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Report RL32260

U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request

Jeremy M. Sharp, Foreign Affairs, Defense, and Trade Division

March 7, 2008

Abstract. This report is an overview of U.S. foreign assistance to the Middle East from FY2003 to FY2009, and of the FY2009 budget request. It includes a 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, see the glossary appended to this report.

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CRS Report for Congress

U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request

Updated March 7, 2008

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Prepared for Members and
Committees of Congress

U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request

Summary

This report is an overview of U.S. foreign assistance to the Middle East from FY2004 to FY2008, and of the FY2009 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 Camp David peace accords 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.

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U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request

Introduction

This report is an overview of U.S. foreign assistance to the Middle East.¹ It includes a brief historical review of foreign aid levels, a description of specific country programs, and an analysis of current foreign aid issues.² 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 was provided to support the 1979 Camp David peace accords 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 attempted 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 that promote democracy 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

¹ 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.

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

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.

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 1. A Decade of U.S. Assistance to the Middle East:
FY2000-FY2009 Request**

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

Fiscal Year	Totals
FY2000	6,648.300
FY2001	5,617.700
FY2002	5,567.810
FY2003	8,410.000
FY2004	5,556.383
FY2005	5,752.111
FY2006	5,205.801
FY2007	5,650.812
FY2008 Estimate *	5,236.322
FY2009 Request	5,127.133

* Does not include possible supplemental requests for additional assistance.

When including funds for Iraq Reconstruction:

Fiscal Year	Totals
FY2000	6,648.300
FY2001	5,617.700
FY2002	5,567.810
FY2003	10,646.000
FY2004	23,995.383
FY2005	11,448.727
FY2006	10,615.501
FY2007	7,767.074
FY2008 Estimate*	5,257.499
FY2009 Request	5,524.133

* Does not include possible supplemental requests for additional assistance.

Country Summaries

The following section provides funding details on the largest regular aid recipients in the Middle East: Israel, Egypt, Jordan, and the Palestinians. 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.

Israel³

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.⁴ 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.

Former Israeli Prime Minister Binyamin Netanyahu told Congress on July 10, 1996, that Israel would end its dependency on U.S. economic assistance. At the time, Israel was receiving \$1.2 billion in grant economic assistance and \$1.8 billion in grant military assistance annually. In 1998, Israel and the United States agreed to reduce U.S. economic assistance by \$120 million per year and increase U.S. military assistance by \$60 million per year over a 10-year period beginning in 1999 leading to a complete phase-out of economic assistance but increasing military assistance to \$2.4 billion by 2008.⁵

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% of U.S. assistance on Israeli-manufactured equipment.

³ 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.

⁴ 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.

⁵ This agreement is noted in the conference report for the Security Assistance Act of 2000, H.R. 4919/P.L. 106-280, October 6, 2000.

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 FY2009, the Administration has requested \$2.55 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.

Table 2. U.S. Assistance to Israel, FY2004-FY2009 Request
(regular and supplemental appropriations; current year \$ in millions)

Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
ESF	477.168	357.120	237.6	120.0	—	—
FMF	2,147.255	2,202.240	2,257.2	2,340.0	2,380.560	2,550.0
Refugees	50	50	40	40	40.0	30
Other ^a	n/a	n/a	.526	.240	—	—
Total	2,674.423	2,609.360	2,535.3	2,500.24	2,420.56	2,550.0

Source: U.S. State Department

a. This category includes funds for counter terrorism, border control, and technical cooperation.

Egypt⁶

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.⁷ 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.

⁶ For additional information on U.S. aid to Egypt, see CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.

⁷ 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.

Economic Assistance. The United States has significantly reduced its economic aid to Egypt over the last decade, as 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 an increase in military assistance. Thus, the United States reduced ESF aid to Egypt from \$815 million in FY1998 to approximately \$411 million in FY2008.⁸

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.⁹ 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.¹⁰ 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, the Administration has moved ahead with its own plans for reducing economic aid to Egypt.

For FY2009, the Administration is requesting \$200 million in ESF for Egypt, a notable decrease from previous fiscal years. According to the U.S. State Department’s FY2009 Congressional Budget Justification, “FY 2009 economic assistance funds for Egypt will decrease from the FY 2008 level, reflecting a more balanced, mature bilateral relationship consisting of foreign assistance and commercial linkages.” Of the \$200 million FY2009 ESF request, \$110 million will be used for education and health projects managed by USAID, \$45 million will be used for democracy programs, including direct grants to Egyptian NGOs, and \$44 million will be provided to Egypt as a direct cash transfer to help Egypt further liberalize its economy.

⁸ 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.

⁹ CRS conversation with U.S. and Egyptian officials, January 9, 2008.

¹⁰ 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.”

Military Assistance. The Administration has requested \$1.3 billion in FMF for Egypt in FY2009 — the same amount it received in FY2008. 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 (\$1.3 million requested for FY2009) in order to facilitate U.S.-Egyptian military cooperation over the long term.

Table 3. U.S. Assistance to Egypt, FY2004-FY2009 Request
(Regular and Supplemental Appropriations; Current Year \$ in millions)

Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
ESF	571.608	530.720	490.050	455.0	411.639	200.0
FMF	1,292.330	1,289.600	1,287.0	1,300.0	1,289.470	1,300.0
IMET	1.369	1.200	1.208	1.203	1.237	1.300
Other ^a	-	-	1.029	1.545	3.545	4.100
Total	1,865.307	1,821.520	1,779.287	1,757.748	1,705.891	1,505.400

Source: U.S. State Department.

a. This category includes funds for counter terrorism, border control, and technical cooperation.

Jordan¹¹

Overview. In the last decade, U.S. aid to Jordan has more than tripled, from a total of \$223 million in FY1998 to an estimated \$687.7 million in FY2008. After the September 11, 2001 terrorist attacks, aid to Jordan increased significantly. Further increases in U.S. aid to Jordan began in FY2003, in view of Jordan's support for the war against terrorism and U.S. operations in Iraq. Since FY2003, Jordan's total assistance package has averaged over \$740 million per fiscal year. This higher figure is due in part to large allocations for Jordan in subsequent supplemental appropriations acts (a total of \$1.5 billion since FY2003).¹² In addition to the

¹¹ For details on USAID's Jordan program, see [<http://jordan.usaid.gov/>]. Also, see CRS Report RL33546, *Jordan: Background and U.S. Relations*, by Jeremy M. Sharp.

¹² The following supplemental appropriations bills have contained bilateral assistance aid to Jordan: FY2003 Emergency Wartime Supplemental Appropriations Act (\$1.1 billion in P.L. 108-11), FY2005 Supplemental Appropriations Act (\$200 million in P.L. 109-13), (continued...)

preceding funds specifically earmarked for Jordan, the last four 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.

The Administration's FY2009 request to Congress is \$535.4 million for U.S. aid to Jordan. This includes \$263.5 in economic aid and \$235 million in military assistance. Jordan also is seeking additional FY2008 supplemental assistance to cope with its struggling economy and the influx of Iraqi refugees. According to Jordan's Embassy in Washington D.C., "Jordan is seeking supplemental assistance of \$500 million in 2008 to be able to assist in mitigating the impact the economic burden of the doubling of oil prices and its impact on Jordan's growth and poverty levels, the pressing costs of security and military obligations, as well as the impact of the large presence of Iraqis on the Jordanian economy."

Economic Assistance. For FY2009, the Administration has requested \$263.5 million in ESF for Jordan, a figure consistent with previous funding levels. 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 percent 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. The FY2009 budget request includes \$235 million for the Jordanian military, close to the same amount it has received over the past several fiscal years.¹³ 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.

¹² (...continued)

FY2006 Emergency Supplemental Appropriations Act (\$50 million in P.L. 109-234), and the FY2007 Supplemental Appropriations Act (\$85.3 million in P.L. 110-28).

¹³ In fiscal years 2002, 2003, 2005, and 2007 Jordan received supplemental FMF grants totaling \$600 million.

Table 4. U.S. Assistance to Jordan, FY2004-FY2009 Request
(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
ESF	348.525	348.000	297.500	255.300	361.412	263.547
FMF	204.785	304.352	207.900	252.900	298.380	235.000
IMET	3.225	3.000	3.020	2.922	2.919	3.100
CSH	—	—	—	—	—	13.144
Other ^a	—	—	2.491	26.741	25.059	20.650
Total	556.535	655.352	510.911	537.863	687.770^b	535.411

Source: U.S. State Department

Note: This table does not include Peace Corps funds.

a. This category includes funds for counter terrorism, border control, and technical cooperation.

b. This figure does not include possible FY2008 supplemental assistance.

Palestinians — West Bank/Gaza¹⁴

Overview. For the past two years, U.S. foreign assistance to the Palestinians has fluctuated dramatically due to the ascension of Hamas in the Gaza Strip and its contentious relationship with Palestinian moderates. After the 2006 Hamas victory in Palestinian Authority (PA) elections, U.S. assistance to the Palestinians was restructured and reduced. After Hamas took over the PA in March 2006, the United States halted direct foreign aid to the PA, but continued providing humanitarian assistance and democracy promotion and private sector support funds to the Palestinian people through international and non-governmental organizations (NGOs). The ban continued during the brief tenure of the Hamas-led unity government (from February until June 2007). U.S. policy makers demanded that Hamas, a U.S. State Department-designated Foreign Terrorist Organization (FTO), renounce, among other things, its commitment to the destruction of the state of Israel and the use of terrorist violence. Hamas did not comply with these demands.

In June 2007, intense Palestinian infighting ended with Hamas in complete control of the Gaza Strip; Abbas reacted by dissolving the unity government. The Bush Administration and the Israeli government viewed the ouster of Hamas as an opportunity to return to diplomacy, and the United States announced it was resuming its foreign assistance program to bolster the Abbas-led Palestinian Authority in the West Bank.

¹⁴ See also CRS Report RS22370, *U.S. Foreign Aid to the Palestinians*, by Paul Morro. For details on USAID's program in the West Bank and Gaza Strip, see [<http://www.usaid.gov/wbg/>].

Most U.S. assistance to the Palestinians is provided through USAID's West Bank and Gaza program. U.S. assistance also reaches Palestinians through contributions to the United Nations Relief Works Agency (UNRWA), which provides humanitarian relief and basic services to Palestinian refugees living in the West Bank, Gaza Strip, Jordan, Syria, and Lebanon.

Since the signing of the Oslo Accord in 1993, the U.S. government has committed more than \$2 billion in bilateral economic assistance to the Palestinians.¹⁵ Approximately 80% of U.S. funding for the Palestinians has been channeled through USAID contractors and 20% through private voluntary organizations (PVOs). 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.¹⁶ U.S. assistance to the Palestinians has been averaging about \$130 million a year since FY2002. During the 1990s, U.S. foreign aid to the Palestinians averaged approximately \$75 million per year.

Direct Aid to the Palestinian Authority. The United States has provided direct assistance to the Palestinian Authority on seven occasions including the following:

- In 1993-1994, the United States provided \$36 million through the Holst Fund at the World Bank for direct assistance to the Palestinian Authority, and an additional \$5 million in cash and equipment for the Palestinian police.
- On July 8, 2003, the United States announced that it would provide \$20 million out of a \$50 million FY2003 Supplemental allocation as direct aid to the PA for infrastructure projects.
- On December 8, 2004, President Bush again approved \$20 million in direct assistance to the PA. The \$20 million was used to pay off overdue Palestinian utility bills to Israeli companies.¹⁷
- Following PA President Mahmoud Abbas' May 2005 visit to the White House, President Bush announced that the United States would transfer an additional \$50 million from unobligated FY2005 ESF funds to the Palestinian Authority.¹⁸ However, after the

¹⁵ The USAID program in the West Bank and Gaza Strip provides assistance to the Palestinian people through contractors and charities. The PLO, which represents the Palestinian diaspora, has never received funds from the U.S. government.

¹⁶ See H.R. 3057 (P.L. 109-102), *Foreign Operations Appropriations Act, FY2006*, Limitation on Assistance to the Palestinian Authority, sec. 550 (b).

¹⁷ See Presidential Determination No. 2005-10, available at [<http://www.whitehouse.gov/news/releases/2004/12/20041208-1.html>].

¹⁸ See Presidential Determination No. 2005-29, available at

surprising Hamas victory in Palestinian legislative election in early 2006, the Bush Administration withheld the delivery of \$45 million in remaining funds to the PA in order to pressure Hamas into abrogating its official covenant and recognizing Israel.

- In late 2006, the State Department notified Congress of the President's intent to reprogram up to \$86 million in prior-year funding to support efforts to reform and rehabilitate Palestinian civil security forces loyal to President Abbas.¹⁹ However, the House Appropriations Committee placed a hold on these funds, seeking more information on where and why the money was to be spent. After the Palestinians reached agreement on the Fatah-Hamas power sharing arrangement, other Members of Congress reportedly expressed further doubts, fearing the money may end up with Hamas. In March 2007, Secretary Rice told a House Appropriations subcommittee that the Administration would instead seek \$59 million for Abbas (\$43 million for training and non-lethal assistance to the Palestinian Presidential Guard and \$16 million for improvements at the Karni crossing, the main terminal for goods moving in and out of Gaza). No holds were placed on this request.
- In June 2007, President Bush issued a waiver to send \$18 million in direct assistance to the Palestinian Authority to be used for a variety of purposes, including democracy assistance to the Palestinian Central Election Commission and security assistance to officials at the Palestinian Monetary Authority and Karni Crossing cargo terminal.²⁰
- In February 2008, President Bush issued a waiver to send \$150 million in aid to the Palestinian Authority to “avert a serious and immediate financial crisis.”²¹ Reportedly, U.S. aid may be used for budget support. On March 4, 2008, several sources reported that Representative Nita M. Lowey, chairwoman of the House Appropriations Subcommittee for State-Foreign Operations Appropriations, put a hold the \$150 million in direct aid until the

¹⁸ (...continued)

[<http://www.whitehouse.gov/news/releases/2005/07/20050714-7.html>].

¹⁹ See Presidential Determination No. 2007-11. This action transferred \$86.3 million in FY2006 ESF funds to the INCLE account. Under Chapter 8 of part I (section 481) of the 1961 Foreign Assistance Act (as amended), “Notwithstanding any other provision of law, the President is authorized to furnish assistance to any country or international organization, on such terms and conditions as he may determine, for the control of narcotic and psychotropic drugs and other controlled substances, or for other anticrime purposes.”

²⁰ See Presidential Determination No. 2007-20, available at [<http://www.whitehouse.gov/news/releases/2007/06/20070601-16.html>].

²¹ A copy of the waiver is available at [<http://www.whitehouse.gov/news/releases/2008/02/20080228-6.html>].

Administration provides more details on how U.S. funds will be spent.²²

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.²³ 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 22 to 25% of the UNRWA total budget.²⁴ The United States is the largest bilateral donor to the UNRWA and second only to the European Community as a contributor. U.S. support for UNRWA is not treated as bilateral economic aid to the Palestinians, which is managed by USAID. According to the U.S. State Department, U.S. contributions help fund 647 schools, 273 of which are in Gaza and the West Bank and 125 primary health care facilities, including 54 health clinics and one hospital in Gaza and the West Bank.²⁵

Recent U.S. Contributions to UNRWA

FY2003	\$134 million
FY2004	\$127 million
FY2005	\$108 million
FY2006	\$137 million
FY2007	\$130 million

With Hamas now in control of the entire Gaza Strip, there are questions how and whether the United States will continue to support UNRWA operations in the Gaza Strip. After the United States announced in February 2008 its intention to increase funding for UNRWA, Sam Witten, U.S. Acting Assistant Secretary for the Bureau of Population, Refugees, and Migration, stated that “The United States is not abandoning the people of Gaza and our additional contribution will be of assistance to them.”

FY2008 Assistance and the FY2009 Request. For FY2008, the Administration initially requested \$63.5 million for the West Bank and Gaza and \$10 million in Child Survival and Health Funds. Due to changed circumstances that

²² “Appropriator Wants Palestinian Authority Aid on Hold Until Accountability in Place,” *Congressional Quarterly*, March 4, 2008.

²³ See CRS Report RS21668, *United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)*, by Rhoda Margesson.

²⁴ U.S. contributions to UNRWA’s General Fund support its programs for Palestinian refugees in all five fields of operation: Jordan, Syria, Lebanon, the West Bank, and Gaza. USAID estimates that about 45 percent of UNRWA’s General Fund has supported West Bank and Gaza programs since 2002.

²⁵ “United States Assistance to UN Relief and Works Agency,” Fact Sheet, Office of the Spokesman, U.S. Department of State, Washington, DC, April 10, 2006.

included the formation of the Fayyad government, the Administration later sought an additional \$410 million, including \$100 million for direct budgetary support, \$25 million for security sector reforms, and \$35 million for emergency needs of Palestinian refugees in Gaza, the West Bank, and Lebanon.²⁶ This amendment to the original FY2008 request came before a December 2007 international donors' meeting in Paris to raise funds for the Palestinian Authority. In Paris, Secretary of State Condoleezza Rice remarked that "The Palestinian Authority is experiencing a serious budgetary crisis.... This conference is literally the government's last hope to avoid bankruptcy."²⁷

P.L. 110-161, the Consolidated Appropriations Act, 2008, signed into law on December 26, 2007, appropriates \$218,500,000 in assistance for the West Bank and Gaza, of which not more than \$2 million may be used for USAID expenses. If the President exercises his authority to waive the ban on providing funds to the PA granted to him under the act, then not more than \$100 million may be made available for cash transfers to the PA until the Secretary of State certifies and reports that the PA has established a single treasury account for all financing, has eliminated all parallel financing mechanisms, and has established a single, comprehensive civil service roster and payroll. None of the funds appropriated for cash transfer assistance may be obligated for salaries of PA personnel located in Gaza, and none may be obligated or expended for assistance to Hamas or any entity controlled by Hamas or any power-sharing government with Hamas unless Hamas recognizes Israel's right to exist and accepts prior accords between Israel and the Palestine Liberation Organization. None of the funds appropriated by the act may be provided to support a Palestinian state unless its governing entity has demonstrated a commitment to peaceful coexistence with Israel and is taking measures to counter terrorism and terrorist financing in the West Bank and Gaza, among other conditions. The act also contains provisions requiring that the Secretary of State ensure oversight of the use of U.S. funds and audit procedures.

In the FY2008 supplemental, the Administration is requesting \$75 million in Economic Support Funds for the West Bank and Gaza. For FY2009, the Administration is requesting \$25 million in International Narcotics and Law Enforcement (INLE) funds for the Palestinian security forces and \$75 million in Economic Support Funds.

²⁶ In his December 12, 2007 testimony before the Committee on House Foreign Affairs Subcommittee on Middle East and South Asia, Robert M. Danin, Deputy Assistant Secretary, Near Eastern Affairs, remarked "Our Fiscal Year 2008 request was sent to Congress prior to the change in the PA government. Due to the new circumstances on the ground that have created an unprecedented opportunity for peace, we are seeking an additional \$410 million in emergency supplemental funding for the Palestinians. First in Annapolis, and now in Paris, we will be showing the world that the United States is fully engaged and committed to providing the necessary support - both financial and political - to assist the parties in resolving the Israeli-Palestinian conflict. A significant U.S. contribution will send a signal to other donors that the time to assist the PA is now and a PA government with the full and public support of the international community will help to build a constituency for peace within Palestinian society."

²⁷ "\$7.4 Billion Pledged for Palestinians," *New York Times*, December 18, 2007.

**Table 5. U.S. Bilateral Assistance to the Palestinians,
FY2004-FY2009 Request**

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

Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
ESF	74.5	224.4	148.5	50.0	217.896	75.0
P.L.480 Title II	-	6.0	4.4	19.488	-	-
INCLE	-	-	-	-	-	25.0
Transition Initiatives	-	-	.343	-	-	-
Total	74.5	230.0	153.2^a	69.488	217.896^b	100.0

Source: U.S. State Department, USAID.

a. 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.

b. This figure does not include possible FY2008 supplemental assistance.

Lebanon

In order to support the Lebanese government, the United States has pledged to devote more financial resources to reconstruction and military assistance. The summer 2006 war between Hezbollah and Israel heightened the need for additional economic aid, as the Lebanese government and its international and Arab partners vied with Iran and Hezbollah to win the “hearts and minds” of many Lebanese citizens who lost homes and businesses as a result of the conflict. From a military standpoint, the war also highlighted the urgent need for a more robust Lebanese military to adequately patrol Lebanon's porous borders with Syria and to prevent Hezbollah's re-armament. P.L.110-28, the FY2007 Emergency Supplemental Appropriations Act (entitled the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007), provided \$770 million in supplemental assistance for Lebanon, a noticeable increase in funding from previous years.

U.S. military assistance to Lebanon has dramatically increased over the past two years. In his testimony before the Committee on House Foreign Affairs Subcommittee on the Middle East and South Asia, David Welch, U.S. assistant secretary of State at the Bureau of Near Eastern Affairs, stated that:

We are funding a \$60 million program to train and equip Lebanon's Internal Security Forces that will allow them to take over police functions traditionally carried out by the military. We have also massively increased our assistance to the Lebanese Armed Forces. In the aftermath of the summer war, and with the support of the Congress, we increased our security assistance from just under \$1 million in FY05 to \$40 million in FY06 and over \$250 million in FY07 to bolster the capabilities of the Lebanese Armed Forces. This assistance has already funded spare parts for helicopters, vehicles including Humvees to help the LAF patrol the

south and the border, small arms and light weapons, small and large caliber ammunition, communications equipment, and training for LAF officers.²⁸

The FY2009 request for Lebanon includes an estimated \$75 million in military aid from several appropriations accounts. According to the U.S. State Department, “U.S. security assistance will promote Lebanese control over southern Lebanon and Palestinian refugee camps, preventing them from being used as bases to attack Israel. The U.S. Government’s active military-to-military programs will enhance the professionalism of the Lebanese Armed Forces, and reinforce the concept of Lebanese civilian control. Assistance also will include training and technical assistance for the Internal Security Forces, while funding will support the implementation of international terrorism conventions.”²⁹

Table 6. U.S. Assistance to Lebanon, FY2004-FY2009 Request
(regular and supplemental appropriations; current year \$ in millions)

Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
ESF	34.794	39.720	39.600	334.6	44.636	67.5
FMF	—	—	3.713	224.8	6.943	62.2
INCLE	—	—	—	60.0	.496	6.0
NADR	—	2.300	2.978	8.5	4.745	4.6
IMET	.700	.700	.752	.905	1.428	2.130
DA	.400	.500	2.000	—	—	—
Total	35.894	43.220	49.043	628.805	58.248	142.43

Source: U.S. State Department, USAID.

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.

²⁸ Testimony of C. David Welch - Assistant Secretary of State, Bureau of Near Eastern Affairs, Middle East and South Asia Subcommittee of House Foreign Affairs Committee, “Smoke on the Horizon: The Coming Crisis in Lebanon,” November 8, 2007.

²⁹ See, [<http://www.state.gov/documents/organization/101442.pdf>]

Table 7. Other Regional Recipients, FY2004-FY2009 Request
(regular and supplemental appropriations; current year \$ in millions)

Country/Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
Algeria Total	.722	1.405	.897	1.915	1.677	1.300
NADR	—	.485	.065	1.075	.813	.500
INCLE	—	—	—	—	.198	—
IMET	.722	.920	.823	.840	.666	.800
Bahrain Total	25.250	20.987	19.005	17.345	5.837	20.950
FMF	24.682	18.848	15.593	15.750	3.968	19.500
NADR	—	1.489	2.761	1.240	1.250	.800
IMET	.568	.650	.651	.640	.619	.650
Kuwait Total	—	.814	.628	1.090	.014	.015
NADR	—	.814	.628	1.070	—	—
IMET	—	—	—	.020	.014	.015
Libya Total	—	.300	—	—	.633	1.100
NADR	—	—	—	—	.300	.750
IMET	—	—	—	—	.333	.350
Morocco Total	17.337	47.909	35.198	40.170	26.661	28.505
ESF	—	19.840	10.890	18.000	15.374	—
FMF	9.940	15.128	12.375	12.500	3.625	3.655
NADR	—	2.074	.775	1.295	1.317	.625
INCLE	—	2.992	.990	1.000	.496	1.000
DA	5.400	6.000	8.284	5.400	4.136	21.500
IMET	1.997	1.875	1.884	1.975	1.713	1.725
Oman Total	25.675	21.594	15.395	16.505	8.229	14.400
FMF	24.850	19.840	13.860	14.000	4.712	12.000
NADR	—	.654	.400	1.370	2.089	.950
IMET	.825	1.100	1.135	1.135	1.428	1.450
Qatar Total	—	1.379	.906	1.493	.282	.015
NADR	—	1.379	.906	1.493	.268	—
IMET	—	—	—	—	.014	.015
Saudi Arabia Total	.024	.985	1.576	.420	.113	.365
NADR	—	.960	1.576	.400	.099	.350
IMET	.024	.025	—	.020	.014	.015
Tunisia Total	11.726	11.795	10.285	11.230	11.475	4.387
FMF	9.827	9.920	8.413	8.500	8.345	2.262
ESF	—	—	—	—	.992	—
NADR	—	—	.025	.755	.497	.425
INCLE	—	—	—	—	.198	—
IMET	1.899	1.875	1.847	1.975	1.713	1.700
United Arab Emirates Total	—	.534	.961	1.335	.314	.940
NADR	—	.534	.961	1.335	.300	.925
IMET	—	—	—	—	.014	.015

Country/Account	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
Yemen Total	27.228	29.098	18.700	25.336	20.731	28.275
FMF	14.910	9.920	8.415	8.500	4.676	3.000
ESF	11.432	14.880	7.920	12.00	2.777	—
NADR	—	3.198	1.441	3.751	4.034	2.525
INCLE	—	—	—	—	.496	.750
DA	—	—	—	—	7.796	21.000
IMET	.886	1.100	.924	1.085	.952	1.000

Source: U.S. State Department, USAID.

Foreign Aid Issues

Promoting Democracy and Reform

The Millennium Challenge Account.³⁰ 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 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.³¹

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).

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,

³⁰ For more information on the MCC, see CRS Report RL32427, *Millennium Challenge Account*, by Curt Tarnoff.

³¹ The MCC’s Morocco scorecard is available at [<http://www.mcc.gov/documents/score-fy08-morocco.pdf>]

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

Jordan's Threshold assistance is being used to accelerate political reforms and allow Jordan to qualify for the MCC's larger Compact funding program. According to the MCC, the Jordan Threshold Program will, among other things, provide technical assistance and training to increase participation in local elections and institute programs to improve relations and collaboration among municipalities, citizens, and the private sector in 9 of Jordan's 99 municipalities. USAID is the main U.S. government agency charged with implementing the Jordan Threshold Program.

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.

The Middle East Partnership Initiative (MEPI). MEPI is a U.S. State Department-run program that funds democracy promotion, economic development, and education in the Arab world. 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. 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 channel funds toward 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 provides grants to fund political opposition activities in Iran and Syria.

Table 8. Middle East Partnership Initiative Appropriations, FY2003-FY2009 Request

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

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008 Estimate	FY2009 Request
ESF	90.000	89.400	74.400	113.800	50.000	49.595	87.000

Source: U.S. State Department, USAID.

Restrictions on Aid to the Palestinians³²

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 1961,³³ 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.”
- **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.

³² For additional detail, see CRS Report RS22370, *U.S. Foreign Aid to the Palestinians*, by Paul Morro.

³³ 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.

- **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.³⁴ 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.³⁵

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.³⁶ 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.³⁷

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.

³⁴ "Careful vetting"? ; How Taxes Fund Palestinian schools," *Washington Times*, March 23, 2007.

³⁵ "Audit: Terrorists got U.S. aid; Agency's Screening Called Inadequate," *Chicago Tribune*, November 16, 2007.

³⁶ 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.

³⁷ 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.

The Debate over U.S. Assistance to Egypt³⁸

In recent years, Egypt's aid program has drawn increasing scrutiny from some lawmakers concerned over Egypt's poor human rights record. Some lawmakers believe that U.S. assistance to Egypt has not been effective in promoting political and economic reform and that foreign assistance agreements must be renegotiated to include benchmarks that Egypt must meet to continue to qualify for U.S. foreign aid. Others have periodically called for restrictions on U.S. aid to Egypt on the grounds that Egypt's record on religious freedom is substandard.

The Administration and Egyptian government assert that reducing Egypt's military aid would undercut U.S. strategic interests in the area, including support for Middle East peace, U.S. naval access to the Suez Canal, and U.S.-Egyptian intelligence cooperation. U.S. military officials argue that continued U.S. military support to Egypt facilitates strong military-to-military ties. The U.S. Navy, which sends an average of close to a dozen ships through the Suez Canal per month, receives expedited processing for its nuclear warships to pass through the canal, a valued service that can normally take weeks for other foreign navies. In addition, some U.S. lawmakers argue that cutting aid, particularly military assistance, harms the United States since all of Egypt's FMF must be spent on American hardware and associated services and training.

Congressional Action on Aid to Egypt. Since the 108th Congress, there have been several attempts in Congress to reduce U.S. assistance to Egypt including the following:

108th Congress

- An amendment offered on July 15, 2004, to the House FY2005 foreign operations bill (H.R. 4818) would have reduced U.S. military aid to Egypt by \$570 million and increased economic aid by the same amount, but the amendment failed by a vote of 131 to 287.

109th Congress

- An amendment offered on June 28, 2005, to the House FY2006 foreign operations bill (H.R. 3057) would have reduced U.S. military aid to Egypt by \$750 million and would have transferred that amount to child survival and health programs managed by USAID. The amendment failed by a recorded vote of 87 to 326.
- H.R. 2601, the FY2006/FY2007 House Foreign Relations Authorization bill, would have reduced U.S. military assistance to Egypt by \$40 million for each of the next three fiscal years, while using the funds to promote economic changes, fight poverty, and improve education in Egypt. There was no comparable provision in the Senate's Foreign Relations Authorization bill (S. 600).

³⁸ See CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.

- On May 25, 2006, the House Appropriations Committee in a voice vote rejected an amendment to cut \$200 million in military aid to Egypt during markup of H.R. 5522, the FY2007 Foreign Operations Appropriations Bill. In June 2006, the House narrowly defeated an amendment (198-225) to the bill that would have reallocated \$100 million in economic aid to Egypt and used it instead to fight AIDS worldwide and to assist the Darfur region of Sudan. Many supporters of the amendment were dismayed by the Egyptian government's spring 2006 crackdown on pro-democracy activists in Cairo. Representative David Obey of Wisconsin sponsored both amendments.
- In report language (H.Rept. 109-486) accompanying the House version of H.R. 5522, the FY2007 Foreign Operations Appropriations Bill, appropriators recommended that the Administration rescind \$200 million in cash assistance funds previously appropriated but not yet expended. The Senate version recommended rescinding \$300 million from prior year ESF assistance for Egypt.

110th Congress

- On February 15, 2007, Congress passed H.J.Res 20, the FY2007 Revised Continuing Appropriations Resolution (P.L. 110-5). Section 20405 of the act rescinds \$200 million in previously appropriated economic assistance to Egypt.
- H.R. 2764, the FY2008 State, Foreign Operations, and Related Programs Appropriations bill, would have withheld \$200 million in FMF for Egypt until the Secretary of State certifies that Egypt has taken concrete steps toward implementing a new judicial authority law protecting the independence of the judiciary; reviewing criminal procedures and train police leadership in modern policing to curb police abuses; and detecting and destroying the smuggling network and smuggling tunnels that lead from Egypt to Gaza.
- Section 690 of P.L. 110-161, the Consolidated Appropriations Act, FY2008, withholds the obligation of \$100 million in FMF until the Secretary of State certifies, among other things, that Egypt has taken concrete steps to “detect and destroy the smuggling network and tunnels that lead from Egypt to Gaza.” This withholding of FMF represents the first time that Congress has successfully placed conditions on U.S. military assistance to Egypt.

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.³⁹ 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.⁴⁰ In 1962, Israel purchased its first advanced weapons system from the United States (Hawk anti-aircraft missiles).⁴¹ 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.⁴²

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

³⁹ 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.

⁴⁰ 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.

⁴¹ "America's Staunchest Mideast Ally," *Christian Science Monitor*, August 21, 2003.

⁴² 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.

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.

Table 9. 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.⁴³ 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

⁴³ 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.

Import Program (CIP) for the purchase of U.S. goods.⁴⁴ 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 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.⁴⁵ 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

⁴⁴ The Commodity Import Program for Israel ended in 1979 and was replaced with direct, unconditional cash transfers.

⁴⁵ 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.

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 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.⁴⁶ 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 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.⁴⁷
- 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.⁴⁸

⁴⁶ 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.

⁴⁷ See CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

⁴⁸ 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.

Table 10. Total U.S. Assistance to the Middle East: 1971-2001
(loans and grants; current year \$ in millions)

Country/Region	Economic	Military	Total
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."

Appendix A. Glossary

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 used 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.