



# U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2010 Request

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July 17, 2009

Congressional Research Service

7-5700

[www.crs.gov](http://www.crs.gov)

RL32260

# Report Documentation Page

*Form Approved*  
*OMB No. 0704-0188*

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1. REPORT DATE <b>17 JUL 2009</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2009 to 00-00-2009</b>	
4. TITLE AND SUBTITLE <b>U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2010 Request</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Congressional Research Service, Library of Congress, 101 Independence Ave., SE, Washington, DC, 20540-7500</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

## Summary

This report is an overview of U.S. foreign assistance to the Middle East from FY2005 to FY2009, and of the FY2010 budget request. It includes a brief history of aid to the region, a review of foreign aid levels, a description of selected country programs, and an analysis of current foreign aid issues. It will be updated periodically to reflect recent developments. For foreign aid terminology and acronyms, please see the glossary appended to this report.

For policymakers, foreign assistance plays a key role in advancing U.S. foreign policy goals in the Middle East. The United States has a number of interests in the region, ranging from support for the state of Israel and Israel's peaceful relations with its Arab neighbors, to the protection of vital petroleum supplies and the fight against international terrorism. U.S. assistance helps to maintain the 1979 peace treaty between Israel and Egypt and the continued stability of the Kingdom of Jordan, which signed its own peace treaty with Israel in 1994. U.S. funding also works to improve Palestinian civil society, and aid officials have worked to ensure that U.S. aid to the West Bank and Gaza Strip is not diverted to terrorist groups. Since the attacks of September 11, 2001, the United States has established new region-wide aid programs to promote democracy and encourage socio-economic reform in order to undercut the forces of radicalism in some Arab countries.

U.S. aid policy has gradually evolved from a focus on preventing Soviet influence from gaining a foothold in the region and from maintaining a neutral stance in the Arab-Israeli conflict, to strengthening Israel's military and economy and using foreign aid as an incentive to foster peace agreements between countries in the region. When adjusted for inflation, annual U.S. assistance to the Middle East in the decades following World War II was only a small fraction of current aid flows. However, beginning in the early 1970s, the United States dramatically increased its foreign assistance to the Middle East. After the U.S. withdrawal from South Vietnam, the Middle East as a whole began to receive more U.S. foreign aid than any other region of the world, a trend that has continued to this day.

## Contents

Introduction .....	1
Foreign Aid to Support Key U.S. Interests .....	1
Country Summaries .....	2
Israel.....	3
Overview .....	3
Military Assistance.....	3
Egypt .....	4
Overview .....	4
Economic Assistance.....	4
Military Assistance.....	5
Jordan .....	6
Overview .....	6
Economic Assistance.....	7
Military Assistance.....	7
Palestinians—West Bank/Gaza.....	8
Overview .....	8
U.S. Contributions to UNRWA.....	9
FY2010 Request .....	10
Lebanon.....	10
Other Recipients and Programs .....	12
Foreign Aid Issues .....	14
Promoting Democracy and Reform .....	14
The Millennium Challenge Account .....	14
The Middle East Partnership Initiative (MEPI) .....	15
Restrictions on Aid to the Palestinians .....	16
The Palestinian Anti-Terrorism Act of 2006.....	17
USAID’s Anti-Terrorism Procedures .....	17
Auditing UNRWA.....	18
Historical Background .....	19
U.S. Assistance to the Middle East Since 1950 .....	19
1950-1970.....	19
1971-2001.....	20

## Tables

Table 1. U.S. Foreign Assistance to the Middle East: FY2008-FY2010 Request.....	2
Table 2. U.S. Assistance to Israel, FY2005-FY2010 Request .....	4
Table 3. U.S. Assistance to Egypt, FY2005-FY2010 Request.....	6
Table 4. U.S. Assistance to Jordan, FY2005-FY2010 Request.....	7
Table 5. U.S. Bilateral Assistance to the Palestinians, FY2005-FY2010 Request.....	10
Table 6. U.S. Assistance to Lebanon, FY2005-FY2010 Request .....	11
Table 7. U.S. Contributions to UNIFIL.....	12

Table 8. Other Regional Recipients, FY2005-FY2010 Request ..... 12  
Table 9. Middle East Partnership Initiative Appropriations, FY2003-FY2010 Request ..... 16  
Table 10. Total U.S. Foreign Assistance to the Middle East, 1950-1970 ..... 20  
Table 11. Total U.S. Assistance to the Middle East: 1971-2001 ..... 22

## **Appendixes**

Appendix. Glossary..... 23

## **Contacts**

Author Contact Information ..... 24

## Introduction

This report is an overview of U.S. foreign assistance to the Middle East.<sup>1</sup> It includes a brief historical review of foreign aid levels, a description of specific country programs, and an analysis of current foreign aid issues.<sup>2</sup> Congress both authorizes and appropriates foreign assistance and conducts oversight on executive agencies' management of aid programs. As the largest regional recipient of U.S. economic and military aid, the Middle East is perennially a major focus of interest as Congress exercises these responsibilities.

In the Middle East, the United States has a number of strategic interests, ranging from support for the state of Israel and Israel's peaceful relations with its Arab neighbors, to the protection of vital petroleum supplies and the fight against international terrorism. U.S. assistance continues to support the 1979 peace treaty between Israel and Egypt and the continued stability of the Kingdom of Jordan, which signed its own peace treaty with Israel in 1994. U.S. funding also has focused on strengthening Palestinian governance and civil society, and aid officials have worked to ensure that U.S. aid to the West Bank and Gaza Strip is not diverted to terrorist groups. Since the attacks of September 11, 2001, the United States has established new region-wide aid programs that increase the focus on democracy promotion and encourage socio-economic reform in an attempt to undercut the forces of radicalism in some Arab countries.

## Foreign Aid to Support Key U.S. Interests

Despite changing geopolitical conditions, U.S. foreign aid to the Middle East has historically been a function of U.S. national security interests in the region. The United States has pursued a foreign policy that seeks stability in a region with abundant energy reserves but volatile interstate relationships. Policymakers have often employed foreign aid to achieve this objective. Foreign aid has been used as leverage to encourage peace between Israel and her Arab neighbors, while strengthening bilateral relationships between the United States and Israel and between the United States and moderate Arab governments. Foreign aid has worked to cement close military cooperation between the United States and governments in the region, discouraging local states from engaging in uncontrollable arms races. Economic aid also has had an underlying strategic rationale, as U.S. funds have been employed to promote development in an attempt to undercut radicalism in partner countries.

The degree to which foreign assistance has contributed to the achievement of U.S. objectives in the Middle East is difficult to measure, but the consensus among most analysts seems to be that U.S. economic and security aid has contributed significantly to Israel's security, Egypt's stability, and Jordan's friendship with the United States. The promise of U.S. assistance to Israel and Egypt during peace negotiations in the late 1970s enabled both countries to take the risks needed for peace, and may have helped convince both countries that the United States was committed to supporting their peace efforts. Excluding Iraq, Israel and Egypt are the largest two recipients of U.S. aid respectively.

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<sup>1</sup> For the purposes of this report, the Middle East region, or Near East, is defined as an area stretching from Morocco in the west to the Persian Gulf in the east, but not including Turkey.

<sup>2</sup> For assistance with foreign aid terminology and acronyms, please see the glossary appended to this report.

There is debate over using foreign aid more aggressively to pursue various objectives in the Middle East. Some critics of U.S. policy would like to see additional conditions placed on U.S. aid to Egypt, for example, to achieve greater respect for democracy and human rights in that country. Others favor using the aid program more assertively as leverage to restart the Middle East peace process. Some might urge that aid should be conditioned on demonstrable progress in extending full political and economic rights to women and religious minorities. Others, however, assert that the overt use of aid—or the threat of aid reductions—to promote democracy and reform in the Middle East region could lead to a backlash against the United States.

Critics of U.S. aid policy, particularly some in the Middle East, have argued that U.S. foreign aid exacerbates tensions in the region. Many Arab commentators insist that U.S. assistance to Israel indirectly causes suffering to Palestinians by supporting Israeli arms purchases. Another common argument asserts that U.S. foreign aid bolsters autocratic regimes with similar strategic interests to the United States. Some observers have called U.S. aid policy “contradictory,” accusing the United States of bolstering its ties with autocratic regimes through military assistance, while advocating liberalization in the region with less funds dedicated to reform and development aid. As noted above, however, other analysts believe aid has helped protect Israel’s security and stabilize the region.

**Table I. U.S. Foreign Assistance to the Middle East: FY2008-FY2010 Request**  
(regular and supplemental appropriations; current year \$ in millions)

Aid Account	FY2008 Actual	FY2009 Estimate	FY2010 Request
FMF	4,049.955	4,378.155	4,545.370
ESF	1,933.261	2,205.000	1,677.100
MRA/ERMA	342.641	435.440	555.000
INCLE	115.356	214.000	180.500
NADR	56.809	na	na
DA	17.914	34.633	71.400
IMET	12.801	16.265	18.760
GH	2.833	3.000	4.800
<b>Total</b>	<b>6,531.570</b>	<b>7,286.493</b>	<b>7,052.930</b>

Source: State Department FY2010 Budget Justification

## Country Summaries

The following section provides funding details on the largest regular aid recipients in the Middle East: Israel, Egypt, Jordan, the Palestinians, and Lebanon. Each country section features a table with a more elaborate breakdown of aid by account over the last five fiscal years. For information on U.S. assistance for Iraqi reconstruction, see CRS Report RL31833, *Iraq: Reconstruction Assistance*, by Curt Tarnoff.

## Israel<sup>3</sup>

### Overview

Since 1976, Israel has been the largest annual recipient of U.S. foreign assistance and is the largest cumulative recipient since World War II. Strong congressional support for Israel has resulted in Israel's receiving benefits that may not be available to other countries. For example, Israel can use U.S. military assistance for research and development in the United States and for military purchases in Israel.<sup>4</sup> In addition, all U.S. foreign assistance earmarked for Israel is delivered in the first 30 days of the fiscal year. Other recipients normally receive their aid in staggered installments at varying times.

In August 2007, the Bush Administration announced that it would increase U.S. military assistance to Israel by \$6 billion over the next decade. The agreement calls for incremental annual increases in FMF to Israel, reaching \$3.1 billion a year by FY2018. Military analysts speculate that the increase in U.S. assistance will facilitate potential Israeli purchases of the most sophisticated U.S. equipment, including a possible sale of the F-35 Joint Strike Fighter (JSF). Under the terms of the agreement, Israel will still be able to spend 26.3% of U.S. assistance on Israeli-manufactured equipment.

### Military Assistance

Congress has taken measures to strengthen Israel's security and maintain its technological advantage over neighboring militaries. Annual Foreign Military Financing (FMF) grants to Israel represent about 20% of the Israeli defense budget. Israel also is eligible to receive Excess Defense Articles under section 516 of the Foreign Assistance Act. For FY2010, the Administration has requested \$2.77 billion in FMF for Israel.

Since FY1988, Congress has allowed Israel to use approximately a quarter of its FMF funds as cash grant to pay for Israeli defense purchases in Israel. Since 1990, Congress has provided for Israel to receive its FMF aid in a lump sum during the first month of the fiscal year, which allows Israel to invest the funds in U.S. Treasury notes and earn interest similar to ESF early disbursements.

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<sup>3</sup> In addition to U.S. foreign assistance, Israel also receives funds from annual defense appropriations to support the research and development of new military technologies such as the Arrow anti-missile system. See CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

<sup>4</sup> In FY1977, the Israeli government, for the first time, received special permission to use FMF for research and development in Israel on the Merkava tank. After this precedent was established, Israel has been allowed to spend a set percentage of its annual FMF inside Israel.



**Table 2. U.S. Assistance to Israel, FY2005-FY2010 Request**  
(regular and supplemental appropriations; current year \$ in millions)

Account	FY2005	FY2006	FY2007	FY2008	FY2009 Estimate	FY2010 Request
ESF	357.120	237.6	120.0	—	—	—
FMF	2,202.240	2,257.2	2,340.0	2,380.560 <sup>a</sup>	2,550.0	2,775.0 <sup>b</sup>
Humanitarian Migrants to Israel	50	40	40	39.676	30	25
<b>Total</b>	<b>2,609.360</b>	<b>2,534.8</b>	<b>2,500.0</b>	<b>2,420.236</b>	<b>2,580.0</b>	<b>2,800.0</b>

**Source:** U.S. State Department

- a. Congress provided FY2009 FMF funds to Israel in two separate bills. Lawmakers appropriated \$170 million in FMF to Israel in P.L. 110-252, the FY2008 Supplemental Appropriations Act. Another \$2.38 billion was provided in P.L. 111-8, the FY2009 Omnibus Appropriations Act.
- b. Congress provided \$555 million of Israel's total FY2010 FMF appropriation in P.L. 111-32, the FY2009 Supplemental Appropriations Act.

## Egypt<sup>5</sup>

### Overview

Since 1979, Egypt has been the second largest recipient of U.S. foreign assistance, receiving an annual average of close to \$2 billion in economic and military aid. In the past, Congress has earmarked aid to Egypt in annual foreign operations legislation with an accompanying statement calling on Egypt to undertake further economic reforms in addition to reforms taken in previous years.<sup>6</sup> In July 2007, as a part of a larger arms package to the region, the United States announced that it would provide Egypt with \$13 billion in military aid over a ten-year period. Since Egypt has already been receiving approximately \$1.3 billion a year in military assistance, the announcement represented no major change in Administration policy toward Egypt.

### Economic Assistance

The United States has significantly reduced its economic aid to Egypt over the last decade, and many observers believe that U.S. economic assistance may be phased out entirely in the years ahead. There are several reasons for the reduction in U.S. assistance. Overall, U.S. economic aid to Egypt has been trending downward due to a ten-year agreement reached in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3 to 2 ratio similar to total U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40 million reduction for Egypt), but Egypt did not receive

<sup>5</sup> For additional information on U.S. aid to Egypt, see CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.

<sup>6</sup> In FY2006, Egypt's FMF earmark was excluded from the Senate-approved version of the annual foreign aid bill but was later reinstated by conferees.

an increase in military assistance. Thus, the United States reduced ESF aid to Egypt from \$815 million in FY1998 to approximately \$411 million in FY2008.<sup>7</sup>

With the expiration of the Glide Path agreement, the continued expansion of Egypt's economy, a growing desire for more U.S.-Egyptian trade, and a reluctance by Egypt to accept "conditions" on U.S. aid, U.S. and Egyptian officials have expressed a desire to "graduate" Egypt from U.S. bilateral economic assistance.<sup>8</sup> However, neither the United States nor Egypt seem to agree on how aid should be reduced over the coming decade. Egypt would like to establish an endowment to jointly fund development projects.<sup>9</sup> Some analysts believe that the proposed endowment, which reportedly would be matched by the Egyptian government on a dollar-for-dollar basis, would serve as a substitute for the annual appropriations process and shield Egypt from potential conditionality agreements mandated by Congress. So far, there has been limited interest in pursuing an aid endowment.

For FY2010, the Administration is requesting \$250 million in ESF for Egypt. According to the U.S. State Department's FY2010 Congressional Budget Justification, ESF funds will improve primary health care, enhance education, and support Egypt's efforts to transition to a private sector-led economy. U.S. assistance also will support democracy promotion programs designed to increase public participation "while promoting human rights, civic education, and administration of and access to justice." A portion of U.S. economic assistance is provided to Egypt as a direct cash transfer to help Egypt further liberalize its economy.

## **Military Assistance**

The Administration has requested \$1.3 billion in FMF for Egypt in FY2010—the same amount it received in FY2009. FMF aid to Egypt is divided into three general components: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/ maintenance contracts. According to U.S. and Egyptian defense officials, approximately 30% of annual FMF aid to Egypt is spent on new weapons systems, as Egypt's defense modernization plan is designed to gradually replace most of Egypt's older Soviet weaponry with U.S. equipment. That figure is expected to decline over the long term due to the rising costs associated with follow-on maintenance contracts. Egyptian military officials have repeatedly sought additional FMF funds to offset the escalating costs of follow-on support. Egypt also receives Excess Defense Articles (EDA) worth hundreds of millions of dollars annually from the Pentagon. Egyptian officers also participate in the IMET program (\$1.4 million requested for FY2010) in order to facilitate U.S.-Egyptian military cooperation over the long term.

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<sup>7</sup> In FY2003, Egypt, along with Israel and several other regional governments, received supplemental assistance as part of the FY2003 Iraq Emergency Supplemental Appropriations Act (P.L. 108-11). It included \$300 million in ESF for Egypt, which could be used to cover the costs of up to \$2 billion in loan guarantees. The loan guarantees were to be issued over three years.

<sup>8</sup> CRS conversation with U.S. and Egyptian officials, January 9, 2008.

<sup>9</sup> The Senate version of the FY2008 Foreign Operations bill (H.R. 2764), contained an amendment, entitled "The United States-Egypt Friendship Endowment," that would have provided up to \$500 million in ESF to establish an endowment to "further social, economic and political reforms in Egypt."

**Table 3. U.S. Assistance to Egypt, FY2005-FY2010 Request**  
(Regular and Supplemental Appropriations; Current Year \$ in millions)

Account	FY2005	FY2006	FY2007	FY2008	FY2009 Estimate	FY2010 Request
ESF	530.720	490.050	455.0	411.639	250.0 <sup>a</sup>	250.0
FMF	1,289.600	1,287.0	1,300.0	1,289.470	1,300.0	1,300.0 <sup>b</sup>
IMET	1.200	1.208	1.203	1.237	1.300	1.400
NADR/INCLE <sup>c</sup>	-	1.029	1.545	3.545	52.000 <sup>d</sup>	1.0
<b>Total</b>	<b>1,821.520</b>	<b>1,779.287</b>	<b>1,757.748</b>	<b>1,705.891</b>	<b>1,603.300</b>	<b>1,552.4</b>

**Source:** U.S. State Department.

- Egypt received \$200 million in ESF from P.L. 111-8, the FY2009 Omnibus Appropriations Act. It then received an additional \$50 in ESF from P.L. 111-32, the FY2009 Supplemental Appropriations Act.
- Congress provided \$260 million of Egypt's total FY2010 FMF appropriation in P.L. 111-32, the FY2009 Supplemental Appropriations Act.
- This category includes funds (INCLE, NADR) for counter terrorism, border control, and technical cooperation.
- P.L. 111-32, the FY2009 Supplemental Appropriations Act, provided \$50 million in NADR funds for border security in Rafah, Egypt along the Gaza border.

## Jordan<sup>10</sup>

### Overview

The United States has provided economic and military aid, respectively, to Jordan since 1951 and 1957. Total U.S. aid to Jordan through FY2009 amounted to approximately \$11 billion. Levels of aid have fluctuated, increasing in response to threats faced by Jordan and decreasing during periods of political differences or worldwide curbs on aid funding.

On September 22, 2008, the U.S. and Jordanian governments reached an agreement whereby the United States will provide a total of \$660 million in annual foreign assistance to Jordan over a 5-year period. Under the terms their non-binding Memorandum of Understanding (MOU), this first-of-its-kind deal commits the United States, subject to future Congressional appropriation and availability of funds, to providing \$360 million per year in Economic Support Funds (ESF) and \$300 million per year in Foreign Military Financing (FMF).

The Administration's FY2010 request to Congress is \$668.3 million for U.S. aid to Jordan. This includes \$363 in economic aid and \$300 million in military assistance. In addition to funds specifically earmarked for Jordan, previous emergency supplemental bills have contained funds to reimburse Pakistan, Jordan, and other key cooperation states for logistical expenses in support of U.S. military operations in Iraq and Afghanistan.

<sup>10</sup> For more information on Jordan, see CRS Report RL33546, *Jordan: Background and U.S. Relations*, by Jeremy M. Sharp.

## Economic Assistance

The United States provides economic aid to Jordan as both a cash transfer and for USAID programs in Jordan. The Jordanian government uses cash transfers to service its foreign debt (approximately \$7.4 billion). Approximately 45% of Jordan's ESF allotment each year goes toward the cash transfer. USAID programs in Jordan focus on a variety of sectors including democracy assistance, water preservation, and education. In the water sector, the bulk of U.S. economic assistance is devoted to optimizing the management of scarce water resources, as Jordan is one of the most water-deprived countries in the world. USAID is currently subsidizing several waste treatment and water distribution projects in the Jordanian cities of Amman, Aqaba, and Irbid.

## Military Assistance

U.S. military assistance is primarily directed toward upgrading Jordan's air force, as recent purchases include upgrades to U.S.-made F-16 fighters, air-to-air missiles, and radar systems. FMF grants also provide financing for Jordan's purchase of U.S. Blackhawk helicopters in order to enhance Jordan's border monitoring and counter-terror capability. Jordan is currently the single largest provider of civilian police personnel and fifth largest provider of military personnel to UN peacekeeping operations worldwide.

**Table 4. U.S. Assistance to Jordan, FY2005-FY2010 Request**  
(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2005	FY2006	FY2007	FY2008	FY2009 Estimate	FY2010 Request
ESF	348.000	297.500	255.300	361.412	513.547 <sup>a</sup>	363.000
FMF	304.352	207.900	252.900	348.380 <sup>b</sup>	335.000 <sup>c</sup>	300.000 <sup>d</sup>
IMET	3.000	3.020	2.922	2.941	3.100	3.800
CSH	—	—	—	—	13.144	—
Other <sup>e</sup>	—	2.491	26.741	25.059	20.650	1.500
<b>Total</b>	<b>655.352</b>	<b>510.911</b>	<b>537.863</b>	<b>737.792</b>	<b>885.441</b>	<b>668.300</b>

**Source:** U.S. State Department

- a. Congress provided FY2009 ESF aid to Jordan in 3 separate appropriations acts, including: \$150 million from P.L. 111-32, \$263.547 million from P.L. 111-8, and \$100 million from P.L. 110-252.
- b. Congress provided FY2008 FMF aid to Jordan in 2 separate appropriations acts, including: \$298 million from P.L. 110-161 and \$50 million from P.L. 110-252.
- c. Congress provided FY2009 FMF aid to Jordan in 2 separate appropriations acts, including: \$235 million from P.L. 111-8 and \$100 million from P.L. 110-252.
- d. Congress provided \$150 million of Jordan's total FY2010 FMF appropriation from P.L. 111-32, the FY2009 Supplemental Appropriations Act.
- e. This category includes funds for counter terrorism, border control, and technical cooperation.

## **Palestinians – West Bank/Gaza<sup>11</sup>**

### **Overview**

Since the signing of the Oslo Accord in 1993, the U.S. government has committed more than \$3.3 billion in bilateral economic assistance to the Palestinians, of which more than \$1.8 billion has been provided since FY2004.<sup>12</sup> According to annual foreign operations legislation, congressionally approved funds for the West Bank and Gaza Strip cannot be used for the Palestinian Authority (PA), unless the President submits a waiver to Congress citing that it is in the interest of national security.<sup>13</sup> Should the Hamas “government” in Gaza form a unity government with the Palestinian Authority in the West Bank, a provision in the FY2009 Supplemental Appropriations Act (P.L. 111-32) would allow the U.S. government to provide assistance to a power-sharing PA government of which Hamas is a member if the President certifies that such a government, including all of its ministers, acknowledges Israel’s right to exist and commits and adheres to previous international agreements, including the 2003 Roadmap.<sup>14</sup>

Since the death of Yasser Arafat in November 2004, U.S. assistance to the Palestinians has averaged about \$360 million a year. During the 1990s, U.S. foreign aid to the Palestinians averaged approximately \$75 million per year. Most U.S. assistance to the Palestinians is provided through USAID’s West Bank and Gaza program. USAID allocates funds for projects in sectors such as humanitarian assistance, economic development, democratic reform, improving water access and other infrastructure, health care, education, and vocational training (currently most, if not all, funds for the Gaza Strip are dedicated to humanitarian assistance and economic recovery needs). By law, U.S. assistance to the West Bank and Gaza Strip, as well as for many other aid recipients, must be vetted and audited to ensure that no U.S. funds are provided to or through any individual, private or government entity, or educational institution that advocates, plans, sponsors, engages in, or has engaged in, terrorist activity. Lawmakers usually include funds in annual foreign operations legislation providing for audits and inspections of USAID projects in the West Bank and Gaza Strip.<sup>15</sup>

U.S. assistance also reaches Palestinians through contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which provides humanitarian relief and basic services to Palestinian refugees living in the West Bank, Gaza Strip, Jordan, Syria, and Lebanon.

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<sup>11</sup> See also CRS Report RS22967, *U.S. Foreign Aid to the Palestinians*, by Jim Zanotti.

<sup>12</sup> The USAID program in the West Bank and Gaza Strip provides assistance to the Palestinian people through contractors and other non-governmental organizations. The PLO, which represents the Palestinian diaspora, has never received funds from the U.S. government.

<sup>13</sup> See H.R. 3081, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010, Limitation on Assistance for the Palestinian Authority, sec. 7040(b).

<sup>14</sup> See Section 1107 of P.L. 111-32, the Supplemental Appropriations Act, 2009. This section would prohibit U.S. assistance to Hamas, but, according to Section 1107 (b), “Notwithstanding the limitation of subsection (a), assistance may be provided to a power-sharing government only if the President certifies in writing and reports to the Committees on Appropriations that such government, including all of its ministers or such equivalent, has publicly accepted and is complying with the principles contained in section 620K(b)(1)(A) and (B) of the Foreign Assistance Act of 1961.”

<sup>15</sup> See Section 7039 of H.R. 3081, the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010.

A May 2009 General Accountability Office (GAO) report has provided details on how effectively (1) USAID vets its contractors for its West Bank and Gaza program and (2) the State Department monitors UNRWA's compliance with its requirements (under the 1961 Foreign Assistance Act (P.L.87-195), as amended) that it "take all possible measures" to avoid furnishing assistance to Palestinian terrorists.<sup>16</sup>

## U.S. Contributions to UNRWA

The United Nations Relief and Works Agency (UNRWA) provides food, shelter, medical care, and education for many of the three million Palestinian refugees from the 1948-1949 Arab-Israeli war.<sup>17</sup> U.S. contributions to UNRWA come from the general Migration and Refugee Assistance (MRA) account and also through the Emergency Refugee and Migration Assistance (ERMA) account. The U.S. contribution to UNRWA usually covers 20 to 25% of the UNRWA total budget.<sup>18</sup> The United States is the largest bilateral donor to the UNRWA and second only to the European Commission as a contributor. U.S. support for UNRWA is not treated as bilateral economic aid to the Palestinians.

With Hamas now in control of the entire Gaza Strip, some lawmakers are concerned that U.S. contributions to UNRWA will inadvertently be used to support Hamas activities in Gaza.<sup>19</sup> H.R. 3081, the House-passed FY2010 Foreign Operations Appropriations bill, includes a provision (section 7086) calling on the State Department to report to Congress, among other things, on whether UNRWA is dealing promptly with any staff or beneficiary violations of its own policies, taking steps to improve the transparency of all educational materials currently in use in UNRWA-administered schools, and not engaging in operations with financial institutions or related entities in violation of relevant United States law.

### Recent U.S. Contributions to UNRWA

FY2003	\$134 million
FY2004	\$127 million
FY2005	\$108 million
FY2006	\$137 million
FY2007	\$154 million
FY2008	\$184 million

<sup>16</sup> See U.S. Government Accountability Office (GAO), *Measures to Prevent Inadvertent Payments to Terrorists Under Palestinian Aid Programs Have Been Strengthened, but Some Weaknesses Remain*, GAO Foreign Assistance Report 09-622, May 2009, p. 15, available at <http://www.gao.gov/new.items/d09622.pdf>.

<sup>17</sup> See CRS Report RS21668, *United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)*, by Rhoda Margesson.

<sup>18</sup> According to PRM, U.S. contributions in 2008 constituted approximately 17.8% of the UNRWA General Fund budget and a major share (up to 25%) of other UNRWA funds benefitting Palestinian refugees in Lebanon, the West Bank, and Gaza. Aggregate contributions from the European Commission and European states (including both EU members and non-members) and regions constitute approximately 60% of all UNRWA contributions, according to UNRWA's 2006-2007 financial statement. See UNRWA Financial Report and Audited Financial Statements (for the Biennium Ended 31 December 2007) and Report of the Board of Auditors, U.N. General Assembly Official Records (63rd Session, Supplement No. 5C), 2008.

<sup>19</sup> Section 301(c) of the 1961 Foreign Assistance Act (P.L. 87-195), as amended, says that "No contributions by the United States shall be made to [UNRWA] except on the condition that [UNRWA] take[s] all possible measures to assure that no part of the United States contribution shall be used to furnish assistance to any refugee who is receiving military training as a member of the so-called Palestine Liberation Army or any other guerrilla type organization or who has engaged in any act of terrorism."

## FY2010 Request

For FY2010, the Obama Administration has requested \$400 million in economic aid and an additional \$100 million in security assistance to train and equip Palestinian security forces. According to the U.S. State Department, “U.S. assistance will provide significant resources to support the stability of the Palestinian Authority.”

**Table 5. U.S. Bilateral Assistance to the Palestinians, FY2005-FY2010 Request**  
(regular and supplemental appropriations; current year \$ in millions)

Account	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010 Request
ESF	224.4	148.5	50.0	389.5	776.0 <sup>a</sup>	400.4
P.L. 480 Title II	6.0	4.4	19.488	-	-	—
INCLE	-	-	-	25.0	184.0 <sup>b</sup>	100.0
Transition Initiatives	-	.343	-	-	-	—
<b>Total</b>	<b>230.4</b>	<b>153.2<sup>c</sup></b>	<b>69.488</b>	<b>414.5</b>	<b>960.0</b>	<b>500.4</b>

**Source:** U.S. State Department, USAID.

- a. Congress provided FY2009 ESF aid to the Palestinians in 3 separate appropriations acts, including: \$551 million from P.L. 111-32, \$75 million from P.L. 111-8, and \$150 million from P.L. 110-252.
- b. Congress provided FY2009 INCLE aid to the Palestinians in 3 separate appropriations acts, including: \$109 million from P.L. 111-32, \$25 million from P.L. 111-8, and \$50 million from P.L. 110-252.
- c. Following the formation of the Hamas-led PA government in March 2006, USAID suspended most of its programs in the West Bank and Gaza. However, in order to alleviate a humanitarian crisis in the West Bank and Gaza stemming from the cutoff of aid from Western donors, the State Department and USAID redirected U.S. assistance to the Palestinian groups not affiliated with Hamas. The assistance came from several foreign aid accounts and funds appropriated in prior years, which were reprogrammed and delivered through international organizations such as the United Nations. The State Department also transferred approximately \$35 million in appropriated FY2006 ESF funds for the West Bank and Gaza to other foreign aid accounts.

## Lebanon

Over the last four years, in the wake of Syria’s 2005 withdrawal from Lebanon, the formation (2005) and reelection (2009) of a pro-Western Lebanese government, the 2006 Hezbollah-Israeli war, domestic instability caused by militants in Palestinian refugee camps (2007), and Hezbollah activities against the government (2008), the United States government has significantly increased both economic and security assistance to Lebanon. In the last four fiscal years, Congress has provided Lebanon nearly 1 billion dollars in bilateral assistance in addition to other aid from the Defense Department and contributions to international peacekeeping efforts.

U.S. economic assistance is used both to strengthen USAID democracy and development programming and to reduce Lebanon’s external debt. Congress also has sought to ensure that U.S. aid supports educational scholarships for students in Lebanon with high financial need (\$10 million for FY2009).

U.S. military aid is used to train and equip the Lebanese Armed Forces (LAF) and the Internal Security Forces. In annual foreign operations legislation, Congress has sought to ensure that the State Department establish vetting procedures to determine eligibility to participate in U.S.

training and assistance programs in order to ensure that U.S. aid does not benefit Hezbollah fighters.<sup>20</sup>

For FY2010, the Obama Administration is seeking \$231 million in total aid for Lebanon. According to the U.S. State Department, the FY2010 request will support Lebanon’s efforts to control its territory and counterterrorism. It also will support efforts to strengthen Lebanon’s democracy by “fostering credible, transparent institutions at all levels.”

In addition to bilateral assistance, U.S. aid also supports the United Nations peacekeeping mission in southern Lebanon, known as the UN Interim Force in Lebanon or UNIFIL. Lebanon also is a recipient of Department of Defense Global Train and Equip funds, authorized by Section 1206 of the National Defense Authorization Act for Fiscal Year 2006 (P.L. 109-163). Since its inception in FY2006, DoD has provided \$61 million to Lebanon for counterterrorism assistance.

**Table 6. U.S. Assistance to Lebanon, FY2005-FY2010 Request**  
(regular and supplemental appropriations; current year \$ in millions)

Account	FY2005	FY2006	FY2007	FY2008	FY2009 Estimate	FY2010 Request
ESF	39.720	39.600	334.6	44.636	67.5	109.0
FMF	—	3.713	224.8	6.943	159.7 <sup>a</sup>	100.0
INCLE	—	—	60.0	.496	6.0	20.0
NADR	2.300	2.978	8.5	4.745	4.6	—
IMET	.700	.752	.905	1.428	2.130	2.5
DA	.500	2.000	—	—	—	—
<b>Total</b>	<b>43.220</b>	<b>49.043</b>	<b>628.805</b>	<b>58.248</b>	<b>239.93</b>	<b>231.5</b>

**Source:** U.S. State Department, USAID.

- a. Congress provided FY2009 FMF aid to Lebanon in 3 separate appropriations acts, including: \$69 million from P.L. 111-32, \$32.5 million in P.L. 110-252, and \$58.2 million from P.L. 111-8.

<sup>20</sup> In conference report language accompanying P.L. 111-32, the Supplemental Appropriations Act, 2009, lawmakers wrote that “no assistance may be made available for obligation until the Secretary of State reports to the Committees on Appropriations on the vetting procedures in place to determine eligibility to participate in United States training and assistance programs funded under this account. The conferees direct the Secretary of State to report on the procedures in place to ensure that no funds are provided to any individuals or organizations that have any known links to terrorist organizations including Hezbollah, and mechanisms to monitor the use of the funds. The conferees direct that the Department of State consult with the Committees on Appropriations prior to the obligation of funds provided for assistance for Lebanon in this title.” See H.Rept. 111-151.



**Table 7. U.S. Contributions to UNIFIL**

(regular and supplemental appropriations; current year \$ in millions)

Fiscal Year	CIPA Account
FY2007	184.0
FY2008	35.628
FY2009	186.4
FY2010 Request	210.914

Source: U.S. State Department

## Other Recipients and Programs

Excluding the region's top recipients of U.S. assistance (such as Israel, Egypt, and Jordan), the rest of the Middle East receives only a small portion of the total bilateral assistance to the region. The following table provides aid figures for individual countries not listed in the "country summaries" section.

**Table 8. Other Regional Recipients, FY2005-FY2010 Request**

(regular and supplemental appropriations; current year \$ in millions)

Country/Account	FY2005	FY2006	FY2007	FY2008	FY2009 Estimate	FY2010 Request
<b>Algeria Total</b>	<b>1.405</b>	<b>.888</b>	<b>1.915</b>	<b>2.107</b>	<b>1.700</b>	<b>2.820</b>
NADR	.485	.065	1.075	.813	.500	---
INCLE	---	---	---	.198	---	.970
IMET	.920	.823	.840	.696	.800	.950
DA	---	---	---	---	.400	.900
ESF	---	---	---	.400	---	---
<b>Bahrain Total</b>	<b>20.987</b>	<b>19.005</b>	<b>17.630</b>	<b>5.840</b>	<b>9.450</b>	<b>20.200</b>
FMF	18.848	15.593	15.750	3.968	8.000	19.500
NADR	1.489	2.761	1.240	1.250	.800	---
IMET	.650	.651	.640	.622	.650	.700
<b>Kuwait Total</b>	<b>.814</b>	<b>.628</b>	<b>1.090</b>	<b>---</b>	<b>.015</b>	<b>.015</b>
NADR	.814	.628	1.070	---	---	---
IMET	---	---	.020	---	.015	.015
<b>Libya Total</b>	<b>.300</b>	<b>---</b>	<b>---</b>	<b>.633</b>	<b>3.600</b>	<b>.600</b>
NADR	---	---	---	.300	.750	---
IMET	---	---	---	.333	.350	.350
ESF	---	---	---	---	2.500	---
FMF	---	---	---	---	---	.250
<b>Morocco Total</b>	<b>47.909</b>	<b>35.198</b>	<b>40.170</b>	<b>26.661</b>	<b>25.005</b>	<b>40.430</b>

<b>Country/Account</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009 Estimate</b>	<b>FY2010 Request</b>
ESF	19.840	10.890	18.000	15.374	—	3.000
FMF	15.128	12.375	12.500	3.625	3.655	9.000
NADR	2.074	.775	1.295	1.317	.625	---
INCLE	2.992	.990	1.000	.496	1.000	2.030
DA	6.000	8.284	5.400	4.136	18.000	24.500
IMET	1.875	1.884	1.975	1.713	1.725	1.900
<b>Oman Total</b>	<b>21.594</b>	<b>15.395</b>	<b>16.505</b>	<b>8.229</b>	<b>9.400</b>	<b>18.270</b>
FMF	19.840	13.860	14.000	4.712	7.000	16.620
NADR	.654	.400	1.370	2.089	.950	---
IMET	1.100	1.135	1.135	1.428	1.450	1.650
<b>Qatar Total</b>	<b>1.379</b>	<b>.906</b>	<b>1.493</b>	<b>.282</b>	<b>.015</b>	<b>.015</b>
NADR	1.379	.906	1.493	.268	—	---
IMET	—	—	—	.014	.015	.015
<b>Saudi Arabia Total</b>	<b>.985</b>	<b>1.576</b>	<b>.420</b>	<b>.113</b>	<b>.365</b>	<b>.065</b>
NADR	.960	1.576	.400	.099	.350	---
IMET	.025	—	.020	.014	.015	.065
<b>Tunisia Total</b>	<b>11.795</b>	<b>10.285</b>	<b>11.230</b>	<b>11.475</b>	<b>14.925</b>	<b>17.300</b>
FMF	9.920	8.413	8.500	8.345	12.000	15.000
ESF	—	—	—	.992	.800	---
NADR	—	.025	.755	.497	.425	---
INCLE	—	—	—	.198	—	---
IMET	1.875	1.847	1.975	1.713	1.700	2.300
<b>United Arab Emirates Total</b>	<b>.534</b>	<b>.961</b>	<b>1.335</b>	<b>.314</b>	<b>.940</b>	<b>.015</b>
NADR	.534	.961	1.335	.300	.925	---
IMET	—	—	—	.014	.015	.015
<b>Yemen Total</b>	<b>29.098</b>	<b>18.700</b>	<b>25.336</b>	<b>18.680</b>	<b>40.325</b>	<b>51.900</b>
FMF	9.920	8.415	8.500	3.952	2.800	10.000
Global Health Child Survival	---	---	---	2.833	3.000	4.800
ESF	14.880	7.920	12.00	1.500	19.767	---
NADR	3.198	1.441	3.751	4.034	2.525	---
INCLE	—	—	—	.496	---	1.000
DA	—	—	—	4.913	11.233	35.000
IMET	1.100	.924	1.085	.952	1.000	1.100

**Source:** U.S. State Department, USAID.

## Foreign Aid Issues

### Promoting Democracy and Reform

#### The Millennium Challenge Account<sup>21</sup>

The Millennium Challenge Account (MCA) is based on the premise that economic development succeeds best where it is linked to free market economic and democratic principles and policies, and where governments are committed to implementing reform measures in order to achieve such goals. MCA funds are available on a competitive basis to a few countries which have demonstrated a commitment to sound development policies and where U.S. support is believed to have the best opportunities for achieving the intended results. These “best-performers” would be selected based on their records in three areas—ruling justly, investing in people, and pursuing sound economic policies.

#### *Morocco*

Morocco was named eligible for Millennium Challenge Compact assistance on November 8, 2005. In 2007, Morocco signed a five-year \$697.5 million agreement with the Millennium Challenge Corporation (MCC). At the time, this was the largest compact agreement the MCC had ever awarded since its establishment in 2004. According to the MCC’s 2008 scorecard for Morocco, the government scores below the median in almost all areas related to political reform but performs better in fields related to economic freedom and investments in people.<sup>22</sup>

The Compact agreement has multiple components, all aimed at increasing private sector growth. These include efforts to increase fruit tree productivity (\$300.9 million), modernize the small-scale fisheries industry (\$116.2 million), and support artisan crafts (\$111.9 million). In addition, the Compact will fund financial services to micro-enterprises (\$46.2 million) and will provide business training and technical assistance aimed at young, unemployed graduates (\$33.9 million).

#### *Jordan*

In FY2006, Jordan was listed by the Millennium Challenge Corporation (MCC) as a threshold country in the lower middle-income bracket. On September 12, 2006, the MCC’s Board of Directors approved up to \$25 million in Threshold Program assistance for Jordan. Even prior to the selection, the possible choice of Jordan had come under severe criticism. Freedom House, the organization whose annual Index of Freedom is drawn upon for two of the “Ruling Justly” indicators, had urged the MCC Board to bypass countries that had low scores on political rights and civil liberties. It argued that countries like Jordan that fall below 4 out of a possible 7 on its index should be automatically disqualified. Jordan, however, did well on three of the six other indicators in this category. Several development analysts further argued that Jordan should not be selected, because the MCA is not an appropriate funding source. They assert that Jordan already is one of the largest recipients of U.S. aid, has access to private sector capital, and is not a

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<sup>21</sup> For more information on the MCC, see CRS Report RL32427, *Millennium Challenge Corporation*, by Curt Tarnoff.

<sup>22</sup> The MCC’s Morocco scorecard is available at <http://www.mcc.gov/documents/score-fy08-morocco.pdf>.

democracy. In selecting Jordan, the MCC Board appears not to have been swayed by these arguments.

Jordan's Threshold assistance is being used to improve water access and quality. USAID is the main U.S. government agency charged with implementing the Jordan Threshold Program. According to the last update from the MCC in January 2009, the Jordanian government, through a consultative process, has identified increased water-use efficiency as a possible source of joint MCC-Jordanian cooperation. Jordan also completed a successful project to modernize customs and will complete a project to strengthen local governance mechanisms in nine municipalities by September 2009. The Jordanian government only recently submitted its Compact proposal and funding considerations will most likely be postponed until 2010.

### *Yemen*

Yemen is another Middle Eastern country eligible for MCC assistance. In November 2005, the Millennium Challenge Corporation (MCC) suspended Yemen's eligibility for assistance under its Threshold Program, concluding that corruption in the country had increased after Yemen was named as a potential aid candidate in FY2004. Yemen became eligible to reapply in November 2006 and had its eligibility reinstated in February 2007, nearly six months after it held what some observers described as a relatively successful presidential election.

On September 12, 2007, the MCC approved a \$20.6 million grant to Yemen. However, MCC head John Danilovich has postponed awarding assistance to Yemen, as the MCC reviews funding proposals. In the 2008 MCC scorecard, Yemen scores below the median in almost all categories.

In December 2008, the MCC's Board of Directors decided that Yemen is no longer eligible for threshold program assistance.<sup>23</sup>

### **The Middle East Partnership Initiative (MEPI)**

MEPI is an office within the Bureau for Near Eastern Affairs at the U.S. State Department that supports democracy, reform, economic development, education, and women's empowerment in the Arab world. Since its inception in 2002, Congress has provided MEPI with over \$517 million in Economic Support Funds, although the program rarely receives its full Administration request from Congress. In general, while the program has been praised for helping to make democracy promotion in the Arab world a somewhat higher priority within the U.S. foreign policy bureaucracy, critics occasionally question its impact and whether the program is designed to stabilize or destabilize autocratic regimes in the Arab world.

One of MEPI's major contributions to U.S. democracy promotion in the Arab world has been to directly fund indigenous Arab non-governmental organizations (NGOs) throughout the Middle East and North Africa in order to amplify their reform agenda in their home countries. In general, Arab regimes severely restrict local NGOs from receiving external support, and sometimes MEPI-funded activities have been obstructed by host governments.

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<sup>23</sup> <http://www.mcc.gov/mcc/press/releases/release-121108-selection.shtml>

In 2004, MEPI began issuing small grants directly to NGOs in the Middle East in order to support political activists and human rights organizations. Congressional action played a large role in facilitating MEPI’s small grants program in Egypt. The FY2005 Consolidated Appropriations Act (P.L. 108-447) stipulated that U.S. funds for democracy and governance activities in Egypt were no longer subject to the prior approval of the Egyptian government. Now, U.S. government agencies can directly fund NGOs in Egypt in coordination with an independent board of Egyptian political activists and experts. Consequently, MEPI grants were awarded to some NGOs to help train election monitors for the 2005 presidential and parliamentary elections in Egypt. MEPI also supported election monitoring efforts for the 2005 elections in Lebanon as well as elections in Yemen, Morocco, and Kuwait. MEPI also provides grants to fund political opposition activities in Iran and Syria.

**Table 9. Middle East Partnership Initiative Appropriations, FY2003-FY2010 Request**

(regular and supplemental appropriations; current year \$ in millions)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009 Estimate	FY2010 Request
ESF	90.0	89.4	74.4	113.8	50.0	49.595	50.0	86.0

**Source:** U.S. State Department, USAID.

## Restrictions on Aid to the Palestinians<sup>24</sup>

Annual Foreign Operations Appropriations measures include several limitations on funding for Palestinian organizations and institutions including the following provisions:

- **Limitation on Assistance to the Palestinian Authority.** Bans direct U.S. assistance to the Palestinian Authority (PA) unless the President submits a waiver to Congress citing that such assistance is in the interest of national security. The waiver can be for up to one year, and must be accompanied by a report to the appropriate congressional committees on PA actions to stop terrorism.
- **Limitation on Assistance for the PLO for the West Bank and Gaza.** Bans aid to the Palestinian Liberation Organization (PLO) for the West Bank and Gaza. No U.S. aid has ever been provided to the PLO. This provision states that no funds may be provided to the Palestine Liberation Organization for the West Bank and Gaza unless the President has waived Section 307 of the Foreign Assistance Act of 1961,<sup>25</sup> as amended.
- **Restrictions Concerning the Palestinian Authority.** Bans using U.S. funds for a new office in Jerusalem for the purpose of conducting diplomatic business with the “Palestinian Authority over Gaza and Jericho.”

<sup>24</sup> For additional detail, see CRS Report RS22967, *U.S. Foreign Aid to the Palestinians*, by Jim Zanotti.

<sup>25</sup> Section 307 (P.L. 87-195. Section 307 is at 22 U.S.C. 2227) withholds a proportionate share of U.S. contributions to international organizations for programs benefitting the PLO. Section 3 of the Middle East Peace Facilitation Act of 1993 provided a presidential waiver for Section 307 (extended in the Middle East Peace Facilitation Act of 1995) that is the same waiver referred to in annual foreign operations appropriations bills.

- **Prohibition on Assistance to the Palestinian Broadcasting Corporation.** Bans U.S. assistance to the Palestinian Broadcasting Corporation (PBC). Israel accuses the PBC of inciting violence against Israelis.
- **Auditing USAID’s West Bank and Gaza Program.** Calls for annual audits of all U.S. assistance to the West Bank and Gaza Strip in order to ensure that funds are not being diverted to terrorist groups. This provision also states that the Secretary of State shall certify to Congress that the Comptroller General of the United States has access to financial data on the Economic Support Funds (ESF) for the West Bank and Gaza. And, the Secretary of State “shall take all appropriate steps” to ensure that no U.S. assistance is provided to any person or group engaged in terrorism. The Section states that the USAID Administrator should ensure that all contractors and sub-contractors are audited annually, and sets aside ESF funds for the USAID Inspector General to conduct audits.
- **Palestinian Statehood.** Bans U.S. assistance to a future Palestinian state unless the Secretary of State certifies, among other things, that the leadership of the new state has been democratically elected, is committed to peaceful coexistence with Israel, and is taking appropriate measure to combat terrorism. The President can waive the certification if he determines that it is important to U.S. national security interests.

### **The Palestinian Anti-Terrorism Act of 2006**

In 2006, Congress passed new legislation governing U.S. assistance to the Palestinians, the Palestinian Anti-Terrorism Act of 2006. On December 21, 2006, President Bush signed into law S. 2237 (P.L. 109-446), the Senate version of the Palestinian Anti-Terrorism Act of 2006. The law bars aid to the Hamas-led Palestinian government unless, among other things, it acknowledges Israel’s right to exist and adheres to all previous international agreements and understandings. It exempts funds for humanitarian aid and democracy promotion. It also authorizes \$20 million in FY2007 funding to establish a fund promoting Palestinian democracy and Israeli-Palestinian peace. P.L. 109-446 also features extensive certification requirements on U.S. assistance to the West Bank and Gaza through USAID. The law limits the PA’s representation in the United States as well as U.S. contact with Palestinian officials. In a signing statement, the President asserted that these and several other of the bill’s provisions impinge on the executive branch’s constitutional authority to conduct foreign policy, and he therefore viewed them as “advisory” rather than “mandatory.” The original House version of the bill (H.R. 4681, passed on June 23, 2006) was seen by many observers as more stringent as it would have made the provision of U.S. aid to the PA more difficult even if Hamas relinquishes power. In March 2007, Representative Ileana Ros-Lehtinen introduced H.R. 1856, the Palestinian Anti-Terrorism Act Amendments of 2007, which would amend the original Act to further restrict contact with and assistance to the PA.

### **USAID’s Anti-Terrorism Procedures**

In 2007, there were several reports that U.S. economic assistance was indirectly supporting Palestinian terrorist groups. In March 2007, a *Washington Times* article charged that USAID had been providing funds to Palestinian universities (Islamic University and Al Quds University)

which were either under Hamas's control or had a significant Hamas presence.<sup>26</sup> After additional accusations surfaced, USAID conducted an internal audit of its anti-terrorism procedures and concluded it cannot "reasonably ensure" that its money does not wind up in terrorist hands.<sup>27</sup>

In response to continued demands by Congress that USAID tighten its vetting procedures, the agency is revamping its oversight of U.S. assistance programs to the West Bank and Gaza Strip.<sup>28</sup> USAID has increased its use of intelligence databases for clearance of all contracts and funds. According to Henrietta Fore, USAID Administrator and Director of US Foreign Assistance:

Currently, the program that we have for the West Bank includes in it the vetting of the top few board members for any contract that is going to be receiving money. So the current vetting system has this in it, and your strong support and vigilance has encouraged that. The new vetting system that we are now talking with members of Congress, staff and the private voluntary organization community about would be even stronger, which is why our intention would be to begin a pilot, and to begin it in West Bank. It is important that we roll this out in the area of highest risk. Our current programs, the I.G. has come back to look at a second time, and feel that they are adequate currently, but we think that we would like to go a step deeper. We are also working with other agencies, Department of State and other federal agencies, because we, as the United States government, wish to have the same strong guidelines, so that we are being smart and capable in both searching our databases, as well in the restrictions that we are putting on for who gets funding within areas of highest risk. We need to have a full toolkit.<sup>29</sup>

## **Auditing UNRWA**

Some U.S. lawmakers are concerned that U.S. donations to the United Nations Refugee Works Administration (UNRWA), which has provided services to Palestinian refugees since 1948, could be used to support individuals who also are terrorists. Over the past several years, Congress has demanded that an independent audit be conducted of UNRWA's finances.

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<sup>26</sup> "Careful vetting"? ; How Taxes Fund Palestinian schools," *Washington Times*, March 23, 2007.

<sup>27</sup> "Audit: Terrorists got U.S. aid; Agency's Screening Called Inadequate," *Chicago Tribune*, November 16, 2007.

<sup>28</sup> In the past, USAID had taken several precautions to ensure that funds for Palestinian NGOs in the West Bank and Gaza Strip are not used to support terrorism. According to a USAID factsheet on aid to the Palestinians, all NGOs that receive U.S. funding are required to sign an anti-terrorism certification. USAID personnel also are required to vet all grantees in order to ensure that U.S. assistance does not benefit those who have committed terrorist acts. NGOs also must submit quarterly financial reports to USAID on how U.S. economic assistance funds are spent.

<sup>29</sup> Testimony of Henrietta Fore, USAID Administrator and Director of US Foreign Assistance, House Appropriations Subcommittee on State, Foreign Operations, and Related Programs Holds Hearing on the Fiscal 2009 Budget for the U.S. Agency for International Development, February 27, 2008.

# Historical Background

## U.S. Assistance to the Middle East Since 1950

### 1950-1970

Even when adjusted for inflation, annual U.S. assistance to the Middle East in the decades following World War II was only a small fraction of current aid flows to the region. Under vastly different geopolitical circumstances, U.S. policy was geared toward supporting the development of oil-producing countries, maintaining a neutral stance in the Arab-Israeli conflict while supporting Israel's security, and preventing Soviet influence from gaining a foothold in Iran and Turkey. U.S. policymakers used foreign aid in the 1950s and 1960s to support these objectives.

U.S. aid to Israel was far less in the 1950s and 1960s than in later years.<sup>30</sup> Although the United States provided moderate amounts of economic aid (mostly loans) to Israel, at the time, Israel's main patron was France, which supported Israel by providing it with advanced military equipment and technology.<sup>31</sup> In 1962, Israel purchased its first advanced weapons system from the United States (Hawk anti-aircraft missiles).<sup>32</sup> In 1968, a year after Israel's victory in the Six Day War, the Johnson Administration, with strong support from Congress, approved the sale of Phantom fighters to Israel, establishing the precedent for U.S. support for Israel's qualitative military edge over its neighbors.<sup>33</sup>

Between 1950 and 1967, the United States courted Egypt using foreign aid as a bargaining chip. Cold War competition for Egypt was fierce during this time period, as Egypt received a steady stream of surplus U.S. wheat shipments under the Food for Peace Program (P.L. 480). Despite these measures, offers of additional economic aid failed to convince Egypt to abandon a parallel relationship with the Soviet Union, as Egypt pursued a strict Arab nationalist and neutral policy that shunned close alliances with Western powers and cooperation and peace with Israel. Internationally, after 1955, Egypt obtained military aid mainly from the Soviet Union.

Beginning in 1965, foreign assistance levels to the region began to decline considerably, culminating in an almost 80% drop in economic aid to the Middle East by 1970. A host of factors, most notably the June 1967 War and the rising cost of the war in Vietnam, led Congress to cut funding for a number of countries. Egypt, which had already seen its annual aid reduced, lost food aid entirely after it severed relations with the United States during the 1967 War. Jordan and other Arab states also saw their aid reduced. By 1970, annual appropriations to Iran were close to being phased out, as many policymakers considered Iran to be a middle-income state that was economically self-sufficient.

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<sup>30</sup> In 1948, President Harry Truman, who sympathized with the plight of Israel in its early days, placed an arms embargo on Israel and her Arab neighbors in order to keep the United States neutral in the ongoing Arab-Israeli conflict.

<sup>31</sup> France supplied Israel with military equipment mainly to counter Egyptian power in the region. In the 1950s and early 1960s, Egypt antagonized France by providing arms and training to Algerian fighters in Algeria's war for independence against France.

<sup>32</sup> "America's Staunchest Mideast Ally," *Christian Science Monitor*, August 21, 2003.

<sup>33</sup> Section 651 of P.L. 90-554, *The 1968 Foreign Assistance Act*, expresses the sense of Congress to see the United States negotiate the sale of supersonic aircraft to Israel.



**Table 10. Total U.S. Foreign Assistance to the Middle East, 1950-1970**  
(Loans & Grants; Current Year \$ in millions)

Country/Region	Economic	Military	Total
Iran	750.9	1,396.7	2,147.6
Israel	986.0	277.3	1,263.3
Egypt	884.1	0.0	884.1
Jordan	601.0	95.0	696.0
Libya	220.6	17.4	238.0
Lebanon	111.0	9.6	120.6
Iraq	45.2	50.0	95.2
Total Near East (including other recipients not listed)	5,610.4	2,244.4	7,854.8

**Source:** U.S. Agency for International Development (USAID), Overseas Loans and Grants, *Obligations and Loan Authorizations July 1, 1945 - September 30, 2001*. The report is commonly known at USAID as “The Greenbook.”

### 1971-2001

The decade of the 1970s witnessed a dramatic increase in U.S. foreign assistance to the Middle East. After the U.S. withdrawal from South Vietnam, the Middle East as a whole began to receive more U.S. foreign aid than any other region of the world, a trend that has continued to today. U.S. foreign aid programs became more comprehensive in nature driven by large assistance packages to Israel and later to Egypt and other Arab governments.

Large-scale U.S. assistance for Israel increased considerably after a series of Arab-Israeli wars created a sense among many Americans that Israel was continually under siege.<sup>34</sup> Consequently, Congress, supported by broad U.S. public opinion, committed to strengthening Israel’s military and economy through large increases in foreign aid. In 1971, the United States provided Israel with military loans of \$545 million, up from \$30 million in 1970. Also in 1971, Congress first designated a specific amount of aid for Israel (an “earmark”). Economic assistance changed from project aid, such as support for agricultural development work, to the Commodity Import Program (CIP) for the purchase of U.S. goods.<sup>35</sup> In effect, the United States stepped in to fill the role that France had relinquished after French President Charles De Gaulle refused to supply Israel with military hardware to protest its preemptive launch of the June 1967 War. Israel became the largest recipient of U.S. foreign assistance in 1976. From 1971 to the present, U.S. aid to Israel has averaged over \$2 billion per year, two-thirds of which has been military assistance.

Just as Israel’s long-standing relationship with the United States was in its incipient stages, Egypt, its economy in desperate need of investment and capital after two wars, began to look to the United States to help stimulate economic growth. Egypt’s new leader, Anwar Sadat, who had

<sup>34</sup> Between 1967 and 1973, Israel and its Arab neighbors fought the June 1967 War, the ensuing War of Attrition (1969), and the October 1973 War. Israel also was engaged in continual low level guerrilla warfare with the Palestinian Liberation Organization and other guerilla groups, which had bases in Jordan and later in Lebanon. The 1974 emergency aid for Israel, following the 1973 war, included the first U.S. military grant aid.

<sup>35</sup> The Commodity Import Program for Israel ended in 1979 and was replaced with direct, unconditional cash transfers.

been eager to rid Egypt of excessive Soviet influence and embark on a program of economic liberalization, improved U.S.-Egyptian relations in the mid 1970s, leading to a resumption in economic aid in 1975, and the signing of two disengagement agreements with Israel concerning the Sinai desert. To a lesser extent, the United States significantly increased its economic and military aid to Jordan after the 1970-1971 civil war, in which the Jordanian Armed Forces expelled Palestinian guerrillas from Jordan where they had seriously threatened stability.

The 1979 Camp David Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In exchange for a complete cessation of hostilities and Israel's return of the Sinai Peninsula, the United States provided a total of \$7.3 billion to both parties in 1979. The "Special International Security Assistance Act of 1979" (P.L. 96-35) provided both military and economic grants to Israel and Egypt at a ratio of 3 to 2, respectively.<sup>36</sup> From the Egyptian standpoint, U.S. funds helped to subsidize its defense budget and upgrade its aging Soviet hardware. Egypt became the second largest recipient of U.S. aid after 1979.

Since the Camp David Accords, U.S. assistance levels have remained relatively consistent, and the United States has continued to support the peace process and the strengthening of Israel. Israel and Egypt have been the top two regional recipients of U.S. aid for more than two decades, while Jordan became a leading recipient in the 1990s. Notable events involving significant transfers of U.S. aid since the 1979 Camp David Accords include the following:

- In 1985, Congress approved a \$2.25 billion supplemental funding package for Israel, Egypt, and Jordan to help stabilize their deteriorating economies.
- In 1991, Egyptian support for the U.S.-led international coalition against Iraq's invasion of Kuwait led Congress to authorize the cancellation of Egypt's \$6.7 billion military debt. Congress also provided Israel \$650 million in emergency ESF grants to pay for damage and other costs from the war. In addition, Israel was given Patriot missiles during the Persian Gulf war. Aid to Jordan was reduced significantly (nearly a 75% overall decrease) after the late King Hussein was unwilling to join the allied coalition against Iraq.
- In October 1992, Congress approved \$10 billion in loan guarantees for Israel to help it absorb a massive influx of Jews from the former Soviet Union.<sup>37</sup> The approval of the loan guarantees was delayed due to disagreements between the first Bush Administration and Israel over use of U.S. funds in the West Bank and Gaza Strip. Of the \$10 billion authorized, the United States deducted \$774 million as a penalty for Israeli settlement construction in the West Bank and Gaza Strip, leaving \$9.226 billion available to cover Israeli loans.
- In September 1993, after Israel and the Palestinian Liberation Organization (PLO) accorded mutual recognition of each other in a step intended to lead to a

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<sup>36</sup> This ratio is not found in the text of the 1978 and 1979 Camp David agreements. U.S. officials have not officially recognized the ratio. The Egyptian government claims that a 3 to 2 ratio between Israel and Egypt was established during the negotiations.

<sup>37</sup> The U.S. loan guarantee to Israel is not a direct transfer of U.S. government funds to Israel's treasury. Rather, it is a guarantee on a commercial loan between the borrower (Israel) and a private lender. A U.S. subsidy may be appropriated and set aside in a Treasury account, held against a possible default or may be paid by the borrower (Israel). The subsidy usually is a percentage of the total loan based in part on the credit rating of the country.

future peace agreement, the United States offered \$500 million (\$125 million in loans or loan guarantees and \$375 million in grants) over five years for economic development of the Palestinian entity.<sup>38</sup>

- In 1994, in recognition of Jordan’s signing a peace treaty with Israel, President Clinton asked Congress to pass legislation to forgive Jordan’s \$702.3 million debt to the United States (approximately 10% of Jordan’s worldwide debt). Congress appropriated a total of \$401 million in subsidies, which under pertinent budgetary procedures were sufficient to forgive the entire \$702.3 million owed to the United States at the time.
- In November 1999, Congress approved \$400 million in grants for the Palestinians, \$300 million for Jordan, and \$1.2 billion for the Israelis in 2000 to fund the implementation of the Wye River Agreement.<sup>39</sup>

**Table II. Total U.S. Assistance to the Middle East: 1971-2001**

(loans and grants; current year \$ in millions)

<b>Country/Region</b>	<b>Economic</b>	<b>Military</b>	<b>Total</b>
Israel	28,402.9	50,505.7	78,908.6
Egypt	25,095.8	27,607.0	52,702.8
Jordan	2,440.1	2,137.2	4,577.3
Lebanon	470.5	273.7	744.2
Palestinians	703.4	0.0	703.4
Syria	539.0	0.0	539.0
Total Near East (including other recipients not listed)	62,449.8	82,519.2	144,969.0

**Source:** U.S. Agency for International Development (USAID), Overseas Loans and Grants, *Obligations and Loan Authorizations July 1, 1945 - September 30, 2001*. The report is commonly known at USAID as “The Greenbook.”

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<sup>38</sup> See CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

<sup>39</sup> Signed on October 23, 1998, the Wye River Memorandum delineated steps to complete the implementation of 1993 Oslo Peace agreement between Israelis and Palestinians. See CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

## Appendix. Glossary

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Bilateral assistance	Economic aid provided by the United States directly to a country or through regional programs to benefit one or more countries indirectly.
Development assistance (DA)	Aid provided under Chapters I and 10 of the Foreign Assistance Act primarily designed to reduce poverty and promote economic growth.
Economic Support Fund (ESF)	An appropriation account for funding economic assistance to countries based on considerations of special economic, political or security needs and U.S. interests.
Foreign Assistance Act, 1961 (FAA)	The primary, permanent authorization for conducting U.S. foreign assistance programs.
Foreign Military Financing (FMF)	The major U.S. military aid program extending credits on a grant basis to finance U.S. overseas arms transfers.
International Military Education and Training (IMET)	A U.S. military aid program providing grant military training to selected foreign military and civilian personnel.
Iraq Relief and Reconstruction Fund (IRRF)	A catch-all development and security account controlled by the President containing funds for reconstruction activities in Iraq.
Middle East Partnership Initiative (MEPI)	A State Department program to encourage political, economic, and educational reforms in Arab countries.
Multilateral assistance	Assistance which the United States provides to developing nations through multilateral development banks, United Nations agencies, and other international organizations with development purposes.
Non-governmental organizations (NGOs)	Organizations that are independent of government. NGOs are frequently funded to implement foreign aid programs.
Palestinian Authority	The Palestinian National Authority is a semi-autonomous quasi-state institution nominally governing the Palestinians in West Bank and the Gaza Strip
Pipeline	The amount of economic assistance that has been obligated by U.S. agencies but has not yet been expended.
P.L. 480	Refers to the Agricultural Trade Development and Assistance Act of 1954, which governs administration of the U.S. food aid program. The Department of Agriculture manages title I of P.L. 480 (food aid provided on concessional loan terms) and USAID manages title II (food grants provided for development and humanitarian purposes).
Private Voluntary Organizations (PVOs)	Non-profit, tax-exempt and nongovernmental organizations established and governed by a group of private citizens whose purpose is to engage in voluntary charitable and development assistance operations overseas.
United Nations Relief and Works Agency for Palestine Refugees (UNRWA)	UNRWA provides relief and social services, including food, housing, clothing, and basic health and education to over 4.1 million registered Palestine refugees living mostly in the West Bank and Gaza Strip, but also in Jordan, Lebanon, and Syria.
U.S. Agency for International Development (USAID)	An independent government agency under the direction of the Secretary of State that manages most U.S. bilateral economic assistance programs.

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