

CRS Report for Congress

U.S. Foreign Aid to Israel

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Prepared for Members and
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U.S. Foreign Aid to Israel

Summary

This report provides an overview of U.S. foreign assistance to Israel. It includes a review of past aid programs, data on annual assistance figures, and an analysis of current issues. The report will be updated annually to reflect developments over the previous year. For the most recent action on aid to Israel, see CRS Report RL33476, *Israel: Background and Relations with the United States*, by Carol Migdalovitz. For information on overall U.S. assistance to the Middle East, see CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2006 Request*, by Jeremy M. Sharp.

Israel is the largest cumulative recipient of U.S. foreign assistance since World War II. From 1976-2004, Israel was the largest annual recipient of U.S. foreign assistance, having recently been supplanted by Iraq. Since 1985, the United States has provided nearly \$3 billion in grants annually to Israel.

Over the years, Israel has developed an advanced industrial economy, which, according to the World Bank, places it among the top 40 richest nations in terms of per capita income (between Greece and Cyprus respectively). With Israel becoming more economically self-sufficient, former Israeli Prime Minister Benjamin Netanyahu told a joint session of Congress in 1996 that Israel's need for economic aid would be reduced over time. In 1998, Israel proposed gradually eliminating the \$1.2 billion economic aid and increasing the \$1.8 billion in military aid by \$60 million per year over a 10-year period beginning in the year 2000. Subsequent appropriations for Israel have included cuts of approximately \$120 million in economic aid and increases of \$60 million in military aid each fiscal year.

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 both for research and development in the United States and for military purchases from Israeli manufacturers. In addition, all U.S. foreign assistance earmarked for Israel is delivered in the first 30 days of the fiscal year. Most other recipients normally receive their aid in staggered installments. The United States gives all Economic Support Funds (ESF) directly to the government of Israel as a cash transfer grant rather than allocating funds for specific development projects.

The Administration requested \$120 million in economic aid and \$2.34 billion in military assistance for Israel in fiscal year 2007. With continued conflict on Israel's borders, the 110th Congress may address issues concerning U.S. foreign assistance to Israel. According to various Israeli media sources, the Israeli government may request that the United States increase the annual percentage of U.S. military aid used for weapons procurement within Israel. Additional funding also may be sought for joint U.S.-Israeli anti-missile and rocket systems to counter Hezbollah and Hamas rockets attacks against Israeli cities.

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U.S. Foreign Aid to Israel

U.S.-Israeli Relations and the Role of Foreign Aid

For decades, the United States and Israel have maintained strong bilateral relations based on a number of factors, including strong domestic U.S. support for Israel; shared strategic goals in the Middle East (concern over Iran, Syria, Islamic extremism); shared democratic values; and historic ties dating back to U.S. support for the creation of Israel in 1948. U.S. economic and military aid has been a major component in cementing and reinforcing these ties. Although there have been occasional differences over Israel's settlements in the West Bank and Gaza Strip (prior to the 2005 disengagement), other Middle East peace issues, and Israeli arms sales to China, successive Administrations and many lawmakers have long considered Israel to be a reliable partner in the region, and Israel's aid packages have reflected this sentiment.

U.S. military aid has helped transform Israel's armed forces into one of the most technologically sophisticated militaries in the world. U.S. military aid for Israel has been designed to maintain Israel's qualitative edge over neighboring militaries, since Israel must rely on better equipment and training to compensate for a manpower deficit in any potential regional conflict. U.S. military aid, a portion of which may be spent on procurement from Israeli defense companies, also has helped Israel to build a domestic defense industry, which ranks as one of the top ten suppliers of arms worldwide.

For many years, U.S. economic aid helped subsidize a lackluster Israeli economy, though since the rapid expansion of Israel's hi-tech sector in the 1990s (sparked partially by U.S.-Israeli scientific cooperation), Israel is now considered a fully industrialized nation with an economy on par with some Western European countries. Consequently, Israel and the United States have agreed to gradually phase out grant economic aid to Israel.

The use of foreign aid to help accelerate the Middle East peace process has had mixed results. 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 them that the United States was committed to supporting their peace efforts. Promoting Israeli-Palestinian peace has proven to be a far greater challenge for U.S. policy makers, as most analysts consider foreign aid to be tangential in solving complex territorial issues and overcoming deeply rooted mistrust sown over decades.

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. In the past, the United States has reduced its loan guarantees to Israel in opposition to continued settlement building, but it has not acted to cut Israel's military or economic grant aid.

Historical Background

1948-1970

U.S. government assistance to Israel began in 1949 with a \$100 million Export-Import Bank Loan.¹ For the next two decades, U.S. aid to Israel was modest and was far less than in later years.² Although the United States provided moderate amounts of economic aid (mostly loans), Israel's main early patron was France, which provided Israel with advanced military equipment and technology.³ In 1962, Israel purchased its first advanced weapons system from the United States (Hawk antiaircraft missiles).⁴ In 1968, a year after Israel's victory in the Six Day War in June 1967, the Johnson Administration, with strong support from Congress, approved the sale of Phantom aircraft to Israel, establishing the precedent for U.S. support for Israel's qualitative military edge over its neighbors.⁵

1970-Present

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.⁶ Consequently, Congress, supported by broad U.S. public opinion, committed to strengthening Israel's military and economy through large increases in foreign aid. From 1966 through 1970, average aid per year increased to about \$102 million and military loans increased to about 47% of the total. In 1971, the United

¹ 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. The Tripartite Declaration of 1950 reaffirmed U.S., British, and French opposition to the development of Arab-Israeli arms races.

² From 1949 through 1965, U.S. aid to Israel averaged about \$63 million per year, over 95% of which was economic development assistance and food aid. A modest military loan program began in 1959.

³ France supplied Israel with military equipment mainly to counter Egypt. In the 1950s and early 1960s, Egypt antagonized France by providing arms and training for Algeria's war for independence against France.

⁴ "America's Staunchest Mideast Ally," *Christian Science Monitor*, August 21, 2003.

⁵ Section 303 of P.L. 90-554, *Foreign Assistance Act of 1968*, expresses the sense of Congress to see the United States negotiate the sale of supersonic aircraft to Israel.

⁶ 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 low level guerrilla warfare with the Palestinian Liberation Organization and other 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 to Israel.

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 in legislation (an “earmark”). Economic assistance changed from project aid, such as support for agricultural development work, to a Commodity Import Program (CIP) for the purchase of U.S. goods.⁷ 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 Six Day War in June 1967. Israel became the largest recipient of U.S. foreign assistance in 1974. From 1971 to the present, U.S. aid to Israel has averaged over \$2.6 billion per year, two-thirds of which has been military assistance.

1979 Israeli-Egyptian Peace Treaty. 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. To facilitate a complete cessation of hostilities and Israel’s return of the Sinai Peninsula, the United States provided a total of \$7.5 billion to both parties in 1979. The “Special International Security Assistance Act of 1979” (P.L. 96-35) provided military and economic grants to Israel and Egypt at a ratio of 3:2, respectively.⁸

Emergency Aid. U.S. assistance also has been used to help ease financial pressures on the Israeli treasury during recession.⁹ In 1985, the United States significantly increased U.S. assistance to Israel, with Congress passing a special economic assistance package of \$1.5 billion in order to help the Israeli economy cope with soaring inflation and economic stagnation.¹⁰ As part of the assistance agreement, the United States and Israel formed the U.S.-Israel Joint Economic Development Group (JEDG) in order to support Israeli economic reforms.¹¹ In

⁷ The Commodity Import Program for Israel ended in 1979 and was replaced with direct, largely unconditional cash transfers.

⁸ This ratio is not found in the text of the 1978 and 1979 Camp David agreements. U.S. officials have not formally recognized the ratio. Egypt believes that, since it took political risks in making peace with Israel, the United States should be even-handed in its assistance policy to the region. The Egyptian government claims that a 3:2 ratio between Israel and Egypt was established during the negotiations.

⁹ Beginning in the mid-1970s, Israel could no longer meet its balance of payments and government deficits with imported capital (gifts from overseas Jews, West German reparations, U.S. aid) and began to rely more on borrowed capital. Growing debt servicing costs, mounting government social services expenditures, perennial high defense spending, and a stagnant domestic economy combined with worldwide inflation and declining foreign markets for Israeli goods pushed the Israeli economy into a near crisis situation in the mid-1980s.

¹⁰ See Title I, Chapter V of P.L. 99-88, Economic Support Fund assistance for Israel, Egypt, and Jordan. In 1985, the United States and Israel also concluded a Free Trade Agreement, which dramatically boosted Israeli exports to the United States.

¹¹ The JEDG meets on an annual basis to discuss financial sector and labor market reforms, trade liberalization, and privatization. The JEDG also monitors the disbursement of U.S. loan guarantees to Israel. The last meeting took place in April 2005.

addition, all U.S. military aid to Israel was converted into grants in 1985.¹² U.S. economic aid had been converted to a cash grant transfer in 1981.

During times of domestic unrest in Israel and regional instability, U.S. aid to Israel has increased. In 1991, Congress provided Israel \$650 million in emergency grants to pay for damage and other costs from Operation Desert Storm. In addition, Israel was given Patriot missiles to defend against Iraqi Scud missile attacks. After the 1991 collapse of the Soviet Union and the ensuing increase in migration of Russian and other Eastern bloc Jews to Israel, Congress approved \$10 billion in loan guarantees for Israel to help it absorb immigrants and provide them with adequate social services. Finally, in the aftermath of the 2003 Iraq invasion, Congress passed the FY2003 Emergency Supplemental Appropriations Act (P.L. 108-11), which included \$9 billion in loan guarantees over three years for Israel's economic recovery and \$1 billion in military grants.

Using Aid to Support the Peace Process. During the 1990s, the United States provided aid to support the Israeli-Palestinian peace process. In late 1998, Israel requested \$1.2 billion in additional U.S. aid to fund the movement of troops and military installations out of areas of the West Bank as called for in the October 23, 1998 Wye Agreement.¹³ The Clinton Administration requested \$1.2 billion in military aid for Israel to implement the Wye Agreement despite the fact that its implementation had stalled. President Clinton vetoed H.R. 2606, the FY2000 foreign operations appropriations bill, in part because it did not include the Wye funding. On November 29, 1999, the President signed the consolidated appropriations bill, H.R. 3194 (P.L. 106-113), which included in Division B passage of H.R. 3422, the Foreign Operations Appropriations bill. Title VI of H.R. 3422 included the \$1.2 billion Wye funding for Israel.

Aid Restrictions and Possible Violations

Cluster Munitions. Although U.S. assistance to Israel has remained high for several decades, there have been some instances when the United States acted to restrict aid or rebuke Israel for possible improper use of U.S.-supplied military equipment. The 1952 Mutual Defense Assistance Agreement and subsequent arms agreements between Israel and the United States limit the use of U.S. military equipment to defensive purposes. The Arms Export Control Act states that the United States may stop aid to countries which use U.S. military assistance for purposes other than "legitimate self-defense." In 1982, the Reagan Administration determined that Israel "may" have violated its 1952 Mutual Defense Assistance Agreement with the United States by reportedly using U.S.-supplied anti-personnel cluster bombs against

¹² The 1974 emergency aid for Israel, following the 1973 war, included the first military grant aid.

¹³ The full text of the 1998 Wye River Memorandum, a U.S.-brokered Israeli-Palestinian security agreement, is available online at [<http://www.mfa.gov.il/NR/exeres/EE54A289-8F0A-4CDC-93C9-71BD631109AB.htm>].

civilian targets during its military operations in Lebanon and the siege of Beirut.¹⁴ As a result, the Reagan Administration prohibited U.S. export of cluster bombs to Israel for six years.¹⁵

During the July-August 2006 war in Lebanon, Israel used cluster munitions to counter Hezbollah rocket attacks. The United States apparently supplied some of the cluster weapons that Israel used in the conflict.¹⁶ Since the August 2006 Israeli-Hezbollah cease-fire, there have been a number of reported Lebanese civilian deaths and injuries from unexploded bomb remnants spread across a wide area of southern Lebanon. The Department of State's Directorate of Defense Trade Controls also reportedly is conducting an investigation focused on whether Israel violated confidential agreements with the United States that restrict Israel's use of U.S.-supplied cluster munitions to certain military targets in non-civilian areas. Administration officials have declined to comment specifically on these reports. The U.S. Department of State's Office of Weapons Removal and Abatement announced plans to expand an ongoing landmine and unexploded ordnance (UXO) humanitarian clearance program in Lebanon in the aftermath of the 2006 Israel-Hezbollah conflict.

Israeli Arms Sales to China. Over the last two decades, the United States and Israel have disagreed over Israeli sales of sensitive U.S. technologies to China.¹⁷ U.S. objections have largely been communicated by successive Administrations and Pentagon officials, though in recent years, some Members of Congress expressed dissatisfaction over one reported sale. In 2000, Representative Sonny Callahan, former Chairman of the House Appropriations Subcommittee on Foreign Operations, sought to withhold \$250 million in aid to Israel unless it cancelled a planned sale to China of an Airborne Early Warning System.¹⁸ On June 20, 2000, the House Foreign Operations Subcommittee voted nine to six to defeat Callahan's proposal.¹⁹ In 2005,

¹⁴ See, CRS Report RL30982, *U.S. Defense Articles and Services Supplied to Foreign Recipients: Restrictions on Their Use*, by Richard Grimmett.

¹⁵ The Reagan Administration also suspended the delivery of F-16 aircraft to Israel after it bombed the Iraqi nuclear reactor at Osirak in 1981.

¹⁶ David S. Cloud, "Inquiry Opened Into Israeli Use Of U.S. Bombs," *New York Times* August 25, 2006. An August 26, 2006, presentation by United Nations Mine Action Coordination Center (UNMAS) South Lebanon office catalogued the following numbers of U.S.-manufactured cluster weapon sub-munitions during surveys in southern Lebanon (source weapons in parentheses): 715 M-42's (105-millimeter artillery shells), 820 M-77's (M-26 rockets), and 5 BLU-63's (CBU-26 cluster bombs). The UNMAS teams also reported 631 M-85 Israeli-produced sub-munitions had been found. See, UNMAS South Lebanon, "Cluster Bomb Situation - South Lebanon July/August 2006," August 26, 2006.

¹⁷ U.S.-Israeli disputes over arms sales also have been generated by U.S. sales of "sensitive" equipment to friendly Arab states, though Israeli analysts note that Israel, because of its dependence on U.S. military aid, has little leverage in opposing such sales.

¹⁸ Eric Pianin, "Israel-China Radar Deal Opposed," *Washington Post*, April 7, 2000.

¹⁹ According to the House Committee, "the Committee is very disturbed by reports that Israel is preparing to provide China with an airborne radar system that could threaten both the forces of democratic Taiwan and the United States in the region surrounding the Taiwan

the United States suspended Israel from participating in the development of the Joint Strike Fighter (JSF) because of Israeli plans to upgrade Chinese Harpy Killer drone aircraft. Israel canceled the sale and is now part of the JSF program.²⁰

Israeli Settlements. Continued Israeli settlement building in the West Bank and Gaza Strip prior to its departure from Gaza in 2005 led the United States to reduce the amount of loans it has extended to Israel. By law, U.S. loan guarantees cannot be used to finance Israeli settlement building in areas occupied after the 1967 War. In the mid-1990s and then again in 2003, the United States reduced loan guarantees to Israel by an amount equal to Israel's estimated spending on settlement construction in the West Bank and Gaza.

U.S. Economic Aid to Israel

Economic Support Funds (ESF)

Cash Grant & Early Transfer. 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 or as a Commodity Import program. Prior to 1981, Israel had received economic aid in the form of both grants and loans. By law, ESF funds to Israel must be transferred in one lump sum within the first 30 days of the new fiscal year or passage of the appropriation act, whichever is later. Before 1982, Israel had received its annual ESF in quarterly installments.

Israel's Use of ESF. According to the U.S. State Department, economic aid to Israel is not conditioned on economic policy reform, though U.S. assistance may be used to purchase goods and services from the United States; to service debt owed to, or guaranteed by, the U.S. government (USG); to pay to the USG any subsidies or other costs associated with loans guaranteed by the USG; to service Foreign Military Sales debt; and to defray the costs of other activities to support Israel's economic needs. Although there is no legally mandated accounting for Israel's use of economic aid, the Israeli government reportedly keeps U.S. officials informed of its ESF spending.

Phasing Out Economic Aid to Israel. On July 10, 1996, former Israeli Prime Minister Binyamin Netanyahu told a joint session of the U.S. Congress: "In the next four years, we will begin the long-term process of gradually reducing the level of your generous economic assistance to Israel." Former Israeli Finance Minister Yaacov Neeman met with some House Appropriations Committee members

¹⁹ (...continued)

Strait. The Committee intends to revisit this issue as the appropriations process moves forward." H.Rept. 106-720, accompanying H.R. 4811 (P.L. 106-429), the FY2001 Foreign Operations Appropriations Act.

²⁰ In 2006, Israel also froze a \$100-million contract with Venezuela to upgrade its U.S.-manufactured F-16 fighter jets reportedly due to U.S. pressure.

in January 1998 to negotiate a \$600 million reduction in Israel's \$3 billion annual aid package by decreasing the \$1.2 billion economic aid to zero over a 10-year period while increasing Israel's \$1.8 billion military aid up to \$2.4 billion in the same period. Beginning in FY1999, Congress has reduced the amount of ESF going to Israel by \$120 million per year and increased the amount of Foreign Military Financing (FMF) by \$60 million per year. The phased reduction in U.S. economic aid to Israel is scheduled to be completed in 2008.

Migration & Refugee Assistance

Beginning in 1973, Israel has received grants from the State Department's Migration and Refugee Assistance fund (MRA)²¹ to assist in the resettlement of humanitarian migrants to Israel. Funds are paid to the United Israel Appeal, a private philanthropic organization in the United States, which in turn transfers the funds to the Jewish Agency.²² Between 1973 and 1991, the United States gave about \$460 million for resettling Jewish refugees in Israel. Annual amounts have varied from a low of \$12 million to a high of \$80 million, based on the number of Jews leaving the former Soviet Union and other areas for Israel. The Refugee and Migration funds for Israel are earmarked by Congress; the Administration usually does not request specific amounts of Refugee and Migration assistance for Israel.

Congress has changed the earmark language since the first refugee resettlement funds were appropriated in 1973. At first, the congressional earmark said the funds were for "resettlement in Israel of refugees from the Union of Soviet Socialist Republics and from Communist countries in Eastern Europe." But in 1985, the language was simplified to "refugees resettling in Israel" to ensure that Ethiopian Jews would be covered by the funding. Technically, the earmark designates funds for refugee resettlement, but in Israel little differentiation is made between "refugees" and other immigrants, and the funds are used to support the absorption of all immigrants.

Loan Guarantees

Overview. Since 1972, the United States has extended loan guarantees to Israel to assist with housing shortages, Israel's absorption of new immigrants from the former Soviet Union and Ethiopia, and its economic recovery following the 2000-2003 recession sparked by the renewal of Israeli-Palestinian violence. Loan guarantees are a form of indirect U.S. assistance to Israel, since they enable Israel to borrow from commercial sources at lower rates and not from the United States government. Congress directs that subsidies be set aside in a U.S. Treasury account for possible default. These subsidies, which are a percentage of the total loan (based in part on the credit rating of the borrowing country; in the case of the loan guarantees in the 1990s, the subsidy amount was 4.1%), have come from the U.S. or the Israeli government. Israel has never defaulted on a U.S.-backed loan guarantee,

²¹ The Refugee and Migration Account (MRA) is authorized as part of the State Department funding, but is appropriated through the Foreign Operations Appropriations bill.

²² The Jewish Agency's website is available at [<http://www.jafi.org.il/>].

as it needs to maintain its good credit rating in order to secure financing to offset annual budget deficits.

Table 1. Housing Loan Guarantees

Year	Amount
1972	\$50 million
1974	\$25 million
1975	\$25 million
1976	\$25 million
1977	\$25 million
1979	\$25 million
1980	\$25 million
1990	\$400 million
Total	\$600 million

Loan Guarantees for Soviet Immigration. In late 1990, the press reported that Israel would request \$10 billion in loan guarantees from the United States. Under the proposal, Israel would borrow \$10 billion from U.S. commercial establishments, and the United States government would guarantee the loans against default. Israeli officials said the funds were needed to finance housing, jobs, and infrastructure for an anticipated 1 million Soviet Jewish immigrants that were expected between 1991 and 1995. During April 1991 negotiations over Israel's request for emergency funds for recovery from Iraqi attacks during Operation Desert Storm, Israel agreed to postpone its guaranteed loan request until September 1991. In September, then President George H.W. Bush asked Congress to delay consideration of the Israeli request until January 1992 because the President feared that the loan request would jeopardize Secretary of State Baker's negotiations for a peace conference. Reluctantly, most Members of Congress agreed.

When Congress returned in January 1992, Secretary Baker said the Administration would support the Israeli request only if Israel agreed to freeze all settlement activity in the occupied territories. In a series of negotiations among the Administration, Congress, and Israel, several compromises were offered: reducing the U.S. loan guarantees by an amount equal to the Israeli expenditures on settlements in the occupied territories, reducing the annual amount of the loan guarantees, or allowing Israel to complete housing projects underway in the territories but to ban new projects. None of the proposals were acceptable to all the parties. With the stalemate, it appeared that Israel's loan guarantee request was to be postponed until consideration of the FY1993 foreign aid legislation later that year.

Following the June 1992 Israeli elections, which Yitzhaq Rabin and his Labor party won, relations between the United States and Israel improved because the Bush Administration found the new Israeli leaders more accommodating toward peace talks with Arab states. President Bush announced in August that he would propose approving the loan guarantees. Congress attached the loan guarantee authorization

to the Foreign Operations Appropriation bill that passed on October 5, 1992 (Title VI, P.L. 102-391, signed into law on October 6, 1992). The United States approved the first \$2 billion tranche in December 1992, and Israel issued the first \$1 billion in bonds in March 1993.

Table 2. Loan Guarantees for Soviet Immigration
(\$ in millions)

Year	Authorized, Title VI P.L. 102-391	Reduction for Settlement Activity	“Offset” Reinstated for Security Interests	Net Reduction	Amount Available for Israel
1993	\$2,000.0	0	0	0	\$2,000.0
1994	\$2,000.0	\$437.0	0	\$437.0	\$1,563.0
1995	\$2,000.0	\$311.8	\$95.0	\$216.8	\$1,783.2
1996	\$2,000.0	\$303.0	\$243.0	\$60.0	\$1,940.0
1997	\$2,000.0	\$307.0	\$247.0	\$60.0	\$1,940.0
Totals	\$10,000.0	\$1,358.8	\$585.0	\$773.8	\$9,226.2

On September 30, 1993, the President notified Congress, that the \$2 billion in loan guarantees for FY1994 would be reduced by \$437 million, the amount Israel spent in FY1993 on Jewish settlements in geographic areas occupied after the Six Day War in June 1967.²³ On September 30, 1994, the President notified Congress that the \$2 billion in loan guarantees for FY1995 would be reduced by \$216.8 million, an amount equal to the amount Israel spent on Jewish settlements in the occupied territories in FY1994. The President notified Congress in September 1995 that the amount for FY1996 would be reduced by \$60 million, and notified Congress in September 1996 that the amount for FY1997 also would be reduced by \$60 million. The \$10 billion (\$2 billion each year) authorized for Israel for FY1993-FY1997, has been reduced by \$774 million because of settlement activity. Of the \$9.226 billion available to Israel from FY1993 to FY1997, Israel drew loans worth about \$6.6 billion.

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

²³ Loan reductions were in accordance with Section 226(d) of the Foreign Assistance Act as amended by Sec. 601 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993 (P.L. 102-391; 106 Stat. 1699).

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. H.R. 6060, the 2006 Department of State Authorities Act, extends the authority to provide loan guarantees through fiscal year 2010.

Table 3. FY2003 Loan Guarantees for Economic Recovery
(\$ in millions)

Year	Authorized P.L. 108-11	Reduction for Settlement Activity	Amount Borrowed by Israel
FY2003	3,000	289.5	1,600
FY2004	3,000	—	1,750
FY2005	3,000/1,000*	—	750
FY2006	1,000		—
FY2007	1,000		—
Total	9,000	289.5	4,100
Year	Extended Authorization H.R. 6060**	Reduction for Settlement Activity	Amount Borrowed by Israel
FY2006	400	—	—
FY2007	400	—	—
FY2008	400	—	—
FY2009	400	—	—
FY2010	400	—	—
Total	2,000 (+ 2,600 unspent funds)	—	—

Source: U.S. State Department.

*Under the original authorizing legislation, Israel was permitted to borrow \$3 billion in FY2005. P.L. 108-447 extended the overall time frame for the loan guarantees, and the United States allotted \$1 billion increments for Israel to draw on in fiscal years 2005-2007.

**From FY2003-FY2005, \$4.6 billion in loan guarantees remained unspent by Israel. Of that amount, \$2.6 billion had been carried over from previous years and had already met certain financial benchmarks established by a Joint U.S.-Israeli Economic Group overseeing the loan guarantees. Because Israel has already met such criteria, it can draw on the \$2.6 billion at any time. The remaining \$2 billion in authorized loan guarantees has been apportioned out by the U.S. government in \$400 million increments from FY2006-FY2010.

American Schools and Hospitals Abroad Program (ASHA)²⁴

Through Foreign Operations appropriations legislation, Congress has funded the ASHA program as part of the overall Development Assistance (DA) appropriation to the United States Agency for International Development (USAID). According to USAID, ASHA is designed to strengthen self-sustaining schools, libraries and medical centers that best demonstrate American ideas and practices abroad. ASHA has been providing support to institutions in the Middle East since 1957, and there are a number of Israeli universities and hospitals that have been recipients of ASHA grants. Over the past several years, Israeli institutions, such as the Shaare Zedek Medical Center in Jerusalem and the Hadassah Medical Organization, have received ASHA funding. The Hadassah Medical Organization was nominated for the 2005 Nobel Peace Prize for its equitable treatment of Palestinians and Israelis patients. According to USAID, institutions based in Israel have received the most program funding in the Middle East region.

Table 4. ASHA Program Grants to Israeli Institutions, FY2000-FY2005

Fiscal year	Amount
FY2000	\$2.75 million
FY2001	\$2.25 million
FY2002	\$2.65 million
FY2003	\$3.05 million
FY2004	\$3.15 million
FY2005	\$2.95 million
Total	\$16.8 million

Source: USAID.

²⁴ According to USAID, recipients of ASHA grants on behalf of overseas institutions must be private U.S. organizations, headquartered in the United States, and tax-exempt. The U.S. organization must also serve as the founder for and/or sponsor of the overseas institution. Schools must be for secondary or higher education and hospital centers must conduct medical education and research outside the United States. Grants are made to U.S. sponsors for the exclusive benefit of institutions abroad. See [http://www.usaid.gov/our_work/cross-cutting_programs/asha/].

U.S. Military Assistance to Israel

Foreign Military Financing (FMF)

Overview. Congress has taken measures to strengthen Israel's security and maintain its "qualitative military edge" (QME) over neighboring militaries. Annual Foreign Military Financing (FMF) grants to Israel represent about 23-25% of the overall Israeli defense budget, and FMF levels are expected to increase incrementally by \$60 million a year to a level of \$2.4 billion by 2008.

Early Transfer. Congress has mandated that Israel receive its FMF aid in a lump sum during the first month of the fiscal year. Once disbursed, Israel's military aid is transferred to an interest bearing account with the Federal Reserve Bank. Israel has used interest collected on its military aid to pay down its debt (non-guaranteed) to the United States, which, according to the U.S. Treasury Department, stood at \$1.4 billion as of December 2004.²⁵ Israel cannot use accrued interest for defense procurement inside Israel.

FMF for in-Country Purchase. Most analysts consider Israel's ability to use a significant portion of its annual military aid for procurement spending in Israel to be the most valuable aspect of its assistance package; no other recipient of U.S. military assistance has been granted this benefit. The proceeds to Israeli defense firms from purchases with U.S. funds have allowed the Israeli defense industry to achieve necessary economies of scale and become highly sophisticated. Successive Administrations and many lawmakers believe that a strong domestic Israeli defense industry is crucial to maintaining Israel's technological edge over its neighbors. Israel is among the world's leading arms exporters.

Israel was first granted FMF for use in Israel in 1977, when it asked for and received permission to use \$107 million in FY1977 FMF funds to develop the Merkava tank (prototype completed in 1975 and added to Israeli arsenal in 1979). Several years later, Israel asked for a similar waiver to develop the Lavi ground-attack aircraft, and Congress responded with legislation allowing Israel to spend \$250 million of FMF in Israel to develop the Lavi. It was estimated that the United States provided between \$1.3 and \$1.8 billion in Lavi development costs before the United States and Israel agreed to terminate the project in 1988.²⁶ In order to defray the cancellation costs of the Lavi program, the United States agreed to raise the FMF earmark for procurement in Israel to \$400 million.

Since FY1988, the FMF procurement earmark for purchases within Israel has been incorporated into annual foreign assistance legislation. Currently, approximately one quarter of Israel's FMF funds may be used for domestic defense purchases (\$595 million in FY2006). As U.S. military aid to Israel has increased, the amount set aside for defense purchases in Israel also has increased. Reportedly, during Israeli Prime

²⁵ U.S. Department of Treasury Foreign Credit Reporting System, 2003.

²⁶ For background on the cancellation of the Lavi fighter, see Raviv, Dan & Yossi Melman, *Friends in Deed: Inside the U.S.-Israeli Alliance*, New York: Hyperion, 1994, pp. 263-268.

Minister Ehud Olmert's November 2006 visit to Washington, Israeli negotiators raised the issue of increasing the amount of FMF that can be used for in-country procurement.²⁷

Recent U.S. Military Sales to Israel. Israel uses almost 75% of its FMF funds to purchase U.S. defense equipment. By law, Congress must be notified of any new purchase agreement. The Department of Defense's Defense Security Cooperation Agency (DSCA) is charged with managing U.S. arms sales to Israel. Recent sales include the following:

- On July 14, 2006, DSCA notified Congress of a possible Foreign Military Sale to Israel of JP-8 aviation jet fuel. The total value, if all options were exercised, could be as high as \$210 million. This request was made at the outset of the 2006 Israel-Hezbollah war. The Congressional Notification stated that the planned sale of jet fuel would help Israeli aircraft "keep peace and security in the region." Israel had asked for faster delivery of JP-8 jet fuel and guided bomb units (GBU28s).
- On April 28, 2005, DSCA notified Congress of a possible Foreign Military Sale to Israel of 100 GBU-28s (guided bomb units) as well as associated equipment and services. The total value, if all options were exercised, could be as high as \$30 million.

In April 1998, the United States designated Israel as a "major non-NATO ally," which qualifies Israel to receive Excess Defense Articles (EDA) under Section 516 of the Foreign Assistance Act and Section 23(a) of the Arms Export Control Act. DSCA manages the EDA program, which enables the U.S. to reduce its inventory of outdated equipment by providing friendly countries with necessary supplies at either reduced rates or at no charge.²⁸

²⁷ "Israel To Seek Increased U.S. Military Aid To Recompense End of Civilian Aid," *Ma'ariv* (Tel Aviv), November 26, 2006, Open Source Center Document GMP20061127741003.

²⁸ To access DSCA's Excess Defense Articles database, see [<http://www.dsca.mil/programs/eda/search.asp>].

Appropriations for U.S.-Israeli Cooperative Programs

Congress periodically provides funds from non-foreign aid accounts for joint U.S.-Israeli research and development (R&D) projects in the defense, agriculture, science, and hi-tech industries. Israel and the United States benefit from such projects and share technology from co-developed weapons systems.

Defense Budget

Arrow Anti-Missile System and Other Defense Systems. Congress and successive Administrations have shown strong support for joint U.S.-Israeli missile defense projects. Since 1988, Israel and the United States have been developing the Arrow Anti-Missile System, a weapon with a theater ballistic missile defense capability. The United States has funded just under half of the annual costs of the development of the Arrow Weapon System, with Israel supplying just over half of the annual costs. The Defense Appropriations Act for FY2007, P.L. 109-289, appropriates \$137,894,000 for the Arrow program. Of this amount, \$53,000,000 is for producing missile components in the United States and missile components and missiles in Israel to meet Israel's defense requirements, and \$20,400,000 is for a joint feasibility study of the Short Range Ballistic Missile Defense (SRBMD) initiative, a missile interceptor (dubbed "Stunner") designed by the Raytheon Co. to thwart missiles and rockets from 40 to 200 kilometers that is not expected to be operational before 2011. The United States also has provided \$53 million for the Boost Phase Intercept program and \$139 million for the Tactical High Energy Laser program (THEL) to complement the Arrow.²⁹

**Table 5. U.S. Contributions to U.S.-Israel
Arrow Weapons System Development**
(figures in millions of U.S. dollars)

Fiscal Year	U.S. Contribution
FY1990	52.000
FY1991	42.000
FY1992	54.400
FY1993	57.760
FY1994	56.400
FY1995	47.400
FY1996	59.352

²⁹ Recent media reports suggest that the United States and Israel have shelved plans to further develop the THEL or "Nautilus" laser system. Reportedly, some military experts claimed that the system, developed jointly by the Israeli government missile-defense unit Mafat and U.S. arms firm Northrop Grumman since April 1996, was too cumbersome and expensive to warrant continued development. See, "U.S. and Israel Shelved Laser as a Defense," *New York Times*, July 30, 2006.

Fiscal Year	U.S. Contribution
FY1997	35.000
FY1998	94.874
FY1999	46.924
FY2000	79.985
FY2001	92.025
FY2002	126.395
FY2003	124.594
FY2004	135.644
FY2005	152.048
FY2006	60.250
FY2007 Estimate	79.494
FY2008 Estimate	77.539
FY2009 Estimate	77.723
FY2010 Estimate	79.340

U.S.-Israeli Scientific & Business Cooperation

In the early 1970s, Israeli academics and businessmen began looking for ways to expand investment in Israel's high technology sector. At the time, Israel's nascent technology sector, which would later on become the driving force in Israel's economy, was in need of private capital for research and development. The United States and Israel launched several programs to stimulate Israeli industrial and scientific research, and Congress has on several occasions authorized and appropriated funds for the following organizations:

- The BIRD Foundation (Israel-U.S. Binational Research & Development Foundation).³⁰ BIRD, which was established in 1977, provides matchmaking services between Israeli and American companies in the field of Research and Development with the goal of expanding cooperation between U.S. and Israeli private high tech industries.

³⁰ See [<http://www.birdf.com/default.asp>]. Congress helped establish BIRD's endowment with appropriations of \$30 million and \$15 million in 1977 and 1985 respectively. These grants were matched by the Israeli government for a total endowment of \$90 million

- The BSF Foundation (U.S.-Israel Binational Science Foundation).³¹ BSF, which was started in 1972, promotes cooperation in scientific and technological research.
- The BARD Foundation (Binational Agriculture and Research and Development Fund). BARD was created in 1978 and supports U.S.-Israeli cooperation in agricultural research.³²

In the 109th Congress, H.R. 2730, the U.S.-Israel Energy Cooperation Act, proposed providing grants of up to \$20 million a year for joint U.S.-Israeli research and development projects in the fields of renewable energy and alternative energy sources. The legislation was passed by the House of Representatives on July 26, 2006, but was not voted on in the Senate.

³¹ See [<http://www.bsf.org.il/Gateway4/>]. Congress helped establish BSF's endowment with appropriations of \$30 million and \$20 million in 1972 and 1984 respectively. These grants were matched by Israel for a total endowment of \$100 million. According to the treaty establishing the Foundation, the Foundation shall use the interest, as well as any funds derived from its activities, for the operations of the Foundation.

³² See [<http://www.bard-isus.com/>]. Congress helped establish BARD's endowment with appropriations of \$40 million and \$15 million in 1979 and 1985 respectively. These grants were matched by the State of Israel for a total endowment of \$110 million. In recent years, Congress has provided funds for BARD in annual Agriculture Appropriations legislation at approximately \$500,000 a year.

Appendix: Recent Aid to Israel

Table 6 shows cumulative U.S. aid to Israel for FY1949 through FY1996, and U.S. aid to Israel for each fiscal year since. Detail for the years 1949-1996 is shown in **Table 7**.

Table 6. Recent U.S. Aid to Israel
(millions of dollars)

Year	Total	Military Grant	Economic Grant	Immig. Grant	ASHA	All other
1949-1996	68,030.9	29,014.9	23,122.4	868.9	121.4	14,903.3
1997	3,132.1	1,800.0	1,200.0	80.0	2.1	50.0
1998	3,080.0	1,800.0	1,200.0	80.0	?	?
1999	3,010.0	1,860.0	1,080.0	70.0	?	?
2000	4,131.8	3,120.0	949.1	60.0	2.75	?
2001	2,878.3	1,975.6	838.2	60.0	2.25	?
2002	2,850.6	2,040.0	720.0	60.0	2.65	28.0
2003	3,744.1	3,086.4	596.1	59.6	3.05	?
2004	2,690.4	2,147.3	477.2	49.7	3.15	9.9
2005	2,612.1	2,202.2	357.0	50.0	2.95	?
2006	2,534.5	2,257.0	237.0	40.0	?	0.5
Total	98,694.8	51,303.4	30,777.0	1,478.2	140.3	14,991.7

Notes: ESF was earmarked for \$960 million for FY2000 but was reduced to meet a 0.38% recision. FY2000 military grants include \$1.2 billion for the Wye agreement and \$1.92 billion in annual military aid. Final amounts for FY2003 are reduced by 0.65% mandated recision, and final amounts for FY2004 are reduced by 0.59%.

The \$600 million in housing loan guarantees, \$5.5 billion in military debt reduction loan guarantees, \$9.2 billion in Soviet Jew resettlement loan guarantees, and \$9 billion in economic recovery loan guarantees are not included in the tables because the United States government did not transfer funds to Israel. The United States underwrote loans to Israel from commercial institutions.

Table 7. U.S. Assistance to Israel, FY1949-FY1996
(millions of dollars)

Year	Total	Military Loan	Military Grant	Economic Loan	Economic Grant	FFP Loan	FFP Grant
1949	100.0	-	-	-	-	-	-
1950	-	-	-	-	-	-	-
1951	35.1	-	-	-	0.1	-	-
1952	86.4	-	-	-	63.7	-	22.7
1953	73.6	-	-	-	73.6	-	*
1954	74.7	-	-	-	54.0	-	20.7
1955	52.7	-	-	20.0	21.5	10.8	0.4
1956	50.8	-	-	10.0	14.0	25.2	1.6
1957	40.9	-	-	10.0	16.8	11.8	2.3
1958	85.4	-	-	15.0	9.0	34.9	2.3
1959	53.3	0.4	-	10.0	9.2	29.0	1.7
1960	56.2	0.5	-	15.0	8.9	26.8	4.5
1961	77.9	*	-	16.0	8.5	13.8	9.8
1962	93.4	13.2	-	45.0	0.4	18.5	6.8
1963	87.9	13.3	-	45.0	-	12.4	6.0
1964	37.0	-	-	20.0	-	12.2	4.8
1965	65.1	12.9	-	20.0	-	23.9	4.9
1966	126.8	90.0	-	10.0	-	25.9	0.9
1967	23.7	7.0	-	5.5	-	-	0.6
1968	106.5	25.0	-	-	-	51.3	0.5
1969	160.3	85.0	-	-	-	36.1	0.6
1970	93.6	30.0	-	-	-	40.7	0.4
1971	634.3	545.0	-	-	-	55.5	0.3
1972	430.9	300.0	-	-	50.0	53.8	0.4
1973	492.8	307.5	-	-	50.0	59.4	0.4
1974	2,621.3	982.7	1,500.0	-	50.0	-	1.5
1975	778.0	200.0	100.0	-	344.5	8.6	-
1976	2,337.7	750.0	750.0	225.0	475.0	14.4	*
<i>TQ</i>	292.5	100.0	100.0	25.0	50.0	3.6	-
1977	1,762.5	500.0	500.0	245.0	490.0	7.0	-
1978	1,822.6	500.0	500.0	260.0	525.0	6.8	-
1979	4,888.0	2,700.0	1,300.0	260.0	525.0	5.1	-
1980	2,121.0	500.0	500.0	260.0	525.0	1.0	-
1981	2,413.4	900.0	500.0	-	764.0	-	-
1982	2,250.5	850.0	550.0	-	806.0	-	-
1983	2,505.6	950.0	750.0	-	785.0	-	-
1984	2,631.6	850.0	850.0	-	910.0	-	-
1985	3,376.7	-	1,400.0	-	1,950.0	-	-
1986	3,663.5	-	1,722.6	-	1,898.4	-	-
1987	3,040.2	-	1,800.0	-	1,200.0	-	-
1988	3,043.4	-	1,800.0	-	1,200.0	-	-
1989	3,045.6	-	1,800.0	-	1,200.0	-	-
1990	3,034.9	-	1,792.3	-	1,194.8	-	-
1991	3,712.3	-	1,800.0	-	1,850.0	-	-
1992	3,100.0	-	1,800.0	-	1,200.0	-	-
1993	3,103.4	-	1,800.0	-	1,200.0	-	-
1994	3,097.2	-	1,800.0	-	1,200.0	-	-
1995	3,102.4	-	1,800.0	-	1,200.0	-	-
1996	3,144.0	-	1,800.0	-	1,200.0	-	-
Total	68,030.9	11,212.5	29,014.9	1,516.5	23,122.4	588.5	94.1

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Year	Ex-Im. Bank Loan	JewishRefug. Resettle Grant	Amer. Schools & Hosp.Grant	Other Loan	Coop.Deve I. Grant	Other Grant
1949	100.0	-	-	-	-	-
1950	-	-	-	-	-	-
1951	35.0	-	-	-	-	-
1952	-	-	-	-	-	-
1953	-	-	-	-	-	-
1954	-	-	-	-	-	-
1955	-	-	-	-	-	-
1956	-	-	-	-	-	-
1957	-	-	-	-	-	-
1958	24.2	-	-	-	-	-
1959	3.0	-	-	-	-	-
1960	0.5	-	-	-	-	-
1961	29.8	-	-	-	-	-
1962	9.5	-	-	-	-	-
1963	11.2	-	-	-	-	-
1964	-	-	-	-	-	-
1965	3.4	-	-	-	-	-
1966	-	-	-	-	-	-
1967	9.6	-	1.0	-	-	-
1968	23.7	-	6.0	-	-	-
1969	38.6	-	-	-	-	-
1970	10.0	-	12.5	-	-	-
1971	31.0	-	2.5	-	-	-
1972	21.1	-	5.6	-	-	-
1973	21.1	50.0	4.4	-	-	-
1974	47.3	36.5	3.3	-	-	-
1975	62.4	40.0	2.5	-	-	20.0
1976	104.7	15.0	3.6	-	-	-
<i>TQ</i>	12.6	-	1.3	-	-	-
1977	0.9	15.0	4.6	-	-	-
1978	5.4	20.0	5.4	-	-	-
1979	68.7	25.0	4.2	-	-	-
1980	305.9	25.0	4.1	-	-	-
1981	217.4	25.0	2.0	-	5.0	-
1982	6.5	12.5	3.0	17.5	5.0	-
1983	-	12.5	3.1	-	5.0	-
1984	-	12.5	4.1	-	5.0	-
1985	-	15.0	4.7	-	7.0	-
1986	15.0	12.0	5.5	-	10.0	-
1987	-	25.0	5.2	-	10.0	-
1988	-	25.0	4.9	-	13.5	-
1989	-	28.0	6.9	-	10.7	-
1990	-	29.9	3.5	-	14.4	-
1991	-	45.0	2.6	-	14.7	-
1992	-	80.0	3.5	-	16.5	-
1993	-	80.0	2.5	-	20.9	-
1994	-	80.0	2.7	-	14.5	-
1995	-	80.0	2.9	-	19.5	-
1996	-	80.0	3.3	-	14.0	50.0
Total	1218.5	868.9	121.4	17.5	185.7	70.0

Notes:

* = less than \$50,000

- = None

NA = Not Available

TQ = Transition Quarter, when the U.S. fiscal year changed from June to September.

FFP = Food for Peace

Cooperative Development Grant: Three programs are in the cooperative development category: Middle East Regional Cooperation (MERC) intended for projects that foster economic growth and economic cooperation between Israel and its neighbors; Cooperative Development Program (CDP); and the Cooperative Development Research (CDR), both of which fund Israel's foreign aid program. Israel received about one half of the \$94 million MERC, and all of the \$53 million CDP and \$39 million CDR.

"Other Loan" is a CCC loan. "Other Grants" are \$20 million in 1975 for a seawater desalting plant and \$50 million in 1996 for anti-terrorism.

Definition of Aid: Under the category of foreign aid, some people include other funds transferred to Israel, such as the \$180 million for research and development of the Arrow missile, or the \$7.9 billion in loan guarantees for housing or settling Soviet Jews in Israel. None of these funds is included in this table.