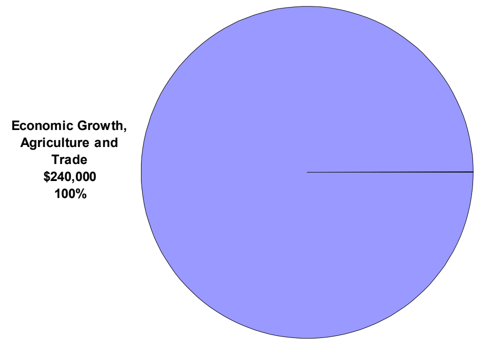
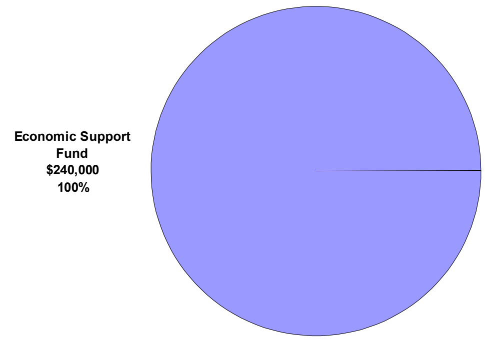
Israel

FY 2006 Assistance by Sector



FY 2006 Assistance by Account



Objectives and Budget

Objective	SO Number	FY 2004	FY 2005	FY 2006
Israel Cash Transfer	271-001	477,168	357,120	240,000
Total (in thousands of dollars)		**477,168**	**357,120**	**240,000**

Office Director: Larry Brady

Israel

The Development Challenge: 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 key objective of U.S. foreign policy in the Middle East.

The fundamental USAID objective in Israel is to support the Israeli economy, a task of special importance as the Government of Israel implements a series of ambitious reforms required for financial stability and sustainable growth. Though the U.S. cash transfer is not conditioned on economic policy reform, the United States continues to encourage Israeli efforts to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets, and liberalize its trade regime. Over the last year, export competitiveness has improved, and inflation has been reduced. Expanding business investment and governmental infrastructure investment, coupled with current export growth, will help Israel reach its gross domestic product (GDP) growth rate potential. U.S. assistance provides Israel the funds it needs to promote its economic reforms. The United States also supports Israel's economic and political stability and helps relieve the impact of the economic burdens Israel has incurred due to its isolation in the region and the unstable security situation in the Middle East.

Israel's economy responded favorably in the previous decade to the restructuring imposed after the crises and hyperinflation of the mid-1980s. Since 1990 the economy has become increasingly sophisticated and technologically advanced. In FY 1999, Congress began a structured, steady yet gradual reduction of the economic assistance earmark in recognition of this progress.

Israel's economic boom in the 1990s was based on a thriving high-technology sector, sharply increased investment by venture capital firms, the opening of new markets to Israeli exports, and a record level of tourism. With the downturn in the global economy, problems in the high-technology sector, and a worsening security situation in Israel, the period of 2000-2003 saw increasing unemployment and declining tax revenues. In addition to the obvious effect on tourism, the ongoing violence resulting from the Israel-Palestinian conflict impacted foreign investment and overall economic confidence. The end of 2003 provided some positive signs, however. After nearly three years of economic recession (GDP contracted by 0.5% in 2001 and 0.9% in 2002), the economy grew by 1.2% in 2003. Growth reached approximately 3.8% in 2004, although this economic recovery remains vulnerable to global economic developments and Israel's security situation.

The United States Government (USG) strongly supports the GOI's economic reform measures and underscores its support at the U.S.-Israel Joint Economic Development Group (JEDG), which usually meets annually. Beyond maintaining a stable macroeconomic environment, the JEDG provides a forum to encourage the GOI to reform its financial sector, reduce labor market rigidities, proceed with further trade liberalization, and accelerate its privatization program. The provision of $9 billion in loan guarantees over fiscal years 2003 - 2007, with an available rollover provision in 2008, was authorized in the Emergency Wartime Supplemental Appropriations Act of 2003 and the Foreign Operations Appropriations Act of 2004. The provision of the guarantees, which is predicated on the continued implementation of the GOI's reform program and declining government deficits, will further contribute to Israel's economic and political stability.

The USAID Program: The United States, acting through USAID, will provide $240,000,000 in FY 2006 Economic Support Funds (ESF) to Israel as a cash transfer. These funds will be used by Israel to repay debt to the United States, including refinanced Foreign Military Sales debt, and to purchase goods and services, as a general rule, from the United States. The United States will continue to encourage Israel to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets, and liberalize its trade regime.

Other Program Elements: In addition to and separate from 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, the United States, and 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 involve 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.

Also, the American Schools and Hospitals Abroad (ASHA) program provides assistance to overseas institutions to demonstrate U.S. advances in educational and medical technology and practices in the areas of research, training, and patient care. In Israel, ASHA provides grants, on a competitive basis, to schools, hospitals, libraries, and other academic and medical institutions overseas to upgrade and enhance their research and training facilities.

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

Israel
PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2003 Actual	FY 2004 Actual	FY 2005 Current	FY 2006 Request
Economic Support Fund	596,100	477,168	357,120	240,000
Total Program Funds	**596,100**	**477,168**	**357,120**	**240,000**

STRATEGIC OBJECTIVE SUMMARY				
271-001 Israel Cash Transfer				
ESF	596,100	477,168	357,120	240,000

Data Sheet

USAID Mission:	Israel
Program Title:	Israel Cash Transfer
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	271-001
Status:	Continuing
Planned FY 2005 Obligation:	$357,120,000 ESF
Prior Year Unobligated:	$0
Proposed FY 2006 Obligation:	$240,000,000 ESF
Year of Initial Obligation:	1999
Estimated Year of Final Obligation:	2008

Summary: The overall goal of U.S. assistance to Israel is to support peace in the Middle East. The Government of Israel's (GOI) political and economic stability continues to be a key U.S. foreign policy objective in the Middle East.

Inputs, Outputs, Activities:
FY 2005 Program: Improve Economic Policy and Governance ($357,120,000 ESF). The Israel Cash Transfer is accomplished by a direct grant to the GOI. The U.S. Government (USG), acting through USAID, provides a cash transfer to Israel that will be used mainly for debt repayment to the United States, including refinanced Foreign Military Sales debt, and the purchase of U.S. goods and services.

FY 2006 Program: Improve Economic Policy and Governance ($240,000,000 ESF). The FY 2006 Appropriation Bill is expected to provide $240 million in economic support funds as a cash transfer to the GOI. It will be used to repay debt owed to the USG, including refinanced Foreign Military Sales debt, and the purchase 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 GOI to more easily pay required foreign debts while financing other annual governmental expenditures. Though the U.S. cash transfer is not conditioned on economic policy reform, the United States continues to encourage Israeli efforts to reduce government spending and deficits, improve tax and public wage structure, increase privatization, reform labor markets, and 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 economic and military programs 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, 2003	
Obligations	5,383,308
Expenditures	5,383,308
Unliquidated	0
Fiscal Year 2004	
Obligations	477,168
Expenditures	477,168
Through September 30, 2004	
Obligations	5,860,476
Expenditures	5,860,476
Unliquidated	0
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2005 NOA	
Obligations	357,120
Total Planned Fiscal Year 2005	
Obligations	357,120
Proposed Fiscal Year 2006 NOA	
Obligations	240,000
Future Obligations	0
Est. Total Cost	6,457,596