Order Code RL32260

CRS Report for Congress

U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request

Updated July 3, 2007

Jeremy M. Sharp
Middle East Policy Analyst
Foreign Affairs, Defense, and Trade Division

Prepared for Members and Committees of Congress

Congressional Research Service

U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request

Summary

This report is an overview of U.S. foreign assistance to the Middle East from FY2003 to FY2007, and of the FY2008 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.

Congress both authorizes and appropriates foreign assistance and conducts oversight of executive agencies' management of aid programs. As a region, the Middle East is the largest annual recipient of U.S. economic and military aid. With Iraq in need of long-term reconstruction assistance, Iraq has become a regular recipient of U.S. foreign aid.

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 today.

For FY2007, Foreign Operations programs are currently operating under the terms of a continuing appropriations resolution (P.L. 110-5), which, in most cases, provides funding at the FY2006 level or the House-passed FY2007 level, whichever is less.

Contents

Introduction 1

Background 2
- Foreign Aid to Support Key U.S. Interests 2
- U.S. Assistance to the Middle East Since 1950 3
  - 1950-1970 3
  - 1971-2001 4

Country Summaries 8
- Israel 8
  - Overview 8
  - Economic Assistance 8
  - Military Assistance 8
  - A New Bilateral Aid Agreement? 9
  - Loan Guarantees for Economic Recovery 9
- Egypt 10
  - Overview 10
  - Economic Assistance 10
  - Military Assistance 11
  - FY2008 Appropriations 11
- Jordan 12
  - Overview 12
  - Economic Assistance 13
  - Military Assistance 13
  - FY2007 Supplemental Assistance 13
- Palestinians — West Bank/Gaza 14
  - Overview 14
  - Direct Aid to the Palestinian Authority 15
  - U.S. Contributions to UNRWA 16
  - FY2007 Assistance 16
  - FY2008 Appropriations 17
- Lebanon 18
- Other Recipients and Programs 19

Foreign Aid Issues 21
  - The Millennium Challenge Account 21
  - The Middle East Partnership Initiative (MEPI) 22
- Restrictions on Aid to the Palestinians 23
  - The Palestinian Anti-Terrorism Act of 2006 24
  - USAID's Anti-Terrorism Procedures 25
  - Auditing UNRWA 25
- Altering Aid to Egypt 25
  - Congressional Action on Aid to Egypt 26

Appendix A. Glossary 28

List of Tables

Table 1. Total U.S. Foreign Assistance to the Middle East, 1950-1970 4
Table 2. Total U.S. Assistance to the Middle East: 1971-2001 7
Table 3. Total U.S. Assistance to the Middle East: FY2002-FY2008 Request . . 7
Table 4. U.S. Assistance to Israel, FY2003-FY2008 Request 10
Table 5. U.S. Assistance to Egypt, FY2003-FY2008 Request 12
Table 6. U.S. Assistance to Jordan, FY2003-FY2008 Request 14
Table 7. U.S. Bilateral Assistance to the Palestinians, FY2003-FY2008 Request 18
Table 8. U.S. Assistance to Lebanon, FY2003-FY2008 Request 19
Table 9. Other Regional Recipients, FY2003-FY2008 Request 20
Table 10. Middle East Partnership Initiative Appropriations, FY2003-FY2008 Request 23

U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request

Introduction

This report is an overview of U.S. foreign assistance to the Middle East from FY2003 through the FY2008 budget request.[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.[3] 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.

For readers seeking a general overview of U.S. foreign assistance, see CRS Report 98-916, *Foreign Aid: An Introductory Overview of U.S. Programs and Policy*, by Larry Nowels and Curt Tarnoff. For information on the FY2007 Foreign Operations Bill, see CRS Report RL33420, *Foreign Operations (House)/State,*

---

[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.

[3] However, since the 2006 Hamas electoral victory in Palestinian Authority elections, most U.S. assistance to the Palestinians has been suspended with the exception of some humanitarian aid.

Foreign Operations, and Related Programs (Senate): FY2007 Appropriations, by Connie Veillette, Susan B. Epstein, and Larry Nowels.

Background

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.

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. 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.

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.[4] 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.[5] In 1962, Israel purchased its first advanced weapons system from the United States (Hawk antiaircraft missiles).[6] 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.[7]

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

---

[4] 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.

[5] 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.

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

[7] 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.

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.

Table 1. 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.[8] 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

[8] 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.[9] 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.[10] 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

---

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

[10] 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.[11] 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.[12]

- 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.[13]

---

[11] 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.

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

[13] 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 2. 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."

Table 3. Total U.S. Assistance to the Middle East: FY2002-FY2008 Request

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

Fiscal Year	Totals
FY2002	5,567.810
FY2003	8,410.000
FY2004	5,556.383
FY2005	5,752.111
FY2006	5,205.801
FY2007 Estimate	6,141.257
FY2008 Request*	5,008.383

* Does not include possible supplemental requests for additional assistance.

When including funds for Iraq Reconstruction:

Fiscal Year	Totals
FY2002	5,567.810
FY2003	10,646.000
FY2004	23,995.383
FY2005	11,448.727
FY2006	10,615.501
FY2007 Estimate	8,215.007
FY2008 Request*	5,400.183

* 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 foreign aid account. For information on U.S. assistance for Iraqi reconstruction, see CRS Report RL31833, *Iraq: Reconstruction Assistance*, by Curt Tarnoff.

Israel[14]

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.[15] 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. The United States gives all Economic Support Funds (ESF) directly to the government of Israel as a grant cash transfer rather than allocating funds for specific development projects.[16]

Economic Assistance. 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.[17]

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 and FMF levels are expected to increase incrementally by $60 million

---

[14] 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 RL33322, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

[15] 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.

[16] Some other governments, such as Egypt and Jordan, receive a percentage of their economic aid as a grant cash transfer.

[17] 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.

a year to a level of $2.4 billion by 2008.[18] Israel also is eligible to receive Excess Defense Articles under section 516 of the Foreign Assistance Act. For FY2008, the Administration has requested $2.4 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.

A New Bilateral Aid Agreement?. With the 10-year phase out of U.S. economic aid to Israel set to end in FY2008, Israel has reportedly been negotiating a new assistance package with U.S. officials. According to conference report language accompanying H.R.2764, the FY2008 Department of State, Foreign Operations, and Related Programs Appropriations bill, "The Committee is aware of negotiations between the Government of Israel and the Department of State on a new bilateral aid agreement between the United States and Israel. The Committee expects to consider the new framework for assistance to Israel in the FY2009 appropriations cycle." Following a meeting with Israeli Prime Minister Ehud Olmert on June 19, 2007, President Bush stated that "I'm committed to reaching a new 10-year agreement that will give Israel the increased assistance it requires to meet the new threats and challenges it faces."

Loan Guarantees for Economic Recovery . In 2003, Prime Minister Ariel Sharon requested an additional $8 billion in loan guarantees to help Israel's failing economy. The loan guarantee request accompanied a request for an additional $4 billion in military grants to help Israel prepare for possible attacks during an anticipated U.S. war with Iraq and Israeli efforts to end the Palestinian uprising. P.L. 108-11, the FY2003 Emergency Wartime Supplemental Appropriations Act, included $9 billion in loan guarantees over three years for Israel's economic recovery and $1 billion in military grants. P.L. 108-11 stated that the proceeds from the loan guarantees could be used only within Israel's pre-June 1967 borders, that the annual loan guarantees could be reduced by an amount equal to the amount Israel spends on settlements in the occupied territories, that Israel would pay all fees and subsidies, and that the President would consider Israel's economic reforms when determining terms and conditions for the loan guarantees. On November 26, 2003, the Department of State announced that the $3 billion loan guarantees for FY2003 were reduced by $289.5 million because Israel continued to build settlements in the occupied territories and continued construction of the security barrier separating the Israelis and Palestinians.

P.L. 108-447, the FY2005 Consolidated Appropriations Bill, first extended the authority of the loan guarantees from FY2005 to FY2007. In the aftermath of the 2006 Israel-Hezbollah conflict, President Bush stated that he would ask Congress to again extend the authorization of loan guarantees to Israel. P.L.109-472, the 2006

---

[18] "U.S. to phase out economic, boost military aid to Israel," CNN.com, January 19, 2001. Available at [http://www.cnn.com/2001/WORLD/meast/01/19/us.israel/]

Department of State Authorities Act, extends the authority to provide loan guarantees through FY2011.

Table 4. U.S. Assistance to Israel, FY2003-FY2008 Request
(regular and supplemental appropriations; current year $ in millions)

Account	FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Request	FY2008 Request
ESF	596.100	477.168	357.120	237.6	120.0	—
FMF	3,086.350	2,147.255	2,202.240	2,257.2	2,340.0	2,400.0
Refugees	60	50	50	40	40.0	40.0
Other[a]	n/a	n/a	n/a	.526	.320	.500
Total	**3,742.450[b]**	**2,674.423**	**2,609.360**	**2,535.3**	**2,500.320**	**2,400.5**

a. This category includes funds for counter terrorism, border control, and technical cooperation.
b. This figure does not include $9 billion in U.S. loan guarantees.
Source: U.S. State Department

Egypt[19]

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, all aid to Egypt was earmarked 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. 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. 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 U.S. aid to Israel and Egypt was applied to the reduction in aid ($60 million reduction for Israel and $40 million reduction for Egypt), but Egypt did not receive an increase in military assistance. Economic aid, projected to decrease to approximately $400 million by 2008, has dropped in annual $40 million increments.[20] For FY2008, the Administration is requesting $415 million in ESF aid to Egypt, $282 million of which will be administered by USAID's Egypt program and $133 million will be provided as a cash transfer to help Egypt further liberalize its economy.

---

[19] For additional information on U.S. aid to Egypt, see CRS Report RL33003, *Egypt; Background and U.S. Relations*, by Jeremy M. Sharp.

[20] 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.

Military Assistance. The Administration has requested $1.3 billion in FMF for Egypt in FY2008 — the same amount it received in FY2007. 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 the 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 FY2008) in order to facilitate U.S.-Egyptian military cooperation over the long term.

For FY2008, the Administration is seeking new International Narcotics Control and Law Enforcement (INCLE) funding for Egypt. According to State Department budget documents, INCLE funds for Egypt are designed to "increase law enforcement's ability to launch critically needed police training on human rights and effective community policing practices as well as to address shortcomings in the prevention of trafficking in persons."

FY2008 Appropriations. Although H.R.2764, the FY2008 Department of State, Foreign Operations, and Related Programs Appropriations bill, would fully fund the Administration's request for Egypt, it would place several conditions on how U.S. assistance is spent. Among other things, the bill sets aside $50 million in ESF for USAID-managed democracy programs and another $50 million in ESF for USAID-managed education projects. Furthermore, appropriators specified that not less than 50 %of the funds provided for Egypt for democracy be provided through Egyptian non-governmental organizations. Lawmakers also directed the State Department to fund programs that advance civic participation and human rights in the Coptic Christian Community.

Section 699 of H.R.2764 would withhold $200 million in FMF assistance to Egypt from obligation until the U.S. Secretary of State certifies that the Government of Egypt is taking concrete and measurable steps to address judicial reform, police abuse, and smuggling along the Sinai-Gaza border.

Finally, in accompanying report language to H.R.2764 (House Report 110-197), appropriators strongly urged the Egyptian military to undergo a significant modernization program of its armed forces. According to the report, "The Committee notes that United States military representatives from the United States Central Command (USCENTCOM) have been encouraging the Egyptian military to initiate programs designed to transform its military force but these programs have not yet been embraced by the Egyptians. The Committee strongly recommends that the Egyptian military work with the USCENTCOM to develop and implement programs that will lead to a more modern and professional Egyptian military. Furthermore, the Committee directs the Department of State, to include with the FY2009 budget

request, a list of the projects included in the request for such transformational efforts."[21]

Table 5. U.S. Assistance to Egypt, FY2003-FY2008 Request
(Regular & Supplemental Appropriations; Current Year $ in millions)

Account	FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Request	FY2008 Request
ESF	911.002[b]	571.608	530.720	490.050	455.0	415.0
FMF	1,291.550	1,292.330	1,289.600	1,287.0	1,300.0	1,300.0
IMET	1.232	1.369	1.200	1.208	1.2	1.3
P.L.480 Title II	2.347	-	-	-	-	-
Other[a]	-	-	-	1.029	-	4.570
Total	**2,206.131**	**1,865.307**	**1,821.520**	**1,779.287**	**1,756.2**	**1,720.870**

Source: U.S. State Department.
a. This category includes funds for counter terrorism, border control, and technical cooperation.
b. $300 million of which could be used to draw on $2 billion in loan guarantees.

Jordan[22]

Overview. The United States has markedly increased aid to Jordan since the mid-1990s to help Jordan strengthen its economy, maintain domestic stability, and pursue normalization of its relations with Israel. Between FY1998 and FY2002, annual U.S. economic and military aid levels to Jordan were approximately $150 million and $75 million, respectively. 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 $762 million per fiscal year. This higher figure is due in part to large allocations for Jordan in the FY2003 Emergency Supplemental Appropriations Act ($1.1 billion in P.L. 108-11), the FY2005 Supplemental Appropriations Act ($200 million in P.L. 109-13), FY2006 Emergency Supplemental Act ($50 million in P.L. 109-234), and the FY2007 Supplemental Appropriations Act ($85.3 million in P.L.110-28).

---

[21] House Report 110-197 - State, Foreign Operations, and Related Programs Appropriations Bill, 2008. Available online at [http://www.congress.gov/cgi-lis/cpquery/R?cp110:FLD010:@1(hr197])

[22] For details on USAID's Jordan program, see [http://amman.usembassy.gov/USAID/Extamm-March2004.htm]. Also, see CRS Report RL33546, *Jordan: U.S. Relations and Bilateral Issues*, by Alfred Prados and Jeremy M. Sharp.

H.R. 2764, the FY2008 State, Foreign operations, and related programs Appropriations bill would fully fund the President's request for Jordan, in addition to providing $2.5 million ($1,000,000 above the request) in International Counter-Narcotics and Law Enforcement funds.

Economic Assistance. For FY2008, the Administration has requested $263 million in ESF for Jordan, a slight increase from previous levels. During the past four fiscal years, the United States has provided an estimated $1.1 billion in supplemental economic assistance for Jordan in order to express support for Jordan's efforts in the war on terror and its training of Iraqi police forces.[23]

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 $10.3 billion). Approximately 45 percent of Jordan's ESF allotment each year goes towards the cash transfer. USAID programs in Jordan focus on a variety of sectors including democracy assistance, water preservation, and education. In 2007, U.S. democracy funds are being expended on technical assistance programs for upcoming municipal and national parliamentary elections. 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. In the education sector, USAID is proposing to spend $45 million in ESF in FY2008, up from $12 million in FY2006.

Military Assistance. The FY2008 budget request includes $200 million for the Jordanian military, close to the same amount it has received over the past several fiscal years. In fiscal years 2002, 2003, 2005, and 2007 Jordan received supplemental FMF grants totaling $600 million. 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 eligible in FY2008 to receive U.S. Excess Defense Articles (EDA) under section 516 of the Foreign Assistance Act.

FY2007 Supplemental Assistance. In May 2007, Congress approved H.R.2206, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. This bill mirrored an earlier supplemental package which was vetoed by the President (H.R.1591). It contained $80 million in supplemental assistance to Jordan. Of that total, appropriators set aside $10 million to assist Jordanian communities which have experienced a large influx of Iraqi

---

[23] In fiscal years FY2004 and FY2005, Jordan received $350 million in ESF each year: $250 million from annual foreign operations appropriations and $100 million from supplemental appropriations. In FY2003, Jordan received an additional supplemental ESF grant of $700 million, on top of the $250 million in ESF grants from the FY2003 Consolidated Appropriations Resolution (P.L. 108-7). In FY2002, Jordan received $100 million in supplemental ESF funds in addition to the $150 million in appropriations from the FY2002 Foreign Operations Act (P.L. 107-115).

refugees. The rest of the assistance was designated for military and counter-terrorism aid.

Table 6. U.S. Assistance to Jordan, FY2003-FY2008 Request
(Regular & Supplemental Appropriations; Current Year $ in millions)

Account	FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Estimate	FY2008 Request
ESF	948.000	348.525	348.000	297.500	255.300	263.547
FMF	604.000	204.785	304.352	207.900	251.000	200.000
IMET	2.400	3.225	3.000	3.020	3.000	3.067
CSH	—	—	—	—	—	21.350
Other[a]	—	—	—	2.491	25.000	25.255
Total	**1,554.400**	**556.535**	**655.352**	**510.911**	**534.300**[b]	**513.219**

a. This category includes funds for counter terrorism, border control, and technical cooperation.
b. Jordan received additional supplemental assistance in FY2007.
Source: U.S. State Department
Note: This table does not include Peace Corps funds.

Palestinians — West Bank/Gaza[24]

Overview. Since the 2006 Hamas victory in Palestinian Authority (PA) elections, U.S. assistance to the Palestinians has been restructured and reduced. After Hamas. took over the PA in March 2006, the United States halted 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 in early 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 has not complied with these demands. In June 2007, after President Abbas dissolved the unity government and established an emergency government in the West Bank, the United States announced it was resuming assistance to the PA.

Most U.S. assistance to the Palestinians is provided through the U.S. Agency for International Development's (USAID) West Bank and Gaza program. U.S. assistance also reaches Palestinians through contributions to the United Nations Relief Works

[24] 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/].

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 $1.9 billion in bilateral economic assistance to the Palestinians.[25] 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.[26] U.S. assistance to the Palestinians has been averaging about $180 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 six occasions including the following:

- In1993-1994, 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.

- 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. However, after the 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 2007, the Bush Administration provided a total of $59 million to Palestinian President Mahmud Abbas, of which $43 million was used for training and non-lethal assistance to the Palestinian

---

[25] 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.

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

Presidential Guard and $16 million was used for improvements at the Karni crossing, the main terminal for goods moving in and out of Gaza.

- 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.

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.[27] 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.[28] 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.[29]

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, it is unclear whether the United States will continue to support UNRWA operations in the Gaza Strip.

FY2007 Assistance. The Administration requested $150 million in assistance to the Palestinians for FY2007. However, this request was soon suspended following the Hamas victory. H.R. 5522, the FY2007 Foreign Operations Appropriations bill (passed on June 9, 2006), included no appropriation for Economic Support Fund (ESF) programs in the West Bank and Gaza Strip. The Senate version of H.R. 5522

---

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

[28] 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.

[29] "United States Assistance to UN Relief and Works Agency," Fact Sheet, Office of the Spokesman, U.S. Department of State, Washington, D.C., April 10, 2006.

(not enacted) recommended appropriating $25 million for ESF programs in the West Bank and Gaza and rescinded $75 million in prior year appropriated funds. P.L. 110-5, the FY2007 Revised Continuing Appropriations Resolution, provides up to $50 million for USAID's West Bank and Gaza program. However, specific allocations are still to be determined.

FY2008 Appropriations. H.R.2764, the FY2008 State, Foreign Operations and Related Programs Appropriations bill (passed by the House on June 22, 2007), provides the full $63.5 million Administration ESF request for the Palestinians, but does not include the requested $10 million in Child Survival and Health Program Funds. In addition, H.R.2764 requires the following:

- The Secretary of State must submit a report to the Committee on Appropriations, no later than 90 days after enactment of the bill, outlining a short and long term strategy for providing visible social service projects to the Palestinians by moderate and effective forces in the West Bank and Gaza to counter the forces of radicalism.

- Section 659 of H.R.2764 states that notwithstanding any other provision of law, none of the funds made available by this or prior appropriations act, including funds made available by transfer, may be made available for obligation for security assistance for the West Bank and Gaza until the Secretary of State reports to the Committee on Appropriations of the House of Representatives on the benchmarks that have been established for security assistance for the West Bank and Gaza and reports on the extent of Palestinian compliance with such benchmarks.

- House Amendment H.388, which passed during floor consideration of the H.R.2764, prohibits the disbursement of $63.5 million in the bill for the Palestinian territories unless the administration certifies that the PA recognizes Israel, renounces violence, and accepts previous agreements with Israel.

Table 7. U.S. Bilateral Assistance to the Palestinians, FY2003-FY2008 Request

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

Account	FY2003	FY2004	FY2005	FY2006 Estimate	FY2007 Estimate	FY2008 Request
ESF	124.5	74.5	224.4	148.5	50.0	63.5
Child Survival and Health	-	-	-	-	-	10.0
P.L.480 Title II	10.0	-	6.0	4.4	-	-
INCLE	-	-	-	-	-	3.5
Transition Initiatives	-	-	-	**.343**	-	-
Total	**134.5**	**74.5**	**230.0**	**153.2[a]**	**50.0**	**77.0**

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.

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.

H.R.2206, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, may provide up to $770 million in supplemental assistance for Lebanon, a noticeable increase in funding from previous years. For details on FY2007 supplemental aid, see CRS Report RL33933, *U.S. Foreign Aid to Lebanon: Issues for Congress*.

Table 8. U.S. Assistance to Lebanon, FY2003-FY2008 Request
(regular and supplemental appropriations; current year $ in millions)

Account	FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Estimate	FY2008 Request
ESF	34.770	34.794	39.720	39.600	35.500	42.100
FMF	—	—	—	3.713	4.800	9.600
NADR	—	—	2.300	2.978	1.000	4.776
INCLE	—	—	—	—	—	1.800
DA	—	.400	.500	2.000	—	—
IMET	.700	.700	.700	.752	.935	1.500
Total	**35.470**	**35.894**	**43.220**	**49.043**	**42.235**[a]	**59.776**

[a] When including FY2007 supplemental assistance, Lebanon will receive a total of $812 million in FY2007.

Other Recipients and Programs

Excluding countries such as Israel, Egypt, Jordan, and the Palestinians, the rest of the Middle East receives only a small portion (approximately 2-3%) of the total bilateral assistance to the region. The United States grants military education and training funds (IMET), which typically do not exceed more than two million dollars a year, to a number of states including Algeria and Saudi Arabia. Other wealthy states, such as Oman and Bahrain, receive modest amounts of FMF funds to upgrade weapons systems and maritime defense capabilities. The United States also provides funding to Morocco, Tunisia, and Yemen for counter-terrorism training and for the purchase of border surveillance and communications equipment.

Morocco, Lebanon, and Yemen have active USAID programs that address development challenges such as illiteracy, malnutrition, and unemployment. In Morocco, USAID is implementing job training and structural adjustment programs to transition its economy following the October 2004 signing of the U.S.-Moroccan Free Trade Agreement. In Lebanon, with its large middle class, U.S. economic aid helps subsidize American educational institutions like the American University of Beirut. In Yemen, one of the world's poorest and fastest growing countries, USAID is focusing economic aid on five most remote and rural governorates in the hopes of improving underlying socio-economic conditions, particularly in areas where Al Qaeda and like-minded groups may have a following.

Table 9. Other Regional Recipients, FY2003-FY2008 Request

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

Country/Account	FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Request	FY2008 Request
Algeria Total	**.612**	**.722**	**1.405**	**.897**	**1.915**	**2.855**[a]
ESF	—	—	—	—	—	1.165
NADR	—	—	.485	.065	1.075	.820
INCLE	—	—	—	—	—	.200
IMET	.612	.722	.920	.823	.840	.700
Bahrain Total	**90.448**	**25.250**	**20.987**	**19.005**	**17.345**	**7.300**
ESF	—	—	—	—	—	1.100
FMF	90.000	24.682	18.848	15.593	15.750	4.300
NADR			1.489	2.761	.955	1.250
IMET	.448	.568	.650	.651	.640	.650
Kuwait Total	**—**	**—**	**.814**	**.628**	**1.090**	**.485**
ESF	**—**	**—**	—	—	—	.470
NADR	**—**	**—**	.814	.628	1.070	—
IMET	**—**	**—**	**—**	—	.020	.015
Lebanon Total	**35.470**	**35.894**	**43.220**	**49.043**	**42.235**	**59.776**
ESF	34.770	34.794	39.720	39.600	35.500	42.100
FMF	—	—	—	3.713	4.800	9.600
NADR	—	—	2.300	2.978	1.000	4.776
INCLE	—	—	—	—	—	1.800
DA	—	.400	.500	2.000	—	—
IMET	.700	.700	.700	.752	.935	1.500
Libya Total	**—**	**—**	**.300**	**—**	**—**	**1.150**
ESF	**—**	**—**	.300	**—**	**—**	.500
NADR	**—**	**—**	**—**	**—**	**—**	.300
IMET	**—**	**—**	**—**	**—**	**—**	.350
Morocco Total	**13.119**	**17.337**	**47.909**	**35.198**	**40.170**	**29.055**
ESF	—	—	19.840	10.890	18.000	15.500
FMF	4.900	9.940	15.128	12.375	12.500	3.655
NADR	—	—	2.074	.775	1.295	1.100
INCLE	—	—	2.992	.990	1.000	1.000
DA	6.644	5.400	6.000	8.284	5.400	6.000
IMET	1.575	1.997	1.875	1.884	1.975	1.800
Oman Total	**81.567**	**25.675**	**21.594**	**15.395**	**16.505**	**13.505**
FMF	81.000	24.850	19.840	13.860	14.00	10.105
NADR	—	—	.654	.400	1.37	1.900
IMET	.567	.825	1.100	1.135	1.135	1.500
Qatar Total	**—**	**—**	**1.379**	**.906**	**1.493**	**.285**
NADR	**—**	**—**	1.379	.906	**1.493**	.270
IMET	**—**	**—**	**—**	**—**	**—**	.015

Country/Account	FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Request	FY2008 Request
Saudi Arabia[a] Total	**.102**	**.024**	**.985**	**1.576**	**.420**	**.115**
NADR	.080	—	.960	1.576	.400	.100
IMET	.022	.024	.025	—	.020	.015
Tunisia Total	**6.400**	**11.726**	**11.795**	**10.285**	**11.230**	**4.764**
FMF	4.900	9.827	9.920	8.413	8.500	2.064
ESF	—	—	—	—	—	.200
NADR	—	—	—	.025	.755	.500
INCLE	—	—	—	—	—	.200
IMET	1.500	1.899	1.875	1.847	1.975	1.800
United Arab Emirates Total	**—**	**—**	**.534**	**.961**	**1.335**	**.615**
NADR	**—**	**—**	**.534**	.961	1.335	.300
INCLE	**—**	**—**	**—**	—	—	.300
IMET	**—**	**—**	**—**	—	—	.015
Yemen Total	**14.436**	**27.228**	**29.098**	**18.700**	**25.336**	**23.059**
FMF	1.900	14.910	9.920	8.415	8.500	4.676
ESF	9.898	11.432	14.880	7.920	12.00	8.450
CSH	—	—	—	—	—	4.383
NADR	—	—	3.198	1.441	3.751	4.050
INCLE	—	—	—	—	—	.500
DA	2.000	—	—	—	—	—
IMET	.638	.886	1.100	.924	1.085	1.000

[a] H.R.2764, the FY2008 State, Foreign Operations, and Related Programs Appropriations bill, would prohibit any U.S. assistance to Saudi Arabia.

Foreign Aid Issues

Promoting Democracy and Reform

The Millennium Challenge Account. 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.

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. These funds may be used to accelerate domestic reforms to allow Jordan to qualify for the MCC's larger Compact funding program. MCC

Compact grants may be as large as several hundred million dollars. The MCC funds may be used to support Jordan's reform efforts to increase government transparency and accountability and enhance the efficiency and effectiveness of customs administration. 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.

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.

Morocco was named eligible for Millennium Challenge Compact assistance on November 8, 2005. To date, it has not received MCA funds, and the MCC may make a final determination on up to $700 million in Compact funds for Morocco by July 2007. According to the MCC's 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.[30]

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 non-governmental organizations (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.

As part of the "Broader Middle East & North Africa Initiative," MEPI also partially finances the Foundation for the Future, a multilateral, not-for-profit entity that provides micro-financing and other forms of financial assistance in support of democracy and reform. A recent *Washington Post* article noted that the Foundation for the Future has made no grants and held only two board meetings since its creation

---

[30] The MCC's Morocco scorecard is available online at [http://www.mcc.gov/selection/scorecards/2007/lmic/score_fy07_lmic_morocco.pdf]

in 2005.[31] In May 2007, the Foundation's board awarded grants to five proposals, including a center for media excellence for the region, a civil society resource center, the promotion of an independent judiciary in Egypt, funding for the Palestinian central election committee and a human rights education program for women.

Although some observers have praised MEPI programming for reaching out to reformers through its small grant program, critics charge that MEPI's agenda is too broad and that it merely duplicates the existing work of development agencies. Critics charge that MEPI has little credibility in the Arab world as it awards grants to mostly American-run organizations to implement programs with little long-term impact.[32] Some experts have recommended that MEPI be transformed into a private foundation in order to partly disassociate it from direct U.S. government control. U.S. officials have rejected this idea, asserting that the United States needs such policy tools to effect change in the region.

Table 10. Middle East Partnership Initiative Appropriations, FY2003-FY2008 Request

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

FY2003	FY2004	FY2005	FY2006 Actual	FY2007 Estimate	FY2008 Request
90.000	89.400	74.400	113.800	N/A	75.000

Restrictions on Aid to the Palestinians[33]

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

[31] "Woman in World Bank Controversy Working on Mideast Project," *Washington Post*, April 14, 2007.

[32] "Statement of Amy Hawthorne, Analyst, Middle East Democracy," Hearing on Political Change in the Arab World, House International Relations Committee, April 21, 2005.

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

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,[34] 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.

- **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 U.S. AID Administrator should ensure that all contractors and sub-contractors are audited annually, and sets aside ESF funds for the U.S. AID 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, which 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

---

[34] 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.

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. USAID has 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.

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.

Altering Aid to Egypt[35]

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,

---

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

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).

- 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 withhold $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 that protects 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.

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.