

Israel

The Development Challenge: Israel has long been a strong ally of the United States. Israel strongly condemned the September 11 attacks on the United States, and the close bilateral relationship that the United States has with Israel serves the national security interests of both countries. The Government of Israel's (GOI) political and economic stability continues to be a cornerstone of U.S. foreign policy in the Middle East.

The fundamental objective of the U.S. cash transfer to Israel is to reduce Israel's balance-of-payment pressures as it continues to pursue the economic reforms required for financial stability and structural adjustments needed for sustainable growth. The U.S. assistance provides Israel the funds it needs both to promote economic reforms and to carry out a domestic agenda that reinforces the government's peace process policy. Though the U.S. cash transfer is not conditioned on economic policy reform, the U.S. continues to encourage Israeli efforts to reduce government spending and deficits.

Since 1990, Israel's economy has become increasingly sophisticated and technologically advanced. In FY 1999, Congress began a reduction of the economic assistance earmark in recognition of this progress.

Israel's economic boom in the 1990s was based on a thriving high-tech sector, sharply increased investment by venture capital firms, the opening of new markets to Israeli exports, and record levels of tourism. With the downturn in the global economy, problems in the high tech sector and the worsening security situation, Israel now faces growing unemployment and declining tax revenues. In addition to the obvious effect on tourism, the violence has had a strong impact on foreign investment and overall economic confidence. Israel has now endured nearly three years of economic recession. GDP contracted by 0.5 % in 2001 and 0.9 % in 2002. Although the economy is on track to grow by approximately one percent in 2003, this still represents a decrease in per capita income.

The USAID Program: The United States, acting through USAID, will provide \$360,000,000 ESF in FY 2005 to Israel as a cash transfer. These funds will be used by Israel to repay debt to the U.S., including re-financed Foreign Military Sales debt, and to purchase goods and services from the United States. The U.S. will continue to encourage Israel to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets, and continue to liberalize its trade regime.

Other Program Elements: In addition to the cash transfer to Israel, there are a number of programs managed by USAID's Bureau for Economic Growth, Agriculture and Trade that involve Israel. The Cooperative Development Research (CDR) Program is a peer-reviewed, competitive grants program. It funds the collaborative research of scientists from Israel and the U.S. working with their counterparts in developing countries throughout the world on topics relevant to the needs of the developing countries. The Middle East Regional Cooperation (MERC) Program is a competitive grants program that supports joint research projects between Arab and Israeli scientists on topics relevant to the development of the Middle East region. Both MERC and CDR are directly managed by USAID and open to a wide variety of technical topics and institutions. CDR and MERC are presently funding nearly 100 separate grants, including projects on water resource management for agricultural and other uses, development of new crops, protection against agricultural pests, protection of the environment, development of aquatic resources, and the study of diseases and other health threats common to many developing countries.

Other Donors: The United States is the largest bilateral donor to Israel.

**Israel
PROGRAM SUMMARY**

(in thousands of dollars)

Accounts	FY 2002 Actual	FY 2003 Actual	FY 2004 Current	FY 2005 Request
Economic Support Fund	720,000	596,100	477,168	360,000
Total Program Funds	720,000	596,100	477,168	360,000

STRATEGIC OBJECTIVE SUMMARY				
271-001 Israel Cash Transfer				
ESF	720,000	596,100	477,168	360,000

Office Director,
Larry Brady

Data Sheet

USAID Mission:	Israel
Program Title:	Israel Cash Transfer
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	271-001
Proposed FY 2004 Obligation:	\$477,168,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$360,000,000 ESF
Year of Initial Obligation:	FY 1999
Year of Final Obligation:	FY 2008

Summary: The overall goal of U.S. assistance to Israel is to support peace in the Middle East. The Government of Israel's political and economic stability continues to be important to U.S. foreign policy objectives in the Middle East.

Inputs, Outputs, Activities:

FY 2004 Program:

Cash Transfer (\$477,168,000 ESF). The Israel Cash Transfer is accomplished by a direct grant to the Government of Israel (GOI). The U.S. Government (USG), acting through USAID, will provide a cash transfer to Israel that will be used mainly for debt repayment to the United States, including re-financed Foreign Military Sales debt, and purchases of U.S. goods and services.

FY 2005 Program:

Cash Transfer (\$360,000,000 ESF). The FY 2005 Appropriation Bill is expected to provide \$360 million in ESF as a cash transfer to the GOI. It will be used to repay debt owed to the USG, including re-financed Foreign Military Sales debt, and to purchase U.S. goods and services.

Performance and Results: The Israel Cash Payment Program is aimed at strengthening Israel's civilian economy to enable the GOI to more easily balance requirements to pay foreign debts while financing other annual governmental expenditures. Though the U.S. cash transfer is not conditioned on economic policy reform, the U.S. continues to encourage Israeli efforts to reduce government spending and deficits, improve tax and public wage structure, increase privatization, reform labor markets and continue to liberalize its trade regime. The economic and political stability of Israel is essential to the achievement of U.S. foreign policy goals in the region. USG programs, economic and military, are aimed at enhancing the GOI's confidence so that it will take the risks necessary to reach agreements with its neighbors on a host of peace related issues.

US Financing in Thousands of Dollars

Israel

271-001 Israel Cash Transfer	ESF
Through September 30, 2002	
Obligations	4,787,208
Expenditures	4,787,208
Unliquidated	0
Fiscal Year 2003	
Obligations	596,100
Expenditures	596,100
Through September 30, 2003	
Obligations	5,383,308
Expenditures	5,383,308
Unliquidated	0
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2004 NOA	
Obligations	477,168
Total Planned Fiscal Year 2004	
Obligations	477,168
Proposed Fiscal Year 2005 NOA	
Obligations	360,000
Future Obligations	0
Est. Total Cost	6,220,476