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PROJECT PERFORMANCE AUDIT REPORT

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

(LOAN 689-IS)

February 17, 1977

Operations Evaluation Department

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PROJECT PERFORMANCE AUDIT REPORT

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

(LOAN 689-IS)

PREFACE

This report presents a performance audit of the Israel - Industrial Development Bank of Israel Project, for which Loan 689-IS for an amount of US$25 million was approved in June, 1970. The performance audit is based on loan documents and discussions with Bank staff. Comments were received from the Borrower. A Project Completion Report, prepared by the Europe, Middle East and North Africa Regional Office on May 24, 1976 is attached.

PROJECT PERFORMANCE AUDIT REPORT

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

(LOAN 689-IS)

BASIC DATA

Amount (in US$ mln)

	Original	Disbursed	Cancelled	As of 12/31/76 Repaid	As of 12/31/76 Outstanding
Loan 689-IS	25.0	24.8	-	11.9	12.9

Project Data

	Original Plan	Actual or Estimated Actual
Board Approval		6/ 2/1970
Loan Agreement		6/15/1970
Effectiveness		8/25/1970
Loan Closing	6/30/1973	6/30/1976

Mission Data

	Month, Year	No. of Persons	Date of Report
Appraisal	Oct./Nov. 1969	2	May 1970
Supervision I	May 1971	2	July 19, 1971
Supervision II	Sept. 1972	3	Nov. 3, 1972

Follow-on Project

Loan 1116-IS of US$25 million, signed: May 1975, for Industrial Development Project, comprising IDBI (US$25 million), Industrial R & D (US$5 million) and vocational/technical training components (US$5 million).

PROJECT PERFORMANCE AUDIT REPORT

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

(LOAN 689-IS)

HIGHLIGHTS

During the period covered by the audit, IDBI successfully raised foreign currency resources in substantial amount, thereby reducing its dependence on the Bank for resources. Despite the difficult situation brought about by the 1973 war, its operations increased substantially. Its appraisal standards are satisfactory and its follow-up system adequate.

IDBI relies on the Government for local currency resources, and has not raised funds from the market because of both a tight Government control on access to the capital market and the high cost (in relation to the interest rate it is allowed to charge) of such funds.

PROJECT PERFORMANCE AUDIT MEMORANDUM

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL

(LOAN 689-IS)

Introduction

1. This memorandum covers an audit of experience under Loan 689-IS to the Industrial Development Bank of Israel (IDBI) for US$25 million. It is based on the attached Project Completion Report (PCR) prepared by the Europe, Middle East and North Africa Regional Office, a review of the appraisal and other relevant documents and discussions with Bank staff. The memorandum brings out aspects relating to IDBI as an institution, some of which were taken into account in the subsequent loan (Loan 1116-IS) approved by the Bank in May 1975.

2. Loan 689-IS was approved on June 2, 1970, signed on June 15, 1970 and became effective August 25, 1970. The commitment date for the loan was June 30, 1972 and was extended to June 30, 1973. The closing date was set at June 30, 1973, and was extended to June 30, 1976. The loan was fully committed by June 30, 1973; disbursements under the loan, as at December 31, 1976, amounted to US$24.8 million. This was the third loan approved by the Bank to IDBI. Two earlier loans aggregated US$35 million; a fourth loan for US$25 million (as part of a larger loan to Government), was approved in May 1975.

Objectives

3. The Bank was familiar with the operations of IDBI and with IDBI as an institution at the time of approving Loan 689-IS. The scope and purpose of the loan were the same as for earlier loans - on-lending to industrial projects in the private sector. The main objectives of the loan were (i) to provide foreign currency funds and (ii) to assist IDBI to strengthen its appraisal and supervision capabilities. Another consideration listed was to encourage IDBI to mobilize resources, particularly from foreign sources.

Withdrawal of Funds

4. While commitment of the funds under Loan 689-IS was completed one year after the date set for it initially, disbursement of the loan was much slower.

5. Two major changes occurred in the context in which IDBI operated after the approval of the Bank loan in 1970: firstly, two formal devaluations of the Israel Pound - in August 1971, from IL 3.50 for US$1 to IL 4.20 and, further, in November 1974, to IL 6, and, thereafter, a continuous downward float since June 1975; secondly, the conflict with neighboring countries in October 1973. These events had a substantial impact on the operations of IDBI not envisaged at the time of the Bank loan approval. Another important

development, which occurred after the loan was approved, was IDBI's raising of considerable funds from sources other than the Bank. During 1970-75, IDBI raised through "loans and debentures some US$425 million equivalent, including loans from fifteen new sources in the U.S. and Western Europe" (para. 10, PCR). Besides broadening IDBI's access to non-Bank sources and thus reducing the proportionate role of Bank finance, this also gave IDBI greater flexibility in the use of funds, raised the level of its foreign currency loan operations, and increased its reliance on debt as a source of funds and thereby its debt:equity ratio (IDBI's long-term debt was IL 2,242 million in 1975 against a forecast figure of IL 990 million - vide para. 16, PCR).

6. It appears that the major factors in the delays in commitment and disbursement of the Bank loan were the devaluation of 1971 and the availability of alternative sources of substantial funds which IDBI had managed to develop. Other factors, including inflation, led to a further slowing-down of disbursements; it took 3 years to disburse US$5.5 million (disbursements increased from US$17.9 million as at June 30, 1973 to US$23.4 million as of April 30, 1976). However, overall IDBI approvals, commitments and disbursements were higher than Bank appraisal estimates.

Use of Loan 689-IS

7. IDBI financed 75 sub-projects out of the Bank loan. The projects were generally evenly distributed in their geographic and industrial spread.

8. Of the sub-loans, 68, accounting for a total amount of US$12.0 million, were below US$500,000 each. The size-range of the sub-loans (from US$34,000 to US$4 million), however, was very wide, with the largest project accounting for almost one-sixth of the Bank loan. The Loan Agreement provided for a free limit of US$750,000 and the appraisal report expected that projects covering about half the amount of the Bank loan would fall above the limit. This latter condition was met with only seven projects above the free limit (their average size being almost $1.8 million). Thus, the proportion of large projects was quite high. This trend was visible also in the overall operations of IDBI and can be attributed to some extent to rising prices and increasing sophistication of industry in Israel.

9. The returns on equity in respect of many Bank-financed projects were quite high. However, these high returns partly reflect the fact that, as an integral part of an overall incentive scheme for encouraging capital investment in industry, the Government bears the exchange risk on sub-loans given by IDBI. A revised calculation of profitability, assuming that the projects themselves had borne the cost of the substantial devaluation of the Israel Pound during the last three years, would give a more realistic estimate of the financial and economic returns on the projects.

Overall Operations and Profitability

10. The Bank had forecast almost a steady rate of approvals, commitments and disbursements by IDBI over the period 1970-74. However, this period was marked by inflationary rises in prices and a depreciation of the Israel Pound; prices were estimated to have more than doubled over the period.

11. Reflecting the inflationary pressures, IDBI operations in money terms were almost double the amount forecast in respect of approvals and one-and-a-half times in terms of commitments and disbursements over the five-year period. IDBI does not distinguish between local and foreign currency loan operations. However, deflating the operations by a composite index, the PCR finds that in real terms approvals were substantially higher, and commitments and disbursements were about the same as the levels forecast.

12. Despite the much larger scale of operations and consequently higher gross income, IDBI's operating earnings were only marginally higher than forecast, mainly because the increase in "income on loans" (+ IL 157.1 million) was almost exactly neutralized by higher "interest and commitment charges on borrowings" (+ IL152.07 million) over the years 1970/1974. Dividend payments by IDBI were actually lower than forecast.

Resource Mobilization

13. IDBI was an efficient mobilizer of foreign funds. However, in the context of the capital market in Israel, it has been difficult for IDBI to raise resources in the domestic market through equity issues and debentures. Due to the rather low spread allowed on its loans in the past (as also the competitiveness of other forms of investment like linked debentures, which are preferred by investors), IDBI shares were not attractive to private investors. As regards raising of loan funds, there is no free market for term borrowing. Borrowers are given an option between linking the loans to the consumer price index and paying an annual premium in addition to the normal interest rate. Since IDBI could not bear the cost of linkage, the only choice before it was between obtaining linkage insurance from the Government for its bonds or obtaining unlinked funds from the Government. For reasons of cost and convenience, IDBI preferred to obtain unlinked funds directly from the Government.

14. The heavy reliance on foreign currency funds, obtained as loans, and the successive devaluations of the Israel Pound led to a rapid increase in the local currency equivalent of IDBI's debt. Also, as a result of the large foreign borrowings by IDBI, the Bank's relative role in the financing of IDBI declined. IDBI did not raise new equity and even the modest dividends took away a large part of its profits, leaving limited additions to the equity (para. 15, PCR). IDBI, however, obtained from the Government Perpetual Deposits which were treated for all practical purposes as equity. The fixed and low margin allowed to IDBI by the Government on its lending rates substantially reduced its real earnings. The result was a rapid increase in IDBI's debt:equity ratio from below 3:1 until late 1974 to 5:1 by December 1975.

Institutional Objectives

15. As against the original practice of depending upon Government for appraisal, IDBI began to rely fully on its own appraisals around 1964. IDBI includes an economic analysis in its appraisal of projects. Appraisal standards are satisfactory, and the Bank did not have to offer major comments or suggestions on projects above free limits. Progress was also made with supervision of projects, though the paucity of staff meant concentration on problem cases. The appraisal report had referred to a consultant's study,

commissioned by IDBI, to review its follow-up system. This study was completed. Its main recommendation was to set up, on the basis of specified ratios, an early warning system on projects likely to get into difficulty; the recommendations are being implemented by IDBI. IDBI's follow-up system now comprises three levels of supervision of projects: (a) all project loans exceeding IL 5 million (US$500,000), constituting more than 50% of outstanding loans, are covered on a regular basis; (b) loan projects which appear to be problematic are covered by follow-up reports; and (c) the rest of IDBI loans are covered by an early warning system, that is, through an analysis of the annual financial reports of the borrowers by means of a computer. This system is considered adequate for IDBI's purposes. The large overruns on some project costs (para. 23, PCR), given the unusual circumstances in which the projects were set up, appear to have a justifiable basis, and do not reflect adversely either on appraisal or on supervision procedures.

16. IDBI did little joint financing with other institutions; its finance was the sole, or major part of, financing obtained by its clients (para. 22, PCR). The activities of its various subsidiaries and associates have not been significant. For example, Industrial Finance Corporation, Ltd. (IFC)1/ did not do underwriting business. Its activities now include rescue operations and provision of managerial assistance. A large number of its projects are located in the central area of Israel, and overall, its operations are small.

17. Four-fifths of IDBI's funds went to existing units (para. 13, PCR), and only a small part to new enterprises; about 75 percent of investment in industry in Israel is done by existing enterprises.

18. Thus, IDBI has been a conservative financial intermediary. While it has become independent of the Government in respect of project appraisals, it has not done so in respect of project security. Almost one half of IDBI's portfolio was covered by full or partial guarantees by the Government and others (para. 12, PCR). These guarantees were obtained for "financially marginal but economically attractive" projects. These were projects on which IDBI, as a financial intermediary, might have been expected to bear the risks itself, but it did not do so. The defaults on IDBI's projects were not large, but a substantial part of IDBI's sub-loans in default were covered by Government guarantee - underlining the small extent to which IDBI has exposed itself to financial risk. The low spread allowed to IDBI on its loans reduced its risk-bearing ability considerably.

1/ This is a wholly-owned subsidiary of the Investment Company for Industrial Development in Israel, Ltd., (IC). IDBI had set up IC with a 75 percent participation by itself and 25 percent by Government of Israel. At present, the Government and IDBI hold an equal part of the share capital of IC.

Conclusions

19. IDBI operates within a framework of Government policy with the principal purpose of obtaining external assistance for distribution to the industrial sector. It has been successful in raising substantial foreign exchange resources, but the high cost of raising funds on the capital market and government control over access to it have prevented it from approaching the capital market for raising local currency resources; it has, therefore, relied on low-interest loans from the Government for such resources. It has also depended heavily on Government guarantees as security for its own lending operations.

20. In May 1975 the Bank made a further loan of US$25 million for IDBI (as part of a larger loan to the Government). The funds are to be used specifically for re-lending to projects producing for exports or those located in the less-developed regions of the country.

Operations Evaluation Department

CURRENCY EQUIVALENTS

At November 11, 1967	US$ 1 = I£	3.50
August 21, 1971		4.20
November 9, 1974		6.00
June 6, 1975		6.12
August 5, 1975		6.24
September 9, 1975		6.36
September 28, 1975		7.00
November 24, 1975		7.12
January 4, 1976		7.24
February 11, 1976		7.38
March 15, 1976		7.52

PROJECT COMPLETION REPORT

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

LOAN No. 689-IS

I. INTRODUCTION

1. The Industrial Development Bank of Israel Limited (IDBI) was established in 1957 to assist in the development of the private industry in Israel. The Bank has made four loans to IDBI totalling $85,000,000; the fourth loan of $25 million (through the Government) was approved by the Board on May 22, 1975.

2. IDBI is a well managed and financially sound institution and continues to play a significant development role, being the most important financial instrument for implementing the Government's industrial policies. Most recent Bank reports on IDBI are the Appraisal Report dated May 7, 1975 and the Supervision Summary dated May 24, 1976. There are no issues or problems related to any Bank loan to IDBI.

3. The loan under review (No. 689-IS) is the third Bank loan to IDBI, amounting to $25 million. The loan was based on Appraisal Report dated May 1, 1970, was signed on June 15, 1970 and became effective August 25, 1970. It was fully committed by June 30, 1973 and disbursements reached $23.4 million as of April 30, 1975. This report is based on the findings of a mission which visited IDBI in March 1976.

II. OBJECTIVES OF THE LOAN AND ACCOMPLISHMENT

4. Like the previous two loans, the objectives of Loan 689-IS were to provide foreign currency funds and to assist IDBI to strengthen its appraisal and supervision capabilities. Encouragement of IDBI to make a greater effort to mobilize resources, particularly from foreign sources, was another consideration.

Utilization of Bank Loan

5. The loan was fully committed after the initial date was extended twice, first to December 31, 1972 and subsequently to June 30, 1973. The Bank loan accounted for 11.5% of the total funds committed by IDBI during mid-1970 to mid-1973. The small delay in committing Bank funds is attributable to the need for IDBI to reappraise several large projects following the devaluation of the Israeli pound in November 1971; IDBI's attempt to avoid submitting projects with even the appearance of linkage to defense production; and to IDBI's efforts to use existing lines of credits tied to procurement whenever possible. The delay in commitment entailed in turn a slow-down in the disbursement of the loan. Delays in implementation of some sub-projects, in part due to the economic dislocations caused by the October 1973 war, and the 90-day rule against retroactive financing, also contributed to the tardy disbursement. The closing date of the loan was extended four times, eventually to June 30, 1976. At June 30, 1973, the original closing date, total disbursements under the loan amounted to $17.9 million, or 72% of the loan amount. At April 30, 1976, disbursements totalled $23.4 million; the balance, with the exception of two projects which are unlikely to be implemented by their sponsors and involve approximately $200,000, is expected to be disbursed by the end of June 1976. Any undisbursed balance will have to be cancelled.

Bank's Assistance in Strengthening IDBI

6. When the Bank appraised IDBI for the first loan in 1964, it identified several major institutional deficiencies. IDBI was relying for almost 80% of its approvals on appraisals made by the Ministry of Commerce and Industry on the occasion of determining the eligibility of the applicants for development loans and grants. This dependence tended also to becloud the extent of IDBI's independence in decision-making. There was no project supervision department and

the follow-up work was not systematically organized. Finally, management information systems left much to be desired.

7. At the Bank's constant encouragement, IDBI made impressive progress toward rectifying these deficiencies. IDBI and the Government were persuaded that the responsibility for project appraisals should be shifted to IDBI and, in consequence, its staff should be strengthened accordingly. By 1967, when the Bank appraised IDBI for a second loan, the pattern had been reversed. IDBI had made such headway that the Government decided to rely now mostly on IDBI's appraisals for determining the eligibility of applicants for incentives. In 1966, IDBI set up a Follow-up Department and began streamlining supervision procedures and activities. It also took steps to improve internal communication and information systems.

8. The Bank continued to encourage IDBI to seek further improvement in the areas just mentioned. A specific aim of the third Bank loan (689-IS) was that IDBI would address itself with particular care to the economic justification of projects during their appraisal and that reports should reflect the economic analysis made. IDBI has accepted and acted on the Bank's advice in this respect. IDBI has made numerous sector studies in connection with its project appraisals, in part with the assistance of consultants, has been mindful of the minimum economical size of the plants it finances, and has been calculating the cost to the economy of the foreign exchange saved or earned in most projects. During negotiations for the fourth loan, it has agreed to calculate economic rates of return and to perform sensitivity tests for key variables. IDBI considers environmental aspects of the projects in its appraisal reports as well as the steps taken to deal with them. IDBI's organization has been pliable and adaptive. Procedures have been adjusted and the organization has been changed frequently

to suit the new circumstances arising from the fast increase in IDBI's business and staff,[1/] and to improve communication and the flow of information.

9. At this juncture, two minor deficiencies are discerned. First, IDBI's middle level management needs to be strengthened. IDBI's top management is aware of this inadequacy and is working out plans for improvement. Secondly, although the Follow-up Department has performed well given its present staff strength,[2/] because of the rapid increase in IDBI's clients, the professional staff of the Department needs to be further increased to ensure a higher frequency of site visits and, in general, closer supervision of IDBI's clients, now numbering 1,400.[3/] The Bank has impressed this need on IDBI and the latter is expected to take proper action.

Resource Mobilization Effort

10. IDBI's resource mobilization effort abroad has been remarkable and has enabled IDBI to sustain a high level of operations. From July 1, 1970 to December 31, 1975, IDBI had raised in the form of foreign loans and debentures some US$425 million equivalent, including loans from fifteen new sources in the US and Western Europe. At December 31, 1975, about 62% of IDBI's outstanding total debt was in foreign currencies. Such a debt structure is unique among DFCs associated with the Bank. At home, the Government, by controlling, setting

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1/ IDBI's professional staff increased from 32 in 1964 to 107 in 1975.

2/ Projects under construction are followed up by the Assessment and Checking of Implementation Department, headed by the Chief Engineer. The Follow-up Department becomes responsible for the project only after completion of construction. The Assessment and Checking of Implementation Department is adequately staffed and its performance has been satisfactory.

3/ Since some 80% of IDBI's loans are repeaters, a good deal of follow-up work is carried out by the appraisal staff. Also, IDBI has developed an "early warning" system which, on the basis of a set of properly weighted financial data, provides a risk index. This system is helpful in allowing the small staff of the Department to follow-up on a large number of clients. Under these circumstances, the follow-up staff can be more selective and focus primarily on problem areas.

priorities for and pre-empting the new issues market, dissuaded IDBI from having frequent recourse to the local capital market. IDBI was allowed to tap various local sources and issue local debentures amounting to a meagre I£ 90 million. The Government willingly accommodated IDBI for a considerable portion of its requirements in local resources.

III. OPERATIONAL AND FINANCIAL RESULTS

Lending Operations

11. Forecast approvals, commitments and disbursements for 1970-74 made during the appraisal of the third loan are compared with the actual results over the same period in Annex 1. Actual approvals during 1970-74 exceeded the forecasts for the same period by 98%, whereas commitments and disbursements by 48% and 52%, respectively. The original projections were in current prices but assumed that future price increases would continue to remain at the very low level of 2% per annum experienced during 1966-69. In fact, however, inflation rates in Israel reached unprecedented levels, particularly since 1973.[1/] To ensure a more meaningful degree of comparability, actuals were deflated by an appropriate index (the GDP deflator). Thus, actual (in real terms) approvals during 1970-74 exceeded forecasts for the same period by 30%, while actual disbursements exceeded the projected amounts by 6%. Commitments were almost exactly as forecast (1% less). Also, total disbursements during 1970-74 originally forecast to account for 23% of industrial investments in real terms, actually accounted for 27%. The results indicate that IDBI performed slightly better than originally projected. IDBI's operations have been adversely affected by the stagnation in industrial investment the Israeli economy experienced during 1972-74.[2/]

1/ Consumer prices rose at an annual average of 25% during 1970-75 (40% in each 1974 and 1975).

2/ Industrial investment in real terms increased by 11% annually during 1970-72 but remained stagnant thereafter until 1975.

Following the upsurge of industrial investment in 1975, which increased by 10.7% in real terms compared with 1.4% in 1974 and -2.3% in 1973, IDBI's operations reached peak levels. Approvals in real terms rose by 86% over 1974, commitments by 24% and disbursements by 85%.

12. IDBI's loan portfolio is quite diversified, as evidenced from the sectoral distribution of outstanding loans shown in Annex 2. Textiles account for the largest concentration (14%), followed by chemicals and oil products (13%) and public utilities (11%). About 7% of IDBI's outstanding loans have been made to the construction sector - construction firms and construction in industrial estates for small-scale and science-based industry. About 63% of IDBI's portfolio is covered by full or partial guarantees by the Government or others. The guaranteed loans are usually to projects which are viable but cannot offer adequate security or are financially marginal but economically attractive (in less developed areas, with good export potential, creating employment, using sophisticated technology, etc.). Included also are all loans administered by IDBI, which account for about 14% of outstanding loans. Loans affected by arrears exceeding three months, as a percentage of IDBI's outstanding loan portfolio, declined from 7% in 1970 to 4.5% in 1975.1/ Since about 55% of these loans are guaranteed by the Government, only 1.2% of the portfolio remains at IDBI's own risk. Furthermore, provisions for bad debts and special reserves are more than adequate to cover possible losses.

13. An analysis of the main features of the loans approved is shown in Annex 3. Over 80% of IDBI's loan approvals during 1970-75 were to existing

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1/ Loans affected by arrears over three months reached 13% of IDBI's loan portfolio in 1973, of which over 75% were guaranteed. Four firms accounted for about 50% of the loans in default. This exceptional rise in arrears was due to technological and technical, managerial and marketing problems. IDBI bore no risk in these four projects.

enterprises. This reflects the investors' efforts to modernize and expand existing facilities, and is in line with generally observed trends in the industrial sector. During 1970-75, the average size of loans approved by IDBI was I£ 1.7 million compared to I£ 540,000 during the period 1958-69. This reflects rising costs, both in current prices and real terms, but also a shift toward larger-scale plants and higher capital intensity due to the adoption of increasingly more sophisticated techniques. The repayment period of IDBI's loans has been getting shorter in recent years. Whereas during 1958-69 maturities of 6-8 years accounted for 22% and those of 9-13 years for 51% of the amount of loans approved, during 1970-75 the percentages were 51% and 29%, respectively. This trend reflects two factors: IDBI's borrowing on shorter terms and the corresponding reduction in its lending terms to keep the two in line; and compliance with the Government's suggestion that the repayment period of its loans should reflect the accelerated depreciation allowed approved projects under the incentive law. Loans carrying 15-20 year terms (including five years of grace) are made only to industrial estates specializing in science-based industries.

Lending Rates

14. During negotiations for the third loan, the Bank took up the interest rate question with the representatives of the Government. Their position was that it was the Government's policy to use concessionary interest rates as part of a larger scheme of incentives to encourage economic development and, particularly, to attract private capital to the less developed areas of the country. The Government remained adamant in its position at that time. On July 2, 1974, as a result of the steep increase in inflation rates, the Government on its own initiative increased interest rates on term loans as follows: Zone A (greatest development priority) from 6.5% to 8%; Zone B (less development priority) from 8% to 10%; and Zone C (already developed regions) from 9% to 12%. On November 6,

1974, the Government introduced partial indexation for loans to Zone C, stipulating that, if the cost of living in a particular year rises more than 20%, the excess will be added to the outstanding principal and will bear the same interest rate as the original loan. On December 28, 1975, the Government raised further lending rates and moved to a more comprehensive indexation. A basic rate of 5% was established for all zones. On top of this rate, the financial institutions are permitted to charge 50% of the cost of living increase for a particular year, up to the following ceiling rates: Zone A : 12%; Zone B : 14%; and Zone C : 17%. Borrowers during 1975 were given the option to decide whether they would like to abide by the old regime or repay under the terms of the new one.[1/] The Government's action, though belated, indicates concern over the level of prevailing real lending rates.

Profitability

15. Actual gross revenue of IDBI has outpaced forecast levels almost every year during the period of 1970-74 (see annex 4). However, net profits remained below projected levels, except for 1974, adversely affected by rising administrative expenses and IDBI's low and fixed spread (1.75%). Yet, administrative expenses remained at around 0.4% during the past five years, the lowest among DFC's associated with the Bank. Return on (average) equity came to an average 8.9% in 1970-74 compared to a projected average of 7.3%. It increased to 12.6% in 1975. Dividend payout ratio was high and close to forecast levels, averaging 65% during the past five years.

Financial Position

16. Actual increase in IDBI's total assets has been much greater than originally projected. (See Annex 5). By the end of 1974, total assets had

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1/ IDBI's spread is not affected by changes in the interest rates, being fixed by the Government at 1.75%.

increased to I£ 3 billion, compared with the forecast of I£ 1.5 billion. In 1975, due to the sharply increased lending, total assets reached I£ 4 billion. Most of the growth was financed through additional borrowings. IDBI's long-term debt increased from I£ 648 million in 1970 to I£ 2,242 million in 1975. The respective forecast figures were I£ 660 million and I£ 990 million. In 1975, IDBI's total foreign borrowings as of December 31, 1975 accounted for 62% of IDBI's total long-term obligations outstanding.

17. As projected, IDBI continued to operate with a current ratio of less than one, reflecting the practice of keeping its resources fully committed. This does not affect its liquidity because IDBI, through long-standing arrangements, can always obtain funds from the Bank of Israel to meet its short-term requirements.

18. IDBI has maintained a very low (below 3:1) long-term debt/equity ratio until late 1974 when the Israeli pound was devalued from I£ 4.20 to I£ 6.00:$1.[1/] The debt/equity was increased to 5:1 under the Project Agreement dated May 30, 1975. However, due to increasing foreign borrowings and the continuous adjustments of the exchange rate, the debt/equity ratio reached the new limit by the end of 1975. The Bank proposes to raise further the debt/equity ratio from 5:1 to 7:1.

IDBI's Role and Development Impact

19. IDBI continues to be the most important of the five financial institutions engaged in term lending in Israel and an important instrument for the implementation of the Government's industrial policy. Although relations with the Government are close, IDBI maintains a high degree of independence in its day-to-day operations and investment decisions. During 1970-75 IDBI contributed

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1/ Because of the successive devaluations, foreign borrowings converted into local currency tend to inflate IDBI's indebtedness.

23% of the total financing for industrial investment. IDBI-financed projects account for 55% -60% of the investments in the industrial sector, while IDBI disbursements for 45% of the sources of finance in the projects it sponsors. With projects becoming larger, IDBI is getting increasingly involved in consortium financing. IDBI does not take direct part in mergers or rationalization schemes, a function which it has delegated to a subsidiary.

20. IDBI's lending operations are within the Government's industrial policy framework. About 50% of the amount of loans approved by IDBI during five years or so were allocated to science-based industries, which the Government was eager to promote. During 1970-75, 60% of IDBI-financed projects were located in the less developed regions. This compares with 50% during 1958-69. Some 25-30% of the projects approved by IDBI since 1970 are expected to export over 20% of their production. IDBI estimates that 277 export-oriented projects it approved in 1973-75 (or 23% of total number of projects) will result in about US$500 million worth of exports a year, representing 12% of the industrial exports in 1975. Value added to sales in IDBI-financed projects ranges from 40% to 80%, with the higher frequency of occurrence being between 50% and 75%.

IV. SUB-PROJECTS FINANCED UNDER LOAN 689-IS

21. Annexes 6-10 provide data on 75 sub-projects (net of cancellations) financed under loan 689-IS, including 7 sub-projects above the free limit (US$750,000).[1/] Nineteen of the 75 projects are new (and below the free limit), constituting 25% in number and 40% in amount of the projects financed. The average size of the sub-loans was $333,000 with the largest sub-loan amounting to $4 million and the smallest to $34,000. Sixty-eight of the sub-loans were

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1/ The projects financed under 689-IS were located within the borders of Israel as of January 1, 1967 and were not defense oriented.

below $500,000, accounting for 91% in number and 52% in amount of the total. The above suggest that a substantial portion of the Bank funds was allocated to relatively small scale industries. In terms of geographic distribution, 35 projects (32% in amount) were located in the less developed regions of the country. This compares with a 60% allocation of IDBI's overall resources to these regions during 1970-75. Sectors which received more than 10% of Bank financing were: textiles 21.7%; non-metallic minerals 17.3%; metals 14.4%; plastics & rubber 11.5%; and food products 10.8%; they aggregate 76% of total financing (see Annex 10). The sectoral distribution of projects financed under Loan 689-IS was not quite in line with the pattern of IDBI's total financing (see Annex 2). This difference may be explained by : (a) IDBI's cautiousness not to commit Bank funds to science-based projects, many of which are indirectly related to defense production; (b) availability of tied foreign credits for large and technically more sophisticated projects; (c) dispersion of Bank funds to a wide range of relatively small scale industries, including newly emerging entrepreneurs.

22. The aggregate amount of Bank-financed projects over US$250,000 accounts for 73% of the loan amount. Some interesting features of these projects are highlighted in the following. IDBI's share in the total estimated project cost was 53% for projects above the free limit and 41% for those below the free limit, with the overall average approaching 49%. This is higher than the estimated average for IDBI's overall contribution of 45%. The grant element amounted to 4% in projects above the free limit but 19% of the investment cost in projects below the free limit. The overall average was 9%. Thus, IDBI's funds and government grants accounted for nearly 60% of the investment costs. Borrowings from other financial institutions accounted for a meagre 4%, while share capital and owners' loans accounted for about 36% of the investment outlays.

These statistics suggest that it would have been very difficult for a good number of projects, particularly of smaller size, to go ahead without the support of IDBI and the Government.

23. Six of the seven projects above the free limit had experienced cost overruns, ranging from 1.8% to 108.2% and one project had cost savings of 10.8%. The average cost overrun was 41%. Fifteen of the projects below the free limit and above US$250,000 incurred cost overruns, ranging from 0.1% to 126.4%, and four projects had cost savings ranging from 5.2% to 36.5%. The average cost overruns of these 19 projects amounted to 21%. Cost overruns are mainly attributable to devaluations and inflation. In some cases, the projects had to be modified because of technological changes. Cost overruns are mostly covered by IDBI with a completion loan.[1/] Cost savings took place when the sponsors purchased less equipment than originally planned or put into operation part of a multiple-phased project. Time overruns extending from 6 to 12 months occurred in many projects. They were due to the adversities of the 1973 war, delays in delivery of imported equipment and construction, and time to arrange for additional funding.

24. As to the economic impact of the Bank-supported projects, over two-thirds of the projects on which information is available had a capacity utilization exceeding 70%, including all "A" projects. This is a satisfactory degree of capacity utilization, considering the negligible growth of industrial production in Israel during 1975 and the fact that many plants have not yet reached full capacity. Five out of seven projects above the free limit showed returns on equity ranging from 17% to 47%, while out of 17 projects below the free limit, 14 showed returns varying from 1% to 84% with half exceeding 33%. Actual exports amounted to US$83.3 million, compared with a projected aggregate of US$42.5 million. Increases in world prices probably account for part of the observed increases in exports. The seven projects above the free limit provided

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1/ Because of the unprecedented high rates of inflation in recent years both in Israel and in the world, IDBI decided not to allow for price contingencies but, instead, cover cost overruns with a supplementary loan.

employment opportunities to 1,043 individuals at a capital cost per job of I£ 266,300 (US$35,500), while 16 projects below the free limit 957 jobs at an investment cost of I£ 76,000 (US$10,000)1/ The difference in capital costs per job is explained by the concentration of projects below the free limit in sectors with relatively low capital intensity, such as food processing, textiles, furniture. Finally, the cost of foreign exchange saved or earned with few exceptions is compared favorably with effective exchange rates prevailing at the time, reflecting sound economic performance of the Bank-supported projects.2/

CONCLUSION

25. The basic objectives of the loan were appropriate and have been met successfully. The Bank's funds have been used effectively and have had a satisfactory economic impact. IDBI has been receptive to the Bank's advice and willing to take corrective action. Without the Bank's continuous encouragement, the progress made in rectifying several major institutional deficiencies identified by the Bank most likely would not have been so fast. Despite the fact that the Bank's contribution to IDBI's total resources has been very limited, IDBI considers its association with the Bank to have been of considerable value. IDBI's original approach that "entrepreneurs know best" changed and the need for competently prepared project appraisals was appreciated. The Bank's advice and constant follow-up were helpful in improving the quality of appraisals, particularly concerning engineering and marketing aspects and economic analysis, and in encouraging IDBI to establish and build up its follow-up capability. The Bank's

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1/ Unemployment has not been an issue in Israel.

2/ These satisfactory results are corroborated by the findings from the review of a larger and representative sample of IDBI's projects during the appraisal of IDBI in the fourth loan.

reporting requirements and requests for analytical materials and projections proved to be very useful to IDBI's management as well, some being produced in much greater detail and at more frequent intervals than requested. The process of compilation, preparation and organization of these materials in itself was educative and led to a more systematic approach to IDBI's work and thinking. Finally, the financial discipline and external audit requirements fostered by the Bank and, in general, the experience gained by IDBI during its association with the Bank have been helpful in its dealings with other international lenders.

Annex 1

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LTD

Summary of Loan Operations, Forecast and Actual (1970 - 1975)

(in IL million)

	Forecast (Loan 689-IS)						Forecast (Loan 1116-IS)	Actual1/						
	1970	1971	1972	1973	1974	1970-74	1975	1970	1971	1972	1973	1974	1970-74	1975
Approvals	230	230	230	240	250	1,180	1,250	200 (200)	457 (392)	386 (285)	450 (268)	845 (383)	2,338 (1,528)	2,254 (715)
Commitments	258	230	230	236	246	1,200	1,160	198 (198)	268 (230)	366 (270)	401 (239)	541 (245)	1,774 (1,182)	958 (304)
Disbursements	250	245	233	233	240	1,201	890	245 (245)	331 (284)	431 (318)	401 (239)	416 (188)	1,824 1,274)	1,097 (348)

1/ Figures in parentheses are in real terms.
Indices used to deflate:
1970 = 100.0
1971 = 116.6
1972 = 135.5
1973 = 167.9
1974 = 220.8
1975 = 315.0

EMENA/IC&DFC
May 11, 1976

Annex 2

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Sectoral Distribution of Outstanding Loans (at December 31)

	1972		1975	
	Million I£	%	Million I£	%
Lime and stone quarries	62,8	3.9	103,2	3.4
Food products	96,9	6.0	129,0	4.3
Textiles works	288,0	18.0	429,6	14.1
Garments manufacturing	13,5	0.8	12,7	.4
Wood products and furniture	26,1	1.6	34,8	1.1
Paper and paper products	21,1	1.3	119,2	3.9
Printing and publishing	15,6	1.0	18,2	.6
Leather and leather products	5,2	0.3	7,3	.2
Rubber and Plastics	84,8	5.3	105,0	3.5
Chemicals and oil products	196,8	12.3	401,4	13.2
Non-metallic mineral products	24,2	1.5	54,2	1.8
Basic metal industries	51,1	3.2	66,5	2.2
Metal products	141,9	8.8	207,3	6.8
Machinery	12,0	0.7	11,2	0.4
Electric and Electronic equipment	49,0	3.6	98,0	3.2
Transportation vehicles manufacturing	4,7	0.2	3,5	.1
Glass, Ceramics pottery and Bricks	25,0	1.5	34,4	1.1
Public Utilities - Electric Company	126,1	7.8	332,3	10.9
Other Utilities	60,0	3.7	140,0	4.6
Aircraft industries	56,2	3.5	49,8	1.6
Industrial constructions	67,1	4.2	205,0	6.8
Various other loans	102,4	6.4	297,1	9.8
Deposits with local banks for granting of loans	71,0	4.4	180,8	6.0
TOTAL	1,601,5	100.0	3,039,5	100.0

Source: Industrial Development Bank of Israel, Ltd.
May, 1976

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

ANNEX 3

Analysis of Loans Approved
(I£ Millions)

	1968 - 1969 No.	1968 - 1969 Amount	1970 No.	1970 Amount	1971 No.	1971 Amount	1972 No.	1972 Amount	1973 No.	1973 Amount	1974 No.	1974 Amount	1975 No.	1975 Amount
Geographic Location														
Developed Areas	1,163	700.6	122	96.4	155	205.3	193	163.3	175	243.0	160	263.4	238	610.2
Less Developed Areas	1,405	683.6	187	104.2	231	252.2	213	222.3	217	207.6	200	492.0	200	1,696.0
Total	2,568	1,792.2	309	200.6	386	457.5	406	385.6	392	450.6	360	755.4	438	1,696.2
Size														
Up to 50,000	553	16.5	23	0.9	40	1.4	29	0.8	26	0.8	11	0.4	6	0.3
50,001 - 100,000	428	33.2	52	4.2	41	3.2	48	3.6	49	3.9	30	2.2	22	1.6
100,001 - 250,000	636	110.4	75	12.3	90	15.4	105	17.7	83	14.0	67	12.0	88	15.2
250,001 - 500,000	423	156.8	70	25.5	91	33.2	84	30.5	86	32.4	70	25.3	68	25.3
500,001 - 1,000,000	248	182.9	45	33.5	56	42.1	58	40.9	52	37.2	67	49.9	99	62.4
1,000,001 - 3,000,000			37	60.5	40	71.3	60	100.6	63	103.8	68	116.9	88	148.6
3,000,001 - 5,000,000	280	887.1	2	7.4	8	29.4	11	41.4	14	50.2	19	75.6	23	95.1
5,000,001 - 10,000,000			2	17.1	16	120.6	6	40.5	9	66.1	15	113.1	31	221.5
10,000,001 - 15,000,000			2	20.6	-	-	1	14.1	8	98.8	5	61.6	8	176.0
15,000,001 - and over			1	18.6	4	140.9	4	95.5	2	43.4	8	298.4	16	950.9
Total	2,568	1,386.9	309	200.6	386	457.5	406	385.6	392	450.6	360	755.4	438	1,696.9
Repayment Term (years)														
1 - 5	251	87.0	113	38.8	103	72.7	97	49.9	115	46.7	104	48.9	145	145.8
6 - 8	1,212	305.2	132	89.5	219	189.5	260	195.5	240	263.1	216	359.9	241	929.8
9 - 13	984	708.4	63	69.9	59	180.0	42	106.0	31	85.0	37	330.3	46	371.7
14 - 20	121	285.8	1	2.4	5	15.2	7	34.2	6	55.8	3	16.3	6	249.6
Total	2,568	1,386.9	309	200.6	386	457.5	406	385.6	392	450.6	360	755.4	438	1,696.9

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LTD.

Forecast and Actual Income Statements (1970-75)
(In IE million)

	1970	1971	1972	1973	1974	1974	1975	1970	1971	1972	1973	1974	1975
	Forecast (Loan 689-IS)					Forecast(Loan 1116-IS)		Actual (Audited)					
INCOME													
Income on loans	86.0	99.2	108.9	117.3	125.1	174.2	217.6	68.0	110.5	137.2	166.4	191.5	263.9
Commissions and other fees	2.0	2.0	1.9	1.9	1.9	-	-	2.8	4.0	6.1	5.0	6.4	13.6
Dividend income	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.7	1.6	1.5	0.5	1.2
Income from short-term investments, deposits, etc.	1.5	1.0	0.7	0.4	0.4	13.9	9.5	0.6	1.3	1.1	2.0	1.6	1.8
Other income	5.1	5.0	4.9	4.7	4.5	31.7	57.6	0.7	3.3	6.8	8.8	16.9	44.8
Total Income	95.9	108.5	117.7	125.6	133.0	221.0	285.9	93.3	120.8	152.8	183.7	216.9	325.3
EXPENSES													
Interest and commitment charges on borrowings	36.5	45.8	51.3	56.7	60.9	114.9	158.6	35.7	55.9	82.6	102.9	126.8	198.3
Administrative and general expenses(including depreciation)	4.3	4.4	4.6	4.8	5.0	11.7	14.0	4.2	4.6	5.4	7.6	11.8	16.5
Provision for doubtful loans	1.1	1.5	1.7	2.0	2.0	4.2	9.0	1.2	1.4	1.5	4.9	1.5	6.6
Amortization of deferred charges	0.8	1.0	1.3	1.0	1.1	-	-	0.5	-	-	-	-	-
Other Expenses	0.5	0.5	0.5	0.5	0.5		-	-	-	0.8	0.8	0	
Total Expenses	43.2	53.2	59.4	65.0	69.5	130.8	181.6	41.6	61.9	90.3	116.2	140.1	221.4
Operating Earnings	52.7	55.3	58.3	60.6	63.5	90.2	104.3	51.7	58.9	62.5	67.5	76.8	103.9
Capital gains (losses)								1.0	0.6	1.3	4.3	6.0	0.1
Participation of the Israel Treasury in linkage increments or dividends								3.3	6.3	8.6	8.9	15.1	32.8
Provision for Taxes	20.4	22.0	23.7	24.9	26.4	42.4	50.8	29.5	35.0	38.5	44.3	57.9	89.7
Net Profit	32.3	33.3	34.6	35.7	37.1	47.8	53.5	26.5	30.8	33.9	36.4	40.0	47.1
APPROPRIATION OF NET PROFIT													
Dividends	24.8	24.7	24.6	24.5	24.4	34.0	39.3	18.7	20.2	22.6	22.4	23.8	28.3
Provision for diminution in value of investments								(1.4)	1.7	0.9	0.1	(1.4)	
Reserve for future capital redemption								1.4	1.3	1.4	1.4	1.4	2.4
General reserve								3.0	3.5	4.0	6.0	6.0	8.5
Special reserve	7.5	8.6	10.0	11.2	12.7	13.8	14.2	3.6	4.0	5.0	6.4	10.0	9.0
Unappropriated profit								0.1	0.1	-	0.1	0.2	(0.1)
Debenture issue expense written off								1.1	-	-	-		
Net Profit	32.3	33.3	34.6	35.7	37.1	47.8	53.5	26.5	30.8	33.9	36.4	40.0	47.1
Total income/total assets(year end)	8.11	8.31	8.44	8.54	8.54	8.02	8.83	8.15	8.12	8.55	9.06	8.05	8.97
Net profit/share capital(year end)	8.56	8.86	9.24	9.57	9.98	12.78	14.34	7.01	8.17	9.01	9.71	10.70	12.63
Net profit/share capital excluding Government shares(year end)	16.15	16.49	19.04	19.68	20.83	26.84	28.98	13.25	15.25	18.66	20.07	22.46	25.51
Dividend as % of net profit	76.78	74.17	71.10	68.62	65.76	71.13	73.46	70.57	65.58	66.67	61.54	59.50	60.08

EMENA/IC&DFC
April 23, 1976

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LTD.

Forecast and Actual Balance Sheets (1970-75)
(in I£ million)

	1970	1971	1972	1973	1974	1974	1975	1970	1971	1972	1973	1974	1975
	Forecast (Loan 659-IS)					Forecast (Loan 116-IS)		Actual (audited)					
ASSETS													
Cash, short-term investments and receivables	20.6	20.2	20.2	20.2	20.2	38.5	50.1	69.6	32.4	62.2	45.0	95.0	119.3
Receivables from Government in connection with exchange & linking increments on liabilities	8.9	7.0	5.0	3.9	2.8	452.1	355.2	12.1	101.4	90.6	118.0	572.7	741.3
Long-term deposits with Treasury	16.6	10.4	6.9	3.4	0	90.5	27.6	70.1	152.7	112.2	97.4	110.6	53.7
						2127.8	2762.1	1009.6	1249.7	1601.5	1873.7	2132.5	3039.5
						(19.4)	(28.4)	(9.0)	(10.4)	(10.8)	(15.2)	(16.1)	(22.4)
Loans to industry (net)	1093.7	1226.2	1320.3	1402.3	1476.5	2108.4	2733.7	1000.6	1239.3	1590.7	1858.5	2116.4	3017.1
								30.2	31.0	27.1	22.9	18.2	18.2
								(3.1)	(4.7)	(3.4)	(3.5)	(0.2)	(0.2)
Investments in shares and subsidiary company	37.4	37.2	37.0	36.9	36.7	19.4	19.4	27.1	26.3	23.7	19.4	18.0	18.0
State of Israel Bonds						45.6	53.6	17.4	21.0	24.5	34.7	43.0	45.8
Fixed assets and deferred charges	4.8	4.8	4.5	4.7	5.2	-	-	1/	1/	1/	1/	1/	1/
Total Assets	1182.0	1305.8	1393.9	1521.4	1541.4	2754.5	3239.6	1196.9	1573.1	1903.9	2173.0	2955.7	3995.2
LIABILITIES & CAPITAL													
Accounts payable and short-term liabilities	61.2	60.7	57.5	58.3	58.6	187.4	179.9	99.2	94.0	124.4	184.7	214.2	222.0
Government deposits against loans	93.7	85.9	70.1	62.1	54.2	190.6	181.3	77.0	102.7	121.8	132.1	194.6	470.8
AID special deposits and their participation	42.5	36.3	30.9	25.8	21.1								
7½% registered subordinated capital notes								-	-	-	-	32.5	97.4
Foreign currency borrowings	354.4	434.7	483.1	509.7	522.8	1309.0	1462.5	430.3	638.1	886.7	907.7	1329.8	1626.4
Domestic currency borrowings	169.1	224.4	279.9	333.6	391.8	169.4	365.0	140.8	152.2	149.2	186.9	310.4	586.0
	523.5	659.1	763.0	843.3	914.6	1538.4	1827.5	571.1	790.3	1035.9	1094.6	1640.2	2212.4
5% Perpetual Deposit	-	-	-	-	-	375.0	545.0	-	128.8	155.3	281.1	375.0	476.0
Share capital and reserves													
Share capital	377.4	375.9	374.5	373.1	371.6	374.0	373.0	378.1	377.2	376.1	375.0	374.0	372.9
Share premiums								7.5	7.5	7.5	7.5	7.5	7.5
General reserve	45.5	54.1	64.1	75.4	88.2	75.1	86.9	21.5	25.0	29.0	35.0	41.0	49.5
Special reserve								5.6	9.6	14.6	21.0	31.0	39.0
Unappropriated profits								0.6	0.7	0.7	0.7	1.0	0.8
Capital linkage funds	38.2	33.8	33.8	33.4	33.1	44.0	46.0	36.3	37.3	38.6	41.4	44.5	46.9
	461.1	463.8	472.4	481.9	492.9	493.1	505.9	449.6	457.3	466.5	[illegible]	499.0	516.6
Total Liabilities & Capital	1182.0	1305.8	1393.9	1521.4	1541.4	2754.5	3239.6	1196.9	1573.1	1903.9	2173.0	2955.7	3995.2
Contingent Liabilities: Long-term guarantees	-	-	-	-	-	-	-	-	17.7	101.2	76.2	60.3	74.9
Current Ratio	0.34	0.33	0.35	0.35	0.34	0.21	0.28	0.70	0.35	0.50	0.24	0.44	0.54
Long-term Debt/equity Ratio	1.71	1.93	2.03	2.11	2.16	3.29	4.35	1.41	2.05	2.84	3.05	3.50	5.07
Provisions & reserves as % of portfolio	4.02	4.28	4.72	5.24	5.83	4.40	3.16	4.55	3.94	3.59	3.98	4.13	3.65

1/ Written down to nominal figure of I£1.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Status of Implementation of Sub-projects above Free Limit under Loan 689-IS

(I£ '000)

No.	Name	Activity	Location	Type of Project	Amt. authorized (including adjustments) $'000	Amount Disbursed as of 4/15/76 $'000	Estimated Project Cost	Financing Plan: IDBI Loan	Financing Plan: Other Loans	Financing Plan: Owner's Loans	Financing Plan: Grant	Financing Plan: Share Capital	Actual Cost	Cost Overrun: Amount	Cost Overrun: %	Reasons for Overrun	Completion Date: Original	Completion Date: Actual
1.	Rogozin Industries of Israel Ltd.	Fabric of Tire Cord	Ashdod	Expansion	1,127.7	1,127.7	18,200	11,830	-	-	-	6,370	16,338	(1,862)	(10.8)	See note 1	1973	Late 1974
2.	Electrochemical Industries (Frutarom) Ltd.	Electrochemicals, Plastics, Extracts & Perfumes	Acre	Expansion (Electrolysis Plant)	1,312.9	1,312.9	11,200	7,280	-	420	-	3,500	23,322	12.122	108.2	See note 2	1973	Late 1974
3.	Makhteshim Chemical Enterprises Ltd.	Chemical Products	Beersheba	Expansion	583.3	583.3	21,800	8,720	180	3,000	3,900	6,000	23,947	2,147	9.8	See note 3	1974	197?
4.	Israel Portland Cement Works "Nesher" Ramle Ltd.	Cement Manufacturer	Har Tuv	New Plant (Existing Company)	4,000.0	4,000.0	72,400	44,079	-	28,321	-	-	116,219	43,819	60.5	See note 4	1973	Late 197
5.	Alliance Tire and Rubber Company	Tires	Hadera	Expansion	1,837.5	1,837.5	30,000	18,000	-	-	-	12,000	36,806	6,806	22.7	See note 5	1976	197?
6.	Chemical Fibers Ashdod Acrylic Polymers and Fibres	Acrylic Fibers	Ashdod	Expansion	1,904.8	1,896.4	19,543	7,300	-	4,000	4,118	4,125	30,000	10,457	53.5	See note 6	1973	Late 197
7.	Solel Boneh's Building and Public Works Company	Construction Industrialized Building	Numerous Plant Sites	Expansions	1,800.0	1,225.1	30,600	11,300	9,700	-	-	9,600	31,153	553	1.8		1974	197

Note 1. The Company has completed and put into operation two of its three phases of the investment program.

Note 2. (A) Technological changes in production process.
(B) Increase in plant capacity from 75 to 90 TPD.
(C) Changes in currency rates.
(D) Purchase of pollution control equipment.

Note 3. Price increase due to devaluation.

Note 4. (A) Price Increases
(B) Changes in currency rates
(C) Changes in construction plan

Note 5. (A) Changes in currency rates
(B) Price increases of equipment and buildings.

Note 6. (A) Changes in foreign exchange rate
(B) Price Increases
(C) Technological changes.

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ANNEX C

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Operational and Financial Performance and Economic Benefits of Sub-Projects above Free Limit under Loan 689-IS.
(IL'000)

No.	Name	Projected Sales	Actual Sales	Fixed Assets	Return on Average Equity: Projected	Return on Average Equity: Actual	Economic Benefits: Employment created	Economic Benefits: Local currency cost of foreign exchange saved or earned	Effective Exchange Rate	Exports ($'000): Projected	Exports ($'000): Actual	Capacity Utilization: No. of shifts	Capacity Utilization: %
1.	Rogozin Industries of Israel Ltd.	33,500	114,012 (1975)	25,966	8%	N. A	42.	2.33	3.50	2,150	3,733	3	80%
2.	Electrochemical Industries (Frutarom) Ltd.	45,000	152,000 (1975)	104,000	N. A.1/	25%	24	3.20	3.50	5,000	3,700	3	80%
3.	Makhteshim Chemical Enterprises Ltd.	N. A.	215,050 (1974)	83,266	27%	47%	180	3.90	4.20	5,000	30,000	3	90%
4.	Israel Portland Cement Works "Nesher" Ramle Ltd.	27,000	145,395 (1975)	175,261	N. A.2/	30%	120	7.35	4.20	0	0	3	70%
5.	Alliance Tire and Rubber Company	108,280	311,077 (74/75)	88,977	29%	17%	550	4.70	4.20	12,600	25,000	2-3	75%
6.	Chemical Fibers Ashdod Acrylic Polymers and Fibres	N. A.	80,000 (1975)	33,000	27%	N. A.	30	4.15	4.20	2,690	2,025	3	87.5%
7.	Solel Boneh's Building and Public Works Company	N. A.	881,449 (1973)	119,628	N. A.3/	31%	97	N. A.	4.20	0	0	-	-

1/ Internal financial rate of return 16%
2/ Internal financial rate of return 15%
3/ Internal financial rate of return 14%

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INDUSTRIAL DEVELOPMENT BANK OF ISRAEL, LIMITED

Status of Implementation of Sub-Projects below Free Limit under Loan 689-IS 1/

(I£ '000)

Project No.	Name	Activity	Location	Type of Project	Amt. authorized (including adjustments) $'000	Amount Disbursed $'000	Estimated Project Cost	Financing Plan: IDBI Loan	Financing Plan: Other Loans	Financing Plan: Share Capital	Financing Plan: Owners Loans	Financing Plan: Grant	Actual Cost	Cost Overrun	Reasons for Overrun	Completion Date: Original	Completion Date: Actual
B-2	Ceramic Casting Corp.	Metal Products	Ramat-Gan	New	400.0	400.0	4,005	1,830	158	522	1,045	480	4,180	175	-	1969	1971
B-4	Arizoth Kohav	Polyethylene Sacks	Moshav Kohav	New	257.1	257.1	1,630	1,030	-	600	-	-	1,968	338	Price escalation of machinery and buildings	1970	1971
B-13	Nove Mills Jerusalem	Textiles	Jerusalem	New	439.7	439.7	5,514	2,306	-	1,037	1,037	1,134	3,502	(2,012)	The company put into operation the first phase of its two-phased project.	1971	1972
B-17	Misco Bet-Shemesh Ltd.	Precision Casting	Bet-Shemesh	New	261.0	261.0	6,156	2,437	-	1,275	1,255	1,189	5,529	(627)	-	1972	1973
B-21	Kulso Limited	Electronics Equipment	Haifa	New	352.4	352.4	5,264	1,900	310	1,050	1,050	954	4,992	(272)	Purchased less equipment; rented the buildings.	1974	1974
B-22	Chairs of Israel	Furniture	Sderot	New	479.2	479.2	4,130	1,686	-	900	600	1,044	3,612	(518)		1971	1971
B-27	Dourin	Furniture	Jerusalem	New	293.8	293.8	2,760	1,076	-	1,190	-	494	3,435	675	Price escalation and building additions	1972	1972
B-41	Hanita Metal Works	Cutting Tools	Hanita	Expansion	297.6	297.6	3,660	1,250	-	1,350	-	1,060	4,883	1,223	Price escalation, devaluation, and changes in equipment.	1971	1972
B-42	Anis-American Israel Bearing Company	Bearing	Kiryat-Gat	New	276.5	276.5	2,100	1,037	-	623	-	440	2,260	160	-	1972	1972
B-46	Fachany Brothers	Metal	Yarka	New	442.9	442.9	4,037	1,550	-	1,080	500	907	6,337	2,300	Additions to buildings and equipment, devaluation and price escalation	1973	1975
B-47	Potato Processing Industries Shaar Hanegev	Potato Processing	Shaar Hanegev	New	537.7	537.7	7,280	1,882	300	2,100	700	2,138	16,298	9,018	Price escalations, devaluation, and changes in project	1972	1972
B-48	Allied Metal Factory	Rebuilt Engines	Jerusalem	New	261.9	261.9	2,230	1,180	-	640	-	510	2,661	431	Price escalations, devaluation and changes in machinery.	1972	1973
B-56	Solomon A. Angel Ltd.	Bakery	Jerusalem	Expansion	291.2	291.2	2,608	1,233	-	1,375	-	-	3,208	600	-	1972	1973
B-57	Elite Limited	Chocolate and candies	Ramat-Gan	Expansion	251.4	251.4	3,200	1,056	-	2,144	-	-	3,516	316	-	1973	1974
B-58	Gat Givat Hayim	Food Processing	Givat-Hayim	Expansion	270.4	270.4	6,257	2,441	-	2,468	44	1,304	6,267	10	-	1974	1974
B-61	Miloubar	Feed Mill	Ashrat	Expansion	303.3	303.3	5,800	2,786	1,740	1,276	-	-	6,082	282	Price escalation.	1975	1976
B-63	Shufra	Textile Dyeing	Amar	Expansion	275.0	275.0	4,140	1,925	-	1,750	-	465	6,728	2,588	Price escalations, additions to buildings and technological changes	1971	1974
B-64	Argo-Tam	Manufacture of Textile Dyeing Machinery	Yavneh	New	251.0	251.0	2,705	1,034	-	1,200	-	431	3,984	1,279	Price escalations and devaluation.	1972	1974
B-65	Taal	Manufacture of Plywood	Kvutzat Mishmarot	Expansion	638.0	638.0	9,000	3,000	300	4,400	-	1,280	15,030	6,030	Devaluations, and changes in prices of equipment.	1975	1976
B-71	Paper Printers Transfer System Ltd.	Heat Transfer Printing	Nazareth	New	268.8	0	4,190	1,841	-	1,258	30	1,061	-	-	Not yet completed.	-	-
B-72	Antic Cable Works Ltd.	Telephone and electronic cables	Beit-Shean	New	523.0	0	20,436	9,097	-	6,131	-	5,208	-	-	Not yet completed.	1977	-

1/ Not including sub-projects below $250,000.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Operational and Financial Performance and Economic Benefits of Sub-Projects below Free Limit under Loan 689-IS *

(I£'000)

Project No.	Name	Projected Sales	Actual Sales	Fixed Assets	Return on Average Equity: Projected	Return on Average Equity: Actual	Economic Benefits: Employment Created	Economic Benefits: Local currency cost of foreign exchange saved or earned	Effective Exchange Rate	Exports: Projected ($'000)	Exports: Actual ($'000)	Capacity Utilization: No. of Shifts	Capacity Utilization: %
B-2	Ceramic Casting Corp.	4,000	10,670 (1975)	3,310	N. A.	note 1	53	-		none	none	1	45
B-4	Arizoth Kohav	1,400	18,000 (1974/75)	5,000	"	18%	28	-		-	476	3	60
B-13	Neve Mills Jerusalem	5,496	13,535 (1975)	3,293	"	12%	124	-		1,000	1,416	3	70
B-17	Visco Bet-Shemesh Ltd.	5,775	4,250 (1975)	3,809	"	note 2	80	-		640	366	1	60
B-21	Kulso Limited	5,104	21,400	4,439	"	84%	130	3.68	4.25	2,252	3,300	1½	60
B-22	Chairs of Israel	9,555	500	8,000	"	Losses 1974/75	59	2.66	4.25	2,275	-	1	-
B-27	Dourit	3,500	14,132 (1975)	4,071	"	33%	53	-		N.A.	346	1½	50
B-41	Hanita Metal Works	2,700	15,000 (1974/75)	4,048	"	62%	20	3.82	4.25	1,300	1,750	1½	80
B-42	Polis-American Israel Bearing Company	2,700	4,030 (1975)	1,613	"	9%	8	3.40	4.72	540	584	1	80
B-46	Kadmany Brothers	3,500	12,268 (1974/75)	5,565	"	note 3	110	-		0	0	1	70
B-47	Potato Processing Industries Shaar Hanegev	11,200	10,904 (1975)	12,823	"	note 4	60	-		952	882	1	45
B-49	Allied Metal Factory	4,931	4,542 (1975)	2,188	"	7%	81	5.00	4.70	-	-	1	25
B-56	Salomon A. Angel Ltd.	8,800	33,400 (1974/75)	4,500	"	56%	N.A.	-		-	-	2	75
B-57	Elite Limited	40,000	93,377 (1974/75)	9,241	"	34%	none	-		-	723	2	80
B-58	Gat Givat Haylm	21,501	64,200 (1974)	11,488	"	63%	N.A.	-		842	6,600	3	-
B-61	Miloubar	N.A.	148,000 (1974/75)	19,373	"	1%	N.A.	-		N.A.	934	2	92
B-63	Shufra	6,932	8,500 (1975)	2,250	"	52%	N.A.	-		371	none	2	70
B-64	Argo-Tan	5,000	4,612 (1974/75)	3,791	"	13%	60	-		1,070	109	2	-
B-65	Taal	51,400	95,000 (1975)	30,876	"	8%	N.A.	4.40	5.36	1,548	1,358	2	85
B-71	Paper Printers Transfer	4,235	Project not completed				33	3.60	5.12	2,270	-	-	-
B-72	Datic Cable Works Ltd.	7,915	Project not completed				58	5.80	5.12	N.A.	-	-	-

Note 1. Ownership changed; still under construction.
Note 2. The company's accumulated loss is greater than equity; ownership has changed.
Note 3. Incurred losses; ownership has changed.
Note 4. The company has been following a policy not to show profits.

* Not including sub-projects below $250,000.

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ANNEX 10

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

Analysis of Sub-Projects under Loan 689-IS: - Sectoral, Geographical and Size Distribution and Type of Projects.

Sectoral		No. of Projects	% of numbers	Amount	% of Amount
Food		13	17.4	2,500,324	10.8
Beverages		-	-	-	-
Textiles		15	20.0	5,020,515	21.7
Chemicals		4	5.3	2,111,581	9.1
Machinery		-	-	-	-
Metal Products		-	-	-	-
Electrical Machinery		3	4.0	545,998	2.4
Iron and Steel		-	-	-	-
Metals other than Iron		16	21.3	3,332,881	14.4
Cement		1	1.3	4,000,000	17.3
Plastics and Rubber		9	12.1	2,662,824	11.5
Forestry products		4	5.3	1,458,807	6.3
Glass		-	-	-	-
Hides and footwear		1	1.3	80,000	0.4
Non-metalic minerals		1	1.3	121,429	0.5
Pulp and paper		3	4.0	228,710	1.0
Others		5	6.7	1,071,536	4.6
	Total	75	100.0	23,134,605	100.0
Geographical					
Zone A		19	25.3	4,028,311	17.4
Zone B		16	21.3	3,392,263	14.7
Zone C		40	53.4	15,714,031	67.9
	Total	75	100.0	23,134,605	100.0
Size					
Under	$500,000	68	90.7	12,041,382	52.1
500,001	1,000,000	2	2.7	1,221,732	5.3
1,000,001	2,000,000	4	5.3	5,871,491	25.3
2,000,001	3,000,000	-	-	-	-
3,000,001	4,000,000	1	1.3	4,000,000	17.3
Above 4,000,000		-	-	-	-
	Total	75	100.0	23,134,605	100.0
Type					
New		19	25.3	9,171,249	39.6
Expansion		56	74.7	13,963,356	60.4
	Total	75	100.0	23,134,605	100.0

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ANNEX 11
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INDUSTRIAL DEVELOPMENT BANK OF ISRAEL, LTD.

Status of Disbursements of Sub-projects under Loan 689-IS

As of April 15, 1976
(US Dollars)

Project Number	Name (Activity)	Date Authorized	Amount Originally Authorized	Adjusted Amount Authorized	Amount Disbursed
A.1	Rogosin Industries of Israel Ltd. (Tire Cord Fabrics)	1/22/71	1825714.29	1127742.75	1127742.75
A.2	Electrochemical Industries (caustic soda)	4/27/71	2000000.00	1312888.26	1312888.26
A.3	Makteshim Chemical Enterprises Ltd. (fungicides)	2/11/72	650000.00	583286.04	583286.04
A.4	Israel Portland Cement Works (cement)	7/12/72	4000000.00	4000000.00	4000000.00
A.5	Alliance Tire & Rubber Co. (Tires)	7/28/72	2380952.38	1837518.39	1837518.39
A.6	Israel Chemical Fibres Ltd. (Polymers)	12/29.72	1904761.90	1904761.90	1896396.39
A.7	Solel Boneh's Public Works & Bldg. Co. Ltd. (building parts)	2/28/74	1800000.00	1800000.00	1225125.16
B.1	Miles Laboratories Israel Ltd. (Lemon Acid)	9/4/70	172857.14	172857.14	172857.14
B.2	Ceramic Casting Corp. (metal products)	9/4/70	400000.00	400000.00	400000.00
B.3	Noam Israel Bedding Ind. Ltd. (Blankets)	9/4/70	54000.00	cancelled	
B.4	Arizoth Kohav Ltd. (polyperpheline sacks)	9/4/70	257142.86	257142.86	257142.86
B.5	Hogla Ltd. (paper)	9/4/70	114285.71	42996.19	42996.19
B.6	AGAN Chemical Manufacturers Ltd. (Chem. material for agri.)	9/4/70	57142.86	42549.89	42549.89
B.7	Isram Knits Ltd. (Ladies' dresses)	9/4/70	137714.29	137714.29	137714.29
B.8	Taliplast Ltd. (plastics products)	9/4/70	76000.00	76000.00	76000.00
B.9	Mivrag Wood Screws Factory Ltd. (screws)	9/4/70	70571.43	70571.43	70571.43
B.10	Knitting Industry Co. Ltd. (shirts)	9/4/70	57314.29	51079.82	51079.82
B.11	Maoz Haim Settlement (plastic products)	9/4/70	84285.71	84285.71	84285.71
B.12	Ardaf Limited (printing of cloth)	9/4/70	102857.15	102857.15	102857.15
B.13	Moeve Mills (textiles)	9/4/70	658857.15	439656.88	439656.88
B.14	Manoary Bet-Shan Laish Ltd. (motor engines)	9/4/70	92000.00	80109.26	80109.26
B.15	Nahaholim Settlement (plastic products)	9/4/70	68000.00	67394.80	67394.80
B.16	Moverman Industries Ltd. (crown corks)	9/4/70	47142.86	41776.80	41776.80
B.17	Minco Bet-Shemesh Ltd. (precision castings)	9/4/70	696285.72	261029.89	261029.89
B.18	Syntex Limited (synthetic fibres)	9/4/70	74285.72	74285.72	74285.72

Project No.	Name (Activity)	Date Authorized	Amount Originally Authorized	Adjusted Amount Authorized	Amount Disbursed
B.19	Tofasim Mischarlim Rasif (computer paper)	9/4/70	85714.29	85714.29	85714.29
B.20	Ashdod Metals Refinery Ltd. (refining of metals)	9/4/70	154285.72	cancelled.	
B.21	Kulso Ltd. (machinery for semi-conductors)	9/4/70	542857.14	352380.95	352380.95
B.22	Israel Chairs Co. Ltd. (book cases)	9/4/70	481714.29	479249.94	479249.94
B.23	Caesarea Cement Products (tiles)	9/4/70	121428.57	121428.57	121428.57
B.24	Orientcolor Ltd. (film development)	9/4/70	60571.43	36393.74	36393.74
B.25	Revivim Settlement (plastic precision parts)	9/4/70	105142.86	88634.79	88634.79
B.26	Matten Limited (Frozen food)	9/4/70	82857.14	49586.25	49586.25
B.27	Dorim Limited (furniture)	9/4/70	307428.57	293836.75	293836.75
B.28	Yotvata Settlement (milk products)	10/2/70	77142.86	49073.20	49073.20
B.29	Or-Mat Turbines Ltd. (Turbo-generators)	10/2/70	92571.43	92571.43	92571.43
B.30	Alma (Export) Ltd. (shoes)	10/2/70	80000.00	80000.00	80000.00
B.31	Givat Brenner Carpentry (furniture)	10/8/70	58571.43	47720.38	47720.38
B.32	Milouot Ltd. (oil extraction)	10/8/70	85714.29	68483.85	68483.85
B.33	Nir David Settlement (plastic tubes)	10/8/70	91428.57	57560.76	57560.76
B.34	Plastro Gvat (plastic pipes)	10/8/70	80000.00	80000.00	80000.00
B.35	Sharir Precision Engineering Ltd. (automotive machining)	10/30/70	57142.86	51215.02	51215.02
B.36	Ashdot Yaacob Plastic Industry (plastic packings)	10/30/70	120857.14	116785.71	116785.71
B.37	Plasim Limited (plastic pipes)	1/22/71	127428.57	94296.77	94296.77
B.38	Fine Arts Ltd. (textile printing)	1/22/71	99428.57	96791.59	96791.59
B.39	Swiss-Israel Dehydration Co. (vegetables drying)	1/22/71	182000.00	182000.00	182000.00
B.40	Fleece Ltd. (textiles)	1/22/71	100571.43	100571.43	100571.43
B.41	Chanita Metal Works (cutting tools)	5/3/71	357043.00	297619.05	297619.05
B.42	Amis Bearing Co. (bearings)	5/11/71	296286.00	276542.86	276542.86
B.43	Electro-Carmel Ltd. (electric accessories)	5/11/71	165714.00	138095.24	103545.18
B.44	Artex Limited (bed covers)	5/11/71	34286.00	cancelled	
B.45	Phantom Limited (paper)	8/3/71	120000.00	100000.00	100000.00
B.46	Kadmany Bros. Development Ltd. (metal products)	8/3/71	442858.00	442858.00	442858.00
B.47	Potatoes Processing Co. Ltd. (potato products)	8/3/71	537715.00	537715.00	537715.00
B.48	Allied Metal Industries Ltd. (reconstruction of engines)	8/3/71	314286.00	261904.75	261904.75

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Project No.	Name (Activity)	Date Authorized	Amount Originally Authorized	Adjusted Amount Authorized	Amount Disbursed
B.49	Pri Harmok Ltd. (citrus fruits)	8/19/71	171429.00	118024.54	118024.54
B.50	Australian Wool Industries (synthetic & wool tops)	8/19/71	318,000.00	240131.55	240131.55
B.51	Sor-Van Irradiations Ltd. (medical products sterilization)	11/5/71	200476.19	200476.19	200476.19
B.52	Polygon Textile Dyeing Ltd. (textiles)	12/7/71	178[illegible].43	150415.54	150415.54
B.53	Butane Match of Nazareth Ltd. (pocket lighters)	12/13/71	205952.38	205952.38	205952.38
B.54	Mapritex Ltd. (textiles)	1/25/72	154800.00	154800.00	154800.00
B.55	Fleece Ltd. (textiles)	2/23/72	165152.38	165152.38	30650.00
B.56	Solomon Angel (food)	3/9/72	291190.48	291190.48	291190.48
B.57	Elite Ltd. (candies)	3/24/72	251428.57	251428.57	251428.57
B.58	Cat Givat Haim (vegetable preserves)	3/27/72	482380.95	270380.95	270380.95
B.59	Orly Coating Co. (metal coating)	5/5/72	178571.43	178571.43	178571.43
B.60	Osem Biscuit Ltd. (biscuits)	5/5/72	130000.00	104000.00	104000.00
B.61	Milenbar Central Feed (animal feeding)	5/18/72	383333.33	383333.33	383333.33
B.62	Pri Hagalil Ltd. (Vegetable preserves)	5/31/72	200000.00	210000.03	210000.03
B.63	Sufra Ltd. (textiles)	9/22/72	275000.00	275000.00	275000.00
B.64	Agra Then Ltd. (textile dying machines)	10/25/72	250952.38	250952.37	250952.37
B.65	Taal Ltd. (plywood)	10/30.72	638000.00	638000.00	638000.00
B.66	Plastic Industries (plastic cases)	12/1/72	114285.71	114285.71	114285.71
B.67	EBO (Israel) Industries Ltd. (building equipment)	12/1/72	217000.00	cancelled	
B.68	Lageen Box & Can Factory (can & containers)	12/1/72	255225.96	140225.96	140225.96
B.69	Drafton Ltd. (ball point pens)	5/1/73	111190.48	111190.48	111190.48
B.70	Yagba Precious Stones Ltd. (precious stones)	5/1/73	107142.86	107142.86	44131.77
B.71	Paper Printers Ltd. (paper for textile printing)	6/6/73	268809.52	268809.52	0
B.72	Dutic Israel Cable Works (telephone wires)	7/10/73	523000.00	523000.00	0
				24999999.76	23392886.36

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