate demand was stimulated by expanding government expenditures. In 1972 government expenditures (including transfers) had comprised some 51% of GNP; by 1982 such expenditures were equal to an estimated 90% of GNP. In part as a consequence of deficit financing of public sector expenditures, consumer prices rose by 48% in 1978, and inflation rose to triple digit levels (111% in 1979, 133% in 1980, 102% in 1981, and 132% in 1982). However, the incomes of Israeli consumers were increasingly protected against the erosive forces of inflation by an increasingly widespread system of indexing wages and interest income to rises in consumer prices and related exchange rate movements.

During the course of the 1970's, an increasing proportion of national savings was channelled toward the financing of the government deficit, while productive investment declined both because of the uncertainty of the magnitude of real returns under conditions of high inflation and because of the crowding out of investment by government borrowing. The level of gross domestic investment declined from 33% of GNP in 1972 to 23% in 1982. Relatively high levels of consumption were stimulated primarily by deficit spending. Over the 1971-1981 period, Israeli real wages increased at an average annual rate of 3.3%. The high levels of consumption coupled with a lessened ability of the Israeli economy to supply demanded goods and services because of decreasing investment led to growing current account deficits, financed both by increased U.S. assistance flows and rising foreign borrowing. The deficit on civilian goods and services account increased from $1432 million in 1977 to $2139 million in 1982, and external foreign debt (including short-term debt) rose from $11.1 billion in 1977 to $20.9 billion in 1982.

B. Developments in 1982

In an attempt to slow the rise in the domestic price of imported goods and consequent effects on the rate of inflation, the Israeli government in 1982 purposefully slowed the depreciation rate of the Israeli shekel. The relative appreciation of the shekel together with the worldwide recession lowered demand for Israeli exports. In volume terms, Israeli exports of goods and services declined by an estimated 2.9% in 1982 and by 2.5% in dollar terms. Since exports typically comprise over 40% of Israel's GNP, the drop in exports contributed largely to a real drop in GNP of 0.2% in 1982 vs. the real growth of 4.6% registered in 1981.

Despite declining exports, levels of consumption continued to be maintained at high levels. Private consumption increased by an estimated 7.5% in 1982 vs.

11.0% in 1981. Reflecting the expenditure requirements for conducting the war in Lebanon as well as continued real increases in interest payments, public consumption expenditures (excluding defense imports) rose at a higher rate in 1982 than in 1981 (4.6% vs. 0.7%). The government budget deficit is estimated to have risen from 23% of GNP in 1981/1982 to 26% in 1982/1983. Maintenance of high levels of consumption was reflected in increased imports. The volume of goods imports rose by an estimated 10% in 1982 vs. 4% in 1981. In dollar terms however, the increase was far less (1.4%) reflecting the strength of the dollar against the currencies of Israel's chief import suppliers -- the countries of the EEC -- plus soft prices for oil imports.

Despite the slowing in the rate of the depreciation of the shekel and restraint in passing on price increases in the cost of government controlled commodities, the pace of Israel's inflation rose in 1982. On a year end to year end basis, consumer prices rose by 132% in 1982 vs. 102% in 1981.

The deficit on civilian goods and services account rose by 48% from $2139 million in 1981 to $3167 million in 1982 (see Table I). The increase in the deficit was largely due to a $330 million decline in merchandise exports, a $77 million decrease in receipts from tourism, a $437 million increase in interest and investment income payments, a $109 million increase in goods imports, and a $216 million increase in expenditures for such invisibles as shipping, foreign travel, insurance, and other services.

Reflecting the financing requirements for the deficit on current goods and services as well as defense imports, Israel's foreign debt outstanding expanded by $1.7 billion in 1982 from $18.2 billion to $20.9 billion. Of total gross capital inflows (excluding short-term capital) of $5.0 billion in 1982, medium and long-term loans comprised 46% and unilateral transfers, including economic assistance and private donations, 52%. Direct investment comprised the remaining 2% of gross capital inflows. As was the case in every year since 1976, capital inflows exceeded the current account deficit and debt servicing needs. Thus additions could be made to official foreign exchange reserves, and, in 1982, reserve holdings increased from $3542 million to $3771 million.

C. Developments in 1983

The macroeconomic policy environment was little changed in the first half of 1983. The rate of depreciation of the shekel continued to be held below that of domestic inflation, while the government continued to raise prices of government controlled basic commodities (e.g. bread, milk, edible oils, eggs, margarine, frozen meat) with the exception of petroleum fuels by an average of 5% on a monthly basis, which, because the increase was so low, tended to increase the level of government subsidization of private consumption.

TABLE I

ISRAEL: CIVILIAN BALANCE OF PAYMENTS
($ Millions)

	1972	1973	1979	1980	1981	1982	1983 (Est.)
IMPORTS	2914	4289	10786	12173	12913	13675	14700
Merchandise Imports	1938	2972	7230	7776	7823	7932	8600
Interest & Invest. Income Payments	247	385	1380	1966	2320	2757	3000
Other Services	729	932	2176	2431	2770	2986	3100
EXPORTS	2226	2928	8312	10089	10774	10508	10600
Merchandise Exports	1212	1560	4759	5798	5903	5573	5500
Tourism Receipts	212	258	792	896	970	893	900
Interest & Invest. Income Recpts.	127	240	808	1052	1485	1657	1800
Other Services	675	870	1953	2343	2416	2385	2400
CIVILIAN GOODS & SERVICES DEFICIT	-688	-1361	-2474	-2084	-2139	-3167	-4100
EXTERNAL DEBT MATURITIES	432	455	839	957	1119	1053	1000
TOTAL FINANCING REQUIREMENTS	1120	1816	3313	3041	3258	4220	5100
MEMORANDUM ITEM:							
External Debt	4081	5093	15138	16517	18231	20918	22500

Fiscal policy as embodied in the initial budget for the 1983/1984 fiscal year remained relatively unchanged. On the revenue side, the temporary 3% levy on imports instituted to finance the costs of the Lebanon war was continued. The budget projected a decline in defense expenditures, but this decline was largely offset by increased expenditures for interest payments resulting chiefly from the maturation of bonds issued to finance the 1973 Arab-Israeli War and some recovery in the size of government investment expenditures. The budget also provided for increases in transfer and subsidy payments proportionally larger than the projected increase in overall budget expenditures. In other areas, expenditures in real terms were held roughly constant to those realized in the 1982/1983 budget. The budget deficit was expected to decline from 26% of GNP in 1982/83 to 24% of GNP in the current fiscal year. However, the monetary impact of deficit financing was expected to be larger as foreign grant receipts as a proportion of GNP were projected to decline while domestic financing of the deficit as a proportion of GNP was forecast to rise. In sum, the 1983/84 budget provided for a continuation in the fiscal policy generated increases in aggregate demand and offered little promise that inflationary pressures would be abated through monetary discipline.

In the face of continued poor export performance, the government announced in April a series of measures to promote exports and reduce discretionary foreign exchange purchases. These included:

--a tax of $50 on Israeli trips abroad;

--a 1% levy on purchases of foreign exchange, offset by a decrease from 3% to 2% in the import levy, thereby penalizing discretionary or speculative foreign currency purchases while endorsing bona fide foreign exchange transactions;

--a reduction in national insurance payments by employers in industrial, tourism, and agricultural sectors from 15.6% to 14.0% of wages, thereby reducing production costs and enhancing Israeli competitiveness.

--a 2% decrease in premiums on exchange rate insurance for exporters.

To reduce further expenditures on imports, the government announced in June the institution of import deposits to affect primarily the importation of consumer durables. Under the new requirements, shekels equivalent to 15% of the value of the good to be imported are to be deposited with the government at the time of order; the deposit is returned, without interest, after one year.

By mid-year, a slowing in the rate of inflation was not evident; to the contrary, consumer prices in the first half of 1983 had risen by some 130% on an annualized basis. Moreover, the imbalance in external accounts continued to widen; the merchandise trade deficit expanded by $300 million in the first half of 1983 as compared to the first half of 1982. In light of these adverse developments, the Government devalued the shekel by 7% in August and proposed a combination of expenditure cuts and revenue measures totalling some 55 billion shekels or roughly equal to 5% of budgeted expenditures. The Israeli cabinet met and is reported to have approved a number of the proposed measures. Whether these measures will be implemented is uncertain since follow-up cabinet action was deferred upon Prime Minister Begin's resignation and the formation of a new government.

Uncertainties surrounding the likely economic policies of the new government coupled with continued adverse developments in both price movements and exports led in September to a flight from shekel denominated financial assets and a sharp drop in Israeli share prices. In response to the crisis, the Government announced on October 11 a 23% devaluation of the shekel, a corresponding 23% increase in government controlled petroleum prices, and a 50% increase in the price of government controlled basic commodities. The government also declared that it did not intend that the deflationary effect of these price increases should be recouped in upcoming wage negotiations.

The size of the devaluation should allow for restoration of confidence in the shekel and enhance the competitiveness of Israeli exports. The rise in price of government controlled commodities should produce a modest decrease in government expenditures. The devaluation as well as the price increases, if not offset by future wage increases, should also serve to absorb excess purchasing power, thereby dampening inflationary pressures present in the economy.

The measures announced on October 11 are likely to raise the rate of inflation experienced in 1983 substantially. The increase in consumer prices on a year end to year end basis is now expected to reach roughly 160% in 1983. In other areas, the October 11 measures will have less effect on overall economic results for 1983. In the remaining two months of 1983, the devaluation will not lead to a recovery in exports sufficient to offset the declines of past months. As in 1982, reduced exports of goods and services as well as poor investment rates are expected to result in a negative or, at the very best, a slightly positive rate of GNP growth for 1983. The autumn developments will also have a dampening influence on GNP growth. The September-October loss of confidence in the Israeli economy contributed to a steep fall in the prices of Israeli stocks; these may not recover in the very near future with consequent negative impacts on wealth induced consumption in the last quarter of 1983. In addition, the devaluation and commodity price increases, if not incorporated in 1983 wage increases, will tend to dampen the real level of last quarter consumer expenditures.

With minimal or no growth in merchandise exports or tourism receipts, a $700 million increase in goods imports and a $250 million increase in interest payments, the civilian goods and services deficit is projected to widen by $1 billion in 1983 to a record level of $4.1 billion (see table). Increased foreign borrowing is projected to raise Israel's foreign debt to some $22.5 billion by the end of 1983 compared to the $20.9 billion outstanding in December 1982. Additions to Israeli official foreign exchange reserves are also likely to be far less in 1983 than the $228 million rise registered in 1982.

D. Current Status and Outlook for Israeli Economy in 1984

Israel has experienced high inflation for over a decade and triple digit inflation for the past five years. The Israeli consumer's standard of living has been protected against erosion from inflation by an increasingly pervasive system of indexing wage and interest income to consumer price and related exchange rate movements. In addition, transfer payments and subsidization of basic commodities by the government have tended to increase disposable income. Government deficits have expanded stemming both from high levels of military expenditures and rising transfer, interest, and subsidy payments. Private consumption has grown, and investment has not kept pace. Moreover, with high inflation, the attractiveness of investing in real productive assets has declined relative to the holding of financial and other assets as a hedge against inflation. As a consequence of both the above developments, the rate of fixed investment has declined, precluding major advances in labor productivity from increased capital per worker. At the same time, wage settlements plus the system of wage indexation have led to rises in labor costs that exceeded increases in productivity.

The pattern of wage settlements, indexation and government deficit spending that has emerged over the past several years has led to rises in both public and private consumption which have exceeded the increases in the economy's productive capacity. As a result, Israel's deficit on civilian goods and services account has increased, reflecting both greater imports and lagging export performance. While excessive aggregate demand pressures largely account for increased imports, a number of additional factors have been responsible for lagging export performance. Firstly, the global recession of 1980-1982 dampened demand for Israeli exports of goods and services. Secondly, domestic wage costs have been increasing at a faster pace than those of foreign competitors, reducing the profit margins for Israeli exports. Lastly, the slowing in the rate of depreciation of the shekel in 1982/1983 made Israeli exports relatively more costly and further undermined the position of Israeli suppliers in export markets.

To finance the growing civilian goods and services deficit and related consumption requirements, Israel has relied on both continued flows of concessional economic assistance and expanding borrowing in foreign commercial capital markets. The interest and principal payments on Israel's external debt (including short-term debt) absorb over 30% of Israel's earnings from the exports of goods and services. In addition, foreign debt service payments comprise an increasingly significant portion of government expenditures. Given the magnitude of Israel's external debt and present debt servicing capacity, Israel will need to limit its recourse to additional commercial financing in order to contain its growth in debt service.

If the major internal and external imbalances present in the Israeli economy are to be corrected and if Israel is to take advantage of the opportunity provided by Western economic recovery to revive exports, the government must find ways to adopt policies to delink wage increases from consumer price increases and exchange rate movements. Exchange rate policies must reflect market forces and be geared to enhancing the competitiveness of Israeli exports. Reductions in budget expenditures are also required to curtail aggregate demand and the monetary expansions associated with rising deficit spending. Were wage increases no longer totally linked to consumer price increases and if aggregate domestic demand pressures were reduced via fiscal policy measures, real wage costs in Israel could be expected to decline with positive impacts on both export competitiveness and profitability. In addition, the dismantling of the pervasive wage indexation system (most likely a gradual process) coupled with reductions in deficit budget financing would act to reduce inflation. Over the longer term, reduced inflation would tend to make investment in real, productive assets more attractive, while increased export profitability and declining relative wage costs would provide opportunities for investment in export oriented manufacturing and services.

The new Israeli government which came to power in October 1983 has indicated readiness to consider serious austerity measures. As mentioned above, the highest priority in redressing present internal and external imbalances in the Israeli economy must be to attack the problem of how to delink wage increases from consumer price increases. However, the ability of the new government to undertake far-reaching reform of the wage indexation system has yet to be tested. The need for reform is balanced by a concern to protect those with lower incomes from crippling price increases. Labor unions have voiced opposition to alterations to the wage indexation system. When plans for austerity measures and reform of Israel's monetary system were made public in mid-October, public outcry was extremely negative and, combined with lack of political support for the economic reform program, forced the resignation of the Minister of Finance. Given that public reaction, changes to Israel's indexation system are, at best, likely to be gradual, and cuts in budget expenditures moderate.

Economic expansion in Israeli export markets coupled with October's devaluation of the shekel should spur some recovery in Israeli exports in 1984. Political conditions are, however, unlikely to permit major changes in wage indexation and reductions in real wage costs. Thus in 1984 a very marked improvement in the deficit in civilian goods and services from the projected 1983 record level of $4.1 billion cannot be expected. The requested FY 1984 ESF level of $910 million is consistent with such current account financing requirements.

III. U.S. ECONOMIC ASSISTANCE PROGRAM

A. Recent Economic Assistance Program

Since fiscal year 1972, A.I.D. has been providing grant and loan assistance from the Economic Support Fund to finance non-defense commodity imports and to meet Israel's needs for cash. Initially, obligations were fairly modest ($50 million in FY 1972, FY 1973 and FY 1974). By FY 1976, they had increased to $700 million in response to Israel's growing economic problems -- a $550 million CIP loan and grant program and a $150 million cash grant.-- The following year the program reached $735 million, of which $300 million was in the form of a cash grant. In FY 1978 the program was increased again to $785 million -- $485 million in commodity import financing and a $300 million cash grant -- The program has remained at approximately that level since 1978. From FY 1976 through FY 1980, approximately two-thirds of the ESF program was provided on a grant basis; the remainder was on concessional loan terms. The terms of the package were changed to all grant in FY 1981.

In FY 1979 the nature of the program changed in that, for the first time, the total amount was provided as a cash transfer. The commodity import financing element was eliminated to alleviate difficulties which the Government of Israel (GOI) had encountered in utilizing available funds. Despite the high volume of Israel's non-military imports from the U. S. -- $900 million to $1.6 billion a year for the past few years -- Israel had considerable difficulty in collecting the necessary documentation on a sufficient volume of transactions to ensure timely disbursement of all available CIP funds. The problem arose because of Israel's traditional lack of government control over private sector transactions. The result was that undisbursed CIP funds totaled approximately $300 million as of September 30, 1978.

In discussing the shift to a completely cash transfer ESF program with the GOI, A.I.D. noted its concerns that the shift not impact adversely on the aggregate level of Israel's non-defense imports from the U.S., or disadvantage U.S. firms in terms of their access to Israeli markets. The GOI indicated that it understood our concerns and provided written assurances covering both points. Each year since 1979, the GOI has undertaken a review of the experience under the cash transfer procedures and submitted a report of its findings to A.I.D. These findings are discussed in Section IV A below.

In addition to ESF, the U.S. provided PL 480 Title I food for several years and has authorized several housing guarantee programs. Under other legislation, assistance has been provided to help Israel settle new immigrants from the Soviet Union and other countries. During FY 1975, a $20 million grant for a Joint U.S.-Israel Desalination Project was authorized. This desalination plant was completed on March 31, 1983 and is now in the operational testing phase.

The following amounts of military assistance have been provided to the GOI: FY 1976, $1.5 billion; TQ, $200 million; FY 1977 through FY 1980 inclusive, $1 billion in each year, FY 1981 and FY 1982, $1.4 billion each year; and $1.7 billion in FY 1983. Additionally, in FY 1979 the United States provided $3 billion to assist Israel to pay for the redeployment of military installations and personnel in the Sinai.1/

A grant of $800 million from the FY 1979 military assistance program was for the construction of two air bases in the Negev; the remainder was used as FMS credits.

As in the previous five years, the FY 1984 ESF program will be in the form of a cash transfer. Since the purpose of the assistance is to help Israel finance current, non-defense balance of payments deficits, it is necessary that we choose a mode of assistance which permits rapid disbursement. Cash transfers are admirably suited for that purpose.

IV. GRANT ADMINISTRATION:

A. Procedures:

Prior to Fiscal Year (FY) 1979, AID provided annual funding to the Government Of Israel (GOI) under both a Commodity Imports Program (CIP) and as a Cash Transfer Program. In FY 1979 a decision was taken to eliminate the Commodity Import Program element and to provide the total economic assistance to the GOI (PL 480 and ASHA excepted) as an annual Cash Transfer, linked at the aggregate level to U.S. non-defense exports to Israel.

The GOI agreed with this approach and for FY 1984, as for the preceding five years assured AID, in writing (Tab C), that it would take all necessary steps to ensure that the dollar level of Israel's non-defense related imports from the U.S.A. would be at least to the level of the U.S. economic assistance obligations of that fiscal year. In the same letter the GOI assured AID that U.S. suppliers of goods and services would not be disadvantaged by the termination of the CIP. The GOI also assured AID that in all government procurement of large capital equipment items which could potentially be provided by U.S. suppliers, the GOI would take all necessary steps to ensure that U.S. suppliers could compete on terms at least as favorable as those offered by prospective third country suppliers. In addition, the GOI agreed to continue purchasing on government account and importing from the U.S., corn,, wheat, soybeans and other agricultural products, at levels which approximate the levels of the past few years. Such purchases of agricultural products are to be made with due consideration of Israel's annual requirement for such goods and the GOI's capacity to store them. The GOI also assured AID

1/ Of the $1.4 billion FMS package provided in FY 1981, $200 million was a supplement to theFY 1979 redeployment assistance package.B.
FY 1984 Economic Assistance Program

that it would follow procedures for bulk shipments of grain or dry-bulk carriers which are acceptable to the U.S. government.

During each of the summers of 1979 through 1983, the GOI has reviewed its experience under the Cash Transfer Program. A report of the findings of the most recent review was presented to AID in a GOI letter dated December 5, 1983 (Tab D). From this report and other appropriate U.S. Government data it has been concluded that; (1) Israel's non-defense imports from the U.S. exceeded the level of U.S. economic assistance obligated during FY 1983; (2) Israel continued to import corn, wheat, soybeans and other agricultural products, purchased on the GOI account, at levels approximating those of the past few years; and (3) U.S. exporters were not disadvantaged by the shift from a Commodity Import Program to a Cash Transfer Program.

The GOI has advised AID (Tab C) that in the summer of 1984, it will undertake an extensive review of Israel's experience under the FY 84 Cash Transfer Program. A report of the findings of that review will be transmitted to AID by September 1, 1984.

As in previous years, there will be no USAID resident mission in Israel during FY 84. Therefore implementation and monitoring of the FY 84 Cash Transfer Program during FY 84 will continue to be the responsibility of AID/Washington's Near East Bureau.

B. Utilization of Economic Support Fund (ESF) Assistance:

From FY 1975 through FY 1983 AID has provided a total of $6.545 billion of Economic Support Funds (formerly Security Supporting Assistance) to the GOI. As of the end of FY 1983 all of these funds have been disbursed.

TABLE II

FY 1975 through FY 1983 funding for the GOI Program
(in billions of dollars)

Program	Grant	Loan	Total
Commodity Import	1.100	.755	1.855
Cash Transfer	4.170	.520	4.690
Total	5.270	1.275	6.545

C. FY 1984 Cash Transfer Program authorization, obligation and disbursment:

At this time, it is proposed that the Administrator of AID sign this Project Assistance Approval Document (PAAD), thereby approving and authorizing the obligation of a Cash Transfer Grant from the FY 1984 ESF account in the amount of $910.0 million. Subsequent to authorization of this PAAD, a Cash Transfer Grant Agreement (Tab B) in the amount of $910.0 million will be negotiated and signed with the GOI. Following the GOI's satisfaction of the conditions precedent to disbursement which are contained in the Grant Agreement, these funds will be disbursed to the GOI.

The conditions precedent to disbursement of these funds require that the GOI designate and authorize an official government representative or representatives and provide AID with specimen signatures of such representatives.

As in previous years, the attached Action Memorandum to the Administrator proposes that the Assistant Administrator for the Near East (AA/NE) be delegated the authority to obligate and disburse the funding for the Cash Transfer Grant to the GOI in accordance with the following projected schedule;

DATE	AMOUNT
December 30, 1983	$910.0

V. RECOMMENDATION:

It is recommended that a $910.0 million Cash Transfer Grant to the GOI be approved, and authorized for obligation at this time. It is further recommended that the AA/NE be authorized to sign the Cash Transfer Grant Agreement (Tab B) on behalf of the U.S. Government and obligate funds in accordance with the following projected schedule;

DATE	AMOUNT
December 30, 1983	$910.0

MEMBERS OF THE PROJECT COMMITTEE:
NE/PD/MENA: S.J. FREUNDLICH
NE/EUR: R. MISHELOFF
NE/EUR: A. GOOCH
GC/NE: M. WILLIAMS
NE/DP: L. DOWNING

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

October 14, 1983

MEMORANDUM

TO: NE/PD/MENA, Steven J. Freundlich

FROM: NE/PD/ENV, Stephen F. Lintner

SUBJECT: ISRAEL - Cash Transfer - FY 1984

The proposed activity is exempted from environmental analysis under the provisions of 22 CFR 216.2.(c) Categorical Exclusions, (1), (i), (ii), "A.I.D. Environmental Procedures."

cc: GC/NE, G. Davidson

A. GENERAL CRITERIA FOR COUNTRY ELIGIBLITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	It has not been so determined.
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	Israel is not known to be in violation of this section.

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

Israel is not known to be in violation of this section.

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

No. Assistance will not be so provided.

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.

Not applicable.

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

No.

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	There is an Investment Guarantee Program between the U.S. and Israel.
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	Israel is not known to have taken such actions.
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more ~~than~~ six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?	No.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into	Yes, as reported in the annual report on implementation of FAA Section 620(s).

Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No. Israel has not severed diplomati relations.

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

To the best of our knowledge, Israel is not in arrears on its U.N. obligations.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

No; No.

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

We have no knowledge that Israel has delivered or received such items or detonated such a devise.

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed

No.

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

Not applicable.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

Not applicable.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No. It has not been determined that Israel is engaged in a consistent pattern of gross violations of internationally recognized human rights.

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?	Not applicable.
c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?	Not applicable.

NONPROJECT ASSISTANCE CHECKLIS

GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

(a) Committees have been notified in accordance with normal agency procedures.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

(b) Yes.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required within the recipient country.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No.

4. FAA Sec. 601(a)· (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Funds will help finance Israel's imports and generally assist its economy.

5. FAA Sec. [illegible](b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private trade and investment will benefit to the extent U.S. goods are purchased with the funds and indirectly.

6. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Not applicable.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

Not applicable.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The purpose of this assista is to support the economic and political stability of Israel.

Yes.

2. Nonproject Criteria for Development Assistance

Not applicable.

3. Nonproject Criteria for Development Assistance (Loans only)

Not applicable.

4. Additional Criteria for Alliance for Progress

Not aoolicable.