

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 U.S. 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. U.S. assistance provides Israel the funds it needs to promote economic reforms. 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. The downturn in the global economy, problems in the high tech sector and the worsening security situation in Israel have led to 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 two years of economic recession. GDP contracted by 0.5 percent in 2001, and a large contraction is expected for 2002.

The USAID Program: The United States, acting through USAID, will provide Economic Support Funds (ESF) to Israel in FY 2003 and FY 2004 through a combination of cash transfer and assistance for anti-terrorism activities. The cash transfer funds will be used by Israel primarily for repayment of debt to the United States, including re-financed Foreign Military Sales debt, and purchases of goods and services from the United States. The U.S. will continue to encourage Israel to reduce government spending and deficits, to improve tax and public wage structures, to increase privatization, to reform labor markets, and to continue to liberalize its trade regime. The anti-terrorism funds will be used to provide defensive, non-lethal assistance to counter terrorism activities.

Other Program Elements: In addition to the cash transfer to Israel, there are a number of programs that involve Israel that are managed by USAID's Bureau for Economic Growth, Agriculture and Trade. 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 supporting joint research projects between Arab and Israeli scientists on topics relevant to the development of the Middle East region. Both MERC and CDR are 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. The Cooperative Development Program (CDP) is a core grant to Israel's Ministry of Foreign Affairs to partially fund the State of Israel's own foreign assistance program to developing countries, which is primarily a training program but also includes the demonstration of Israeli technology with development applications.

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

Israel PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
Economic Support Fund	838,152	720,000	800,000	480,000
Total Program Funds	838,152	720,000	800,000	480,000

STRATEGIC OBJECTIVE SUMMARY				
271-001 Israel Cash Transfer				
ESF	838,152	720,000	600,000	480,000
271-YYY Anti-Terrorism				
ESF			200,000	

Data Sheet

USAID Mission:	Israel
Program Title:	Israel Cash Transfer
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	271-001
Status:	Continuing
Proposed FY 2003 Obligation:	\$600,000,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2004 Obligation:	\$480,000,000 ESF
Year of Initial Obligation:	FY 1999
Estimated Completion Date:	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 2003 Program:

Israel Cash Transfer (\$600,000,000 ESF). The cash transfer is accomplished by a direct grant to the Government of Israel. The U.S. acting through USAID, will provide FY 2003 Economic Support Funds (ESF) as 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.

Given the absence of a full ESF appropriation for FY 2003, the Government of Israel will receive partial cash transfers in the amounts prorated according to the Continuing Resolutions enacted by Congress. The first payment, \$169,315,067 was obligated on December 19, 2002 as pro-rated through the January 11, 2003 Continuing Resolution. The final sum is to be provided within 30 days after a full appropriation bill is signed.

FY 2004 Program:

FY 2004 resources (\$480,000,000 ESF) will fund a cash transfer to the Government of Israel. It will be used as repayment to the United States, including re-financed Foreign Military Sales debt, and purchases of U.S. goods and services.

Performance and Results: The Israel Cash Payment Program is aimed at strengthening Israel's civilian economy to enable the Government of Israel (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. U.S. Government (USG) programs, economic and military, are aimed at enhancing the GOI confidence level 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, 2001	
Obligations	4,067,208
Expenditures	4,067,208
Unliquidated	0
Fiscal Year 2002	
Obligations	720,000
Expenditures	0
Through September 30, 2002	
Obligations	4,787,208
Expenditures	4,067,208
Unliquidated	720,000
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2003 NOA	
Obligations	800,000
Total Planned Fiscal Year 2003	
Obligations	800,000
Proposed Fiscal Year 2004 NOA	
Obligations	480,000
Future Obligations	0
Est. Total Cost	6,067,208

Data Sheet

USAID Mission:	Israel
Program Title:	Anti-Terrorism
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	271-YYY
Status:	New
Proposed FY 2003 Obligation:	\$200,000,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2004 Obligation:	\$0
Year of Initial Obligation:	FY 2003
Estimated Completion Date:	FY 2003

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 2003 Program:

Anti-terrorism Fund (\$200,000,000 ESF). The Fund will be used to support defensive, non-lethal activities to counter terrorism. Specific activities have not yet been determined.

FY 2004 Program:

No funding has been planned for FY 2004.

Performance and Results: This is a new program, so there is no results yet to report.

US Financing in Thousands of Dollars

Israel

271-YYY Anti-Terrorism	ESF
Through September 30, 2001	
Obligations	0
Expenditures	0
Unliquidated	0
Fiscal Year 2002	
Obligations	0
Expenditures	0
Through September 30, 2002	
Obligations	0
Expenditures	0
Unliquidated	0
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2003 NOA	
Obligations	200,000
Total Planned Fiscal Year 2003	
Obligations	200,000
Proposed Fiscal Year 2004 NOA	
Obligations	0
Future Obligations	0
Est. Total Cost	200,000