

# CRS Report for Congress

## U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2007 Request

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Prepared for Members and  
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# U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2007 Request

## Summary

This report is an overview of U.S. foreign assistance to the Middle East from FY2002 to FY2006, and of the FY2007 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, many analysts expect Iraq to 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 (H.R. 5631/P.L. 109-289, as amended), which provides funding at the FY2006 level or the House-passed FY2007 level, whichever is less. The continuing appropriations resolution expires February 15, 2007.

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# U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2007 Request

## Introduction

This report is an overview of U.S. foreign assistance to the Middle East from FY2002 through the FY2007 budget request.<sup>1</sup> It includes a brief historical review of foreign aid levels, a description of specific country programs, and an analysis of current foreign aid issues.<sup>2</sup> Congress both authorizes and appropriates foreign assistance and conducts oversight on executive agencies' management of aid programs. As the largest regional recipient of U.S. economic and military aid, the Middle East is perennially a major focus of interest as Congress exercises these responsibilities.

In the Middle East, the United States has a number of strategic interests, ranging from support for the state of Israel and Israel's peaceful relations with its Arab neighbors, to the protection of vital petroleum supplies and the fight against international terrorism. U.S. assistance 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.<sup>3</sup> 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*,

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

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

<sup>3</sup> 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. The debate over promoting democracy in the Middle East remains vigorous.

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.<sup>4</sup> Although the United States provided moderate amounts of economic aid (mostly loans) to Israel, at the time, Israel's main patron was France, which supported Israel by providing it with advanced military equipment and technology.<sup>5</sup> In 1962, Israel purchased its first advanced weapons system from the United States (Hawk anti-aircraft missiles).<sup>6</sup> In 1968, a year after Israel's victory in the Six Day War, the Johnson Administration, with strong support from Congress, approved the sale of Phantom fighters to Israel, establishing the precedent for U.S. support for Israel's qualitative military edge over its neighbors.<sup>7</sup>

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

Beginning in 1965, foreign assistance levels to the region began to decline considerably, culminating in an almost 80% drop in economic aid to the Middle East by 1970. A host of factors, most notably the June 1967 War and the rising cost of the

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<sup>4</sup> In 1948, President Harry Truman, who sympathized with the plight of Israel in its early days, placed an arms embargo on Israel and her Arab neighbors in order to keep the United States neutral in the ongoing Arab-Israeli conflict.

<sup>5</sup> France supplied Israel with military equipment mainly to counter Egyptian power in the region. In the 1950s and early 1960s, Egypt antagonized France by providing arms and training to Algerian fighters in Algeria's war for independence against France.

<sup>6</sup> "America's Staunchest Mideast Ally," *Christian Science Monitor*, August 21, 2003.

<sup>7</sup> Section 651 of P.L. 90-554, *The 1968 Foreign Assistance Act*, expresses the sense of Congress to see the United States negotiate the sale of supersonic aircraft to Israel.

war in Vietnam, led Congress to cut funding for a number of countries. Egypt, which had already seen its annual aid reduced, lost food aid entirely after it severed relations with the United States during the 1967 War. Jordan and other Arab states also saw their aid reduced. By 1970, annual appropriations to Iran were close to being phased out, as many policymakers considered Iran to be a middle-income state that was economically self-sufficient.

**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.<sup>8</sup> Consequently, Congress, supported by broad U.S. public opinion, committed to strengthening Israel’s military and economy through large increases in foreign aid. In 1971, the United States provided Israel with military loans of \$545 million, up from \$30 million in 1970. Also in 1971, Congress first designated a specific amount of aid for Israel (an “earmark”). Economic assistance changed from

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<sup>8</sup> Between 1967 and 1973, Israel and its Arab neighbors fought the June 1967 War, the ensuing War of Attrition (1969), and the October 1973 War. Israel also was engaged in continual low level guerrilla warfare with the Palestinian Liberation Organization and other guerilla groups, which had bases in Jordan and later in Lebanon. The 1974 emergency aid for Israel, following the 1973 war, included the first U.S. military grant aid.



project aid, such as support for agricultural development work, to the Commodity Import Program (CIP) for the purchase of U.S. goods.<sup>9</sup> In effect, the United States stepped in to fill the role that France had relinquished after French President Charles De Gaulle refused to supply Israel with military hardware to protest its preemptive launch of the June 1967 War. Israel became the largest recipient of U.S. foreign assistance in 1976. From 1971 to the present, U.S. aid to Israel has averaged over \$2 billion per year, two-thirds of which has been military assistance.

Just as Israel's long-standing relationship with the United States was in its incipient stages, Egypt, its economy in desperate need of investment and capital after two wars, began to look to the United States to help stimulate economic growth. Egypt's new leader, Anwar Sadat, who had been eager to rid Egypt of excessive Soviet influence and embark on a program of economic liberalization, improved U.S.-Egyptian relations in the mid 1970s, leading to a resumption in economic aid in 1975, and the signing of two disengagement agreements with Israel concerning the Sinai desert. To a lesser extent, the United States significantly increased its economic and military aid to Jordan after the 1970-1971 civil war, in which the Jordanian Armed Forces expelled Palestinian guerrillas from Jordan where they had seriously threatened stability.

The 1979 Camp David Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In exchange for a complete cessation of hostilities and Israel's return of the Sinai Peninsula, the United States provided a total of \$7.3 billion to both parties in 1979. The "Special International Security Assistance Act of 1979" (P.L. 96-35) provided both military and economic grants to Israel and Egypt at a ratio of 3 to 2, respectively.<sup>10</sup> From the Egyptian standpoint, U.S. funds helped to subsidize its defense budget and upgrade its aging Soviet hardware. Egypt became the second largest recipient of U.S. aid after 1979.

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

- In 1985, Congress approved a \$2.25 billion supplemental funding package for Israel, Egypt, and Jordan to help stabilize their deteriorating economies.
- In 1991, Egyptian support for the U.S.-led international coalition against Iraq's invasion of Kuwait led Congress to authorize the

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<sup>9</sup> The Commodity Import Program for Israel ended in 1979 and was replaced with direct, unconditional cash transfers.

<sup>10</sup> This ratio is not found in the text of the 1978 and 1979 Camp David agreements. U.S. officials have not officially recognized the ratio. The Egyptian government claims that a 3 to 2 ratio between Israel and Egypt was established during the negotiations.

cancellation of Egypt's \$6.7 billion military debt. Congress also provided Israel \$650 million in emergency ESF grants to pay for damage and other costs from the war. In addition, Israel was given Patriot missiles during the Persian Gulf war. Aid to Jordan was reduced significantly (nearly 75% overall decrease) after the late King Hussein was unwilling to join the allied coalition against Iraq.

- In October 1992, Congress approved \$10 billion in loan guarantees for Israel to help it absorb a massive influx of Jews from the former Soviet Union.<sup>11</sup> The approval of the loan guarantees was delayed due to disagreements between the first Bush Administration and Israel over use of U.S. funds in the West Bank and Gaza Strip. Of the \$10 billion authorized, the United States deducted \$774 million as a penalty for Israeli settlement construction in the West Bank and Gaza Strip, leaving \$9.226 billion available to cover Israeli loans.
- In September 1993, after Israel and the Palestinian Liberation Organization (PLO) accorded mutual recognition of each other in a step intended to lead to a future peace agreement, the United States offered \$500 million (\$125 million in loans or loan guarantees and \$375 million in grants) over five years for economic development of the Palestinian entity.<sup>12</sup>
- In 1994, in recognition of Jordan's signing a peace treaty with Israel, President Clinton asked Congress to pass legislation to forgive Jordan's \$702.3 million debt to the United States (approximately 10% of Jordan's worldwide debt). Congress appropriated a total of \$401 million in subsidies, which under pertinent budgetary procedures were sufficient to forgive the entire \$702.3 million owed to the United States at the time.
- In November 1999, Congress approved \$400 million in grants for the Palestinians, \$300 million for Jordan, and \$1.2 billion for the Israelis in 2000 to fund the implementation of the Wye River Agreement.<sup>13</sup>

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<sup>11</sup> The U.S. loan guarantee to Israel is not a direct transfer of U.S. government funds to Israel's treasury. Rather, it is a guarantee on a commercial loan between the borrower (Israel) and a private lender. A U.S. subsidy may be appropriated and set aside in a Treasury account, held against a possible default or may be paid by the borrower (Israel). The subsidy usually is a percentage of the total loan based in part on the credit rating of the country.

<sup>12</sup> See CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

<sup>13</sup> Signed on October 23, 1998, the Wye River Memorandum delineated steps to complete the implementation of 1993 Oslo Peace agreement between Israelis and Palestinians. See CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

**Table 2. Total U.S. Assistance to the Middle East: 1971-2001**  
(Loans & 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.”

## Recent Trends in Foreign Aid to the Middle East

In the past five years, overall U.S. assistance to Middle Eastern countries has increased moderately (excluding funds for Iraq reconstruction).<sup>14</sup> This increase has largely been a result of U.S. contributions to regional partners in the war on terror, U.S. commitments to regional participants in the peace process,<sup>15</sup> and U.S. support for new development and democracy-promotion programs in the Middle East. Supplemental Appropriations Acts in FY2003 (P.L. 108-11) and FY2005 (P.L. 109-13) were the primary funding vehicles for recent increases.

Additional assistance for Israel and Egypt, which receive almost 93% of all annual funding to the region, has fueled the increase in aid to the Middle East over the last several years. Before the renewal of Arab-Israeli violence in 2000, the September 11, 2001 terrorist attacks, and the Iraq war, annual aid to Israel and Egypt was trending downward.<sup>16</sup> However, the FY2003 Emergency Supplemental Appropriations Act (P.L. 108-11) included \$9 billion in loan guarantees over three

<sup>14</sup> Although not part of the traditional foreign aid package to the region, Iraq reconstruction appropriations, when taken into account, dramatically alter the assistance picture for the Middle East. In FY2004, foreign aid to Iraq was more than three times the total U.S. assistance package to the rest of the Middle East.

<sup>15</sup> Following the peace talks at the Wye River Plantation in October 1998, President Clinton proposed an aid package of \$1.2 billion for Israel, \$300 million for Jordan, and \$400 million for the Palestinians. Congress added \$25 million for Egypt.

<sup>16</sup> 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. A similar formula for reducing economic aid was applied to Egypt, but Egypt did not receive an increase in military assistance.

years for Israel's economic recovery and \$1 billion in military grants. For Egypt, the United States agreed to allow \$655 million in FY2002 economic aid to be redistributed to help Egypt recover from a steep drop in tourism after 9/11. The FY2003 Supplemental Act also allocated an additional \$300 million in Economic Support Funds (ESF) and \$2 billion in loan guarantees for Egypt.

Although aid to Israel and Egypt accounts for most aid to the region, recent increases to some smaller Arab states have been significant. For example, the Kingdom of Jordan, which had already seen steady increases in aid throughout the late 1990s, received an annual average of \$780 million in economic and military aid between FY2002 and FY2005 (including supplemental funding), up from an average of \$246 million per year between FY1996 and FY2001. In FY2005, aid to Morocco was nearly doubled and was almost four times as large as its aid package in FY2002. U.S. officials have praised Morocco for undertaking political and economic reforms and have pledged to assist the Moroccan government in combating terrorism.

**Table 3. Total U.S. Assistance to the Middle East:  
FY2002-FY2007 Request**

(Regular & Supplemental Appropriations; Current Year \$ in millions)

Near East Region	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
Totals	5,567.810	8,410.000	5,556.383	5,752.111	5,307.93	5,291.257

When including funds for Iraq Reconstruction:

Near East Region	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
Totals w/Iraq	5,567.810	10,646	23,995.383	11,448.727	5,369.013 <sup>a</sup>	6,039

- a. The Bush Administration is seeking an additional \$1.6 billion for Iraqi reconstruction and \$65 million in funds to promote democracy in Iran as part of its FY2006 supplemental budget request.

## Country Summaries

The following section provides funding details on the largest regular aid recipients in the Middle East: Iraq, Israel, Egypt, Jordan, and the Palestinians. Each country section features a table with a more elaborate breakdown of aid by foreign aid account.

### Iraq<sup>17</sup>

Since the start of U.S. efforts to rebuild Iraq following the ouster of Saddam Hussein in 2003, the United States has provided about \$29 billion in foreign aid for various civilian and military rebuilding and security projects. Currently, the Bush Administration is seeking an additional \$6 billion in annual and supplemental appropriations. At these levels, Iraq has been, by far, the largest single recent recipient of U.S. aid worldwide, as total foreign assistance to Iraq is roughly equal to the total amount of aid provided to all Middle Eastern countries since the terrorist attacks of September 11, 2001. With Iraq in need of long-term development and military assistance, many analysts expect aid requests for Iraqi reconstruction to continue in the near future.

The FY2007 budget request seeks approximately \$748 million in regular foreign operations appropriations for the fledgling Iraqi government.<sup>18</sup> Previously, these programs were funded by emergency supplementals, mostly under the Iraq Relief and Reconstruction Fund (IRRF) account. For FY2006, Congress approved \$61 million out of a total \$414 million requested by the Administration, in part because billions in previously appropriated supplemental aid (at the time about \$5 billion) had gone unspent.

Beyond the annual foreign aid budget, the Administration is currently seeking an additional \$1.6 billion for Iraqi reconstruction as part of its FY2006 supplemental budget request. The request includes, among other things,

- \$3.7 billion in Iraq Security Forces Funds to train police and enhance the capabilities of the Iraqi military.
- \$1.4 billion in ESF funds for Iraqi ministries, democracy and good governance programming, and infrastructure projects;
- \$107 million in INCLE (narcotics control & law enforcement) funds for the rehabilitation of prisons and the protection of Iraqi judges.

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<sup>17</sup> For more detailed information on Iraq reconstruction, see CRS Report RL31833, *Iraq: Recent Developments in Reconstruction Assistance*, by Curt Tarnoff or CRS Report RL31339, *Iraq: U.S. Regime Change Efforts and Post-Saddam Governance*, by Kenneth Katzman.

<sup>18</sup> From 1974-2005, the United States provided no aid to the Iraqi government. After Congress passed the Iraq Liberation Act in October 1998, the United States began funding Iraqi opposition groups in exile such as the Iraqi National Congress. From 1998-2003, Congress appropriated an estimated \$88 million in assistance for the Iraqi opposition.



**Table 4. U.S. Funds for Iraq Reconstruction and Iraqi Opposition, FY2003-FY2007 Request**

(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate <sup>a</sup>	FY2007 Request
ESF	-	-	-	61.000	478.770
INCLE	-	-	-	-	254.600
NADR (anti-terrorism)	-	-	-	-	14.130
IMET	-	-	-	-	1.185
Iraqi Relief and Reconstruction Fund	2,475.000	18,439.000	-	-	
Iraq Security Forces Fund (DoD)	-	-	5,700.000	-	
<b>Total</b>	<b>2,475.000</b>	<b>18,439.000</b>	<b>5,700.000</b>	<b>61.000<sup>a</sup></b>	<b>748.685</b>

**Source:** CRS Report RL31833, *Iraq: Recent Developments in Reconstruction Assistance*, by Curt Tarnoff.

- a. The Bush Administration is seeking an additional \$5.3 billion for Iraqi reconstruction as part of its FY2006 supplemental budget request.

## Israel<sup>19</sup>

**Overview.** Since 1976, Israel has been the largest annual recipient of U.S. foreign assistance and is the largest cumulative recipient since World War II. Strong congressional support for Israel has resulted in Israel's receiving benefits that may not be available to other countries. For example, Israel can use U.S. military assistance for research and development in the United States and for military purchases in Israel.<sup>20</sup> In addition, all U.S. foreign assistance earmarked for Israel is delivered in the first 30 days of the fiscal year. Other recipients normally receive their aid in staggered installments at varying times. 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.<sup>21</sup>

<sup>19</sup> In addition to U.S. foreign assistance, Israel also receives funds from annual defense appropriations to support the research and development of new military technologies such as the Arrow anti-missile system. See CRS Report RL33322, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

<sup>20</sup> In FY1977, the Israeli government, for the first time, received special permission to use FMF for research and development in Israel on the Merkava tank. After this precedent was established, Israel has been allowed to spend a set percentage of its annual FMF inside Israel.

<sup>21</sup> Some other governments, such as Egypt and Jordan, receive a percentage of their economic aid as a grant cash transfer.



**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.<sup>22</sup> Israel received \$237 million in ESF for FY2006, down from \$407 million in FY2005. The Administration has requested \$120 million in ESF for Israel in FY2007.

**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 a year to a level of \$2.4 billion by 2008.<sup>23</sup> Israel also is eligible to receive Excess Defense Articles under section 516 of the Foreign Assistance Act. For FY2007, the Administration has requested \$2.34 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 (\$595 million for FY2006). 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.

**Other Assistance.** The FY2003 Emergency Supplemental Appropriations Act (P.L. 108-11) provided \$9 billion in loan guarantees for Israel over three fiscal years. On November 26, 2003, the United States announced that the first tranche of \$3 billion in loan guarantees would be reduced by \$289.5 million because of Israeli settlement activity and the continued construction of the security barrier through Palestinian areas beyond Israel's 1967 border.

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<sup>22</sup> 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.

<sup>23</sup> "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/>]

**Table 5. U.S. Assistance to Israel, FY2002-FY2007 Request**  
(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
ESF	720	596.100	477.168	357.120	237	120
FMF	2,040	3,086.350	2,147.255	2,202.240	2,257	2,340
Refugees	60	60	50	50	40	40
Other <sup>a</sup>	28	n/a	n/a	n/a	.500	.320
Total	<b>2,848</b>	<b>3,742.450<sup>b</sup></b>	<b>2,674.423</b>	<b>2,609.360</b>	<b>2,534.5</b>	<b>2,500.320</b>

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

- 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.

## Egypt<sup>24</sup>

**Overview.** Since 1979, Egypt has been the second largest recipient of U.S. foreign assistance, receiving an annual average of close to \$2 billion in economic and military aid. Congress typically earmarks foreign assistance for Egypt in foreign operations appropriations bills. The annual earmark has included a statement that Egypt should 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 from \$815 million in FY1998 to \$455 million in ESF for the FY2007 request.<sup>25</sup>

Economic aid to Egypt has been traditionally divided into three components: (1) USAID project programming, (2) the Commodity Import Program (CIP), and (3) direct cash transfer. With annual economic aid in decline, there has been concern among lawmakers that USAID programming has been adversely affected by recent

<sup>24</sup> For additional information on U.S. aid to Egypt, see CRS Report RL33003, *Egypt; Background and U.S. Relations*, by Jeremy M. Sharp. For details on USAID's Egypt program, see [<http://www.usaid-eg.org/>].

<sup>25</sup> In FY2003, Egypt, along with Israel and several other regional governments, received supplemental assistance as part of the FY2003 Iraq Emergency Supplemental Appropriations Act (P.L. 108-11). It included \$300 million in ESF for Egypt, which could be used to cover the costs of up to \$2 billion in loan guarantees. The loan guarantees were to be issued over three years.

reductions. Congress has specified that more of Egypt's ESF be devoted to development projects, specifically in the fields of democracy and governance, education, and health. As part of the FY2007 request, USAID plans on spending \$255 million in ESF. The Administration intends to provide \$183 million of Egypt's \$455 total ESF package as a direct cash transfer. There is no request for CIP funds in the FY2007 Administration budget. The CIP program provides hard currency for the Egyptian private sector to import U.S. goods.<sup>26</sup>

**Military Assistance.** The Administration has requested \$1.3 billion in FMF for Egypt in FY2007 — the same amount it received in FY2006. 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 (\$1.2 million requested for FY2007) in order to facilitate U.S.-Egyptian military cooperation over the long term.

**Table 6. U.S. Assistance to Egypt, FY2002-FY2007 Request**  
(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
ESF	655.000	911.002 <sup>a</sup>	571.608	530.720	490	455
FMF	1,300.000	1,291.550	1,292.330	1,289.600	1,287	1,300
IMET	1.217	1.232	1.369	1.200	1.200	1.2
P.L.480 Title II	3.839	2.347	-	-	-	-
<b>Total</b>	<b>1,960.056</b>	<b>2,206.131</b>	<b>1,865.307</b>	<b>1,821.520</b>	<b>1,778.2</b>	<b>1,756.2</b>

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

a. \$300 million of which could be used to draw on \$2 billion in loan guarantees.

<sup>26</sup> For more information on CIP, see [<http://www.usaideconomic.org/EG/CIP/Home.asp>].

## Jordan<sup>27</sup>

**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 \$736 million per fiscal year. This higher figure is due in part to large allocations for Jordan in the FY2003 Emergency Supplemental Appropriations Act (P.L. 108-11) and the FY2005 Supplemental Appropriations Act (P.L. 109-13).

**Economic Assistance.** For FY2007, the Administration has requested \$245 million in ESF for Jordan, almost the same amount it is receiving in FY2006. During the past four fiscal years, the United States has provided an estimated \$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.<sup>28</sup>

The United States provides economic aid to Jordan as both a cash transfer and for USAID programs in Jordan. The Jordanian government uses these transfers to service its foreign debt (approximately \$10.3 billion). In FY2005, Jordan used \$118 million in ESF for debt relief and \$129 million for USAID programs.

Jordan is one of the most water-deprived countries in the world, and the bulk of U.S. economic assistance is devoted to optimizing the management of scarce water resources. USAID is currently subsidizing several waste treatment and water distribution projects in the Jordanian cities of Amman, Aqaba, and Irbid.

**Military Assistance.** The FY2007 budget request includes \$206 million for the Jordanian military, the same amount it is receiving in FY2006. In fiscal years 2002, 2003, and 2005, Jordan received supplemental FMF grants totaling \$531 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 FY2006 to receive U.S. Excess Defense Articles (EDA) under section 516 of the Foreign Assistance Act.

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<sup>27</sup> 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.

<sup>28</sup> 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).

**Table 7. U.S. Assistance to Jordan, FY2002-FY2007 Request**  
(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
ESF	250.000	948.000	348.525	348.000	247.500	245.000
FMF	100.000	604.000	204.785	304.352	207.900	206.000
IMET	2.012	2.400	3.225	3.000	3.000	3.0
Total	<b>352.012</b>	<b>1,554.400</b>	<b>556.535</b>	<b>655.352</b>	<b>458.400</b>	<b>454.000</b>

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

**Note:** This table does not include NADR/EXBS funds or peace corps funds.

## Palestinians — West Bank/Gaza<sup>29</sup>

**Overview.** Since the 2006 Hamas victory in Palestinian Authority elections, most U.S. assistance to the Palestinians has been suspended with the exception of humanitarian aid. U.S. policy makers have stated that foreign aid cannot resume until Hamas, a U.S. State Department-designated Foreign Terrorist Organization (FTO), renounces, 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.

Since the signing of the Oslo Accord in 1993, the U.S. government has committed more than \$1.9 billion in economic assistance to the Palestinians.<sup>30</sup> 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.<sup>31</sup> Regular U.S. assistance to the Palestinians has been averaging about \$140 million a year since FY2002. During the 1990s, U.S. foreign aid to the Palestinians averaged approximately \$75 million per year. There is no current congressional earmark in annual appropriations bills for economic aid to the Palestinians.

<sup>29</sup> 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/>].

<sup>30</sup> 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.

<sup>31</sup> See H.R. 3057 (P.L. 109-102), *Foreign Operations Appropriations Act, FY2006*, Limitation on Assistance to the Palestinian Authority, sec. 550 (b).



**Direct Aid to the Palestinian Authority.** The United States has provided direct assistance to the Palestinian Authority on four occasions, though it rescinded its last direct payment after the Hamas takeover of the PA in March 2006. In 1993-1994, the United States provided \$36 million through the Holst Fund at the World Bank for direct assistance to the Palestinian Authority, and an additional \$5 million in cash and equipment for the Palestinian police. From 1995-2002, no U.S. assistance went to the Palestinian Authority or any of its constituent bodies. 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.

**Other Assistance.** The United Nations Relief and Works Agency (UNRWA) provides food, shelter, medical care, and education for many of the three million Palestinian refugees from the 1948-1949 Arab-Israeli war.<sup>32</sup> U.S. contributions to UNRWA come from the regular 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. U.S. support for UNRWA is not treated as bilateral economic aid to the Palestinians, which is managed by USAID. U.S. contributions to UNRWA have been averaging around \$80 million per year with an additional \$20 million annual contribution to meet crisis needs.

**FY2006 Humanitarian Aid and FY2007 Foreign Operations Bills.** In 2006, the United States spent approximately \$468 million of FY2006 and previously appropriated funds (\$277 million on humanitarian aid and \$191 million on democracy and private sector promotion) on aid to the Palestinians, while the European Union, which also halted most of its assistance, disbursed \$815 million in humanitarian relief, all of which bypassed the Hamas-led government.

H.R. 5522, the FY2007 Foreign Operations Appropriations bill (passed on June 9, 2006), includes no appropriation for Economic Support Fund (ESF) programs in the West Bank and Gaza Strip. The Senate version of H.R. 5522 (not enacted) recommends appropriating \$25 million for ESF programs in the West Bank and Gaza and rescinds \$75 million in prior year appropriated funds.

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<sup>32</sup> See CRS Report RS21668, *United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)*, by Rhoda Margesson.



**Table 8. U.S. Assistance to the Palestinians,  
FY2002-FY2007 Request**

(Regular & Supplemental Appropriations; Current Year \$ in millions)

Account	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
ESF	72.000	124.500	74.558	224.400	150.0*	150.000 (suspended)
P.L.480 Title II	-	9.984	-	5.991	-	-
Total	<b>72.000</b>	<b>134.484</b>	<b>74.558</b>	<b>230.391</b>	<b>468.0**</b>	-

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

\*In FY2006, Congress appropriated \$150 million for USAID's West Bank and Gaza program. Following the formation of the Hamas-led PA government, some of this funding was suspended.

\*\*In order to alleviate a humanitarian crisis in the West Bank and Gaza stemming from the cutoff of aid from Western donors, the United States did provide approximately \$468 million in funds to the Palestinians through 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.

### Other Recipients<sup>33</sup>

Excluding Iraq, Israel, Egypt, Jordan, and the Palestinians, the eight remaining Middle Eastern recipients of U.S. foreign aid receive on average just 2% of the total bilateral assistance to the region.<sup>34</sup> 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. Since the bombings of the U.S.S. Cole in Yemen in 2000 and the September 11 attacks in 2001, each of these three countries has seen moderate increases in its FMF aid.

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

<sup>33</sup> For details on USAID programs in Morocco, Lebanon, and Yemen, see USAID's website at [[http://www.usaid.gov/locations/asia\\_near\\_east/countries/countries.html](http://www.usaid.gov/locations/asia_near_east/countries/countries.html)].

<sup>34</sup> For FY2005, Algeria, Bahrain, Lebanon, Morocco, Oman, Saudi Arabia, Tunisia, and Yemen received a total of \$138 million.

Beirut.<sup>35</sup> 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, FY2002-FY2007 Request**  
(Regular & Supplemental Appropriations; Current Year \$ in millions)

Country/Account	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
<b>Algeria (IMET)</b>	<b>.067</b>	<b>.612</b>	<b>.722</b>	<b>.850</b>	<b>.743</b>	<b>.840</b>
<b>Bahrain Total</b>	<b>28.895</b>	<b>90.448</b>	<b>25.250</b>	<b>19.498</b>	<b>16.237</b>	<b>16.390</b>
FMF	28.500	90.000	24.682	18.848	15.593	15.750
IMET	.395	.448	.568	.650	.644	.640
<b>Lebanon Total</b>	<b>36.168</b>	<b>35.470</b>	<b>35.894</b>	<b>40.920</b>	<b>41.283</b>	<b>41.235</b>
ESF	35.000	34.770	34.794	39.720	39.600	35.500
FMF	-	-	-	-	.990	4.800
DA	.600	-	.400	.500	-	-
IMET	.568	.700	.700	.700	.693	.935
<b>Morocco Total</b>	<b>10.307</b>	<b>13.119</b>	<b>17.337</b>	<b>42.843</b>	<b>33.338</b>	<b>37.875</b>
ESF	-	-	-	19.840	10.890	18.000
FMF	3.500	4.900	9.940	15.128	12.375	12.500
DA	5.766	6.644	5.400	6.000	8.217	5.400
IMET	1.041	1.575	1.997	1.875	1.856	1.975
<b>Oman Total</b>	<b>25.481</b>	<b>81.567</b>	<b>25.675</b>	<b>20.940</b>	<b>14.949</b>	<b>15.135</b>
FMF	25.000	81.000	24.850	19.840	13.860	14.00
IMET	.481	.567	.825	1.100	1.089	1.135
<b>Saudi Arabia IMET</b>	<b>.024</b>	<b>.022</b>	<b>.024</b>	<b>.025</b>	<b>.024</b>	<b>.020</b>
<b>Tunisia Total</b>	<b>4.513</b>	<b>6.400</b>	<b>11.726</b>	<b>11.795</b>	<b>10.271</b>	<b>10.475</b>
FMF	3.500	4.900	9.827	9.920	8.415	8.500
IMET	1.013	1.500	1.899	1.875	1.856	1.975
<b>Yemen Total</b>	<b>28.488</b>	<b>14.436</b>	<b>27.228</b>	<b>25.900</b>	<b>17.424</b>	<b>21.585</b>
FMF	20.000	1.900	14.910	9.920	8.415	8.500
DA	-	2.000	-	-	-	-
ESF	8.000	9.898	11.432	14.880	7.920	12.00
IMET	.488	.638	.886	1.100	1.089	1.085

<sup>35</sup> Section 1224 of P.L. 107-228 stated that \$10 million of the funds available for FY2003 and subsequent years could not be obligated until the President certified to Congress that Lebanese Armed Forces had deployed to the internationally recognized Lebanon-Israel border and that Lebanon was asserting its authority over the border area. The amendment was added to compel Lebanon to exercise control over the border area, now controlled by Hizballah forces. Lebanon refuses to move to the border until Israel evacuates the Shabaa Farms disputed area. The \$10 million was held in an escrow account pending negotiations among the United States, Israel, Lebanon, and Members of Congress. The funds were eventually released in March 2004 after the Secretary of State certified to Members of Congress that appropriate action had been taken.

## Foreign Aid Issues

### Restrictions on Aid to the Palestinians<sup>36</sup>

**Foreign Aid and a Hamas-Controlled Palestinian Authority.** With Hamas in control the Palestinian legislature and PA ministries, the Bush Administration has taken steps to suspend the delivery of most economic assistance and may do so indefinitely should Hamas not respond to international demands to amend its covenant, which calls for Israel's destruction. Policy makers have devised mechanisms to support humanitarian assistance to the Palestinians by channeling humanitarian aid only through organizations like the United Nations. The United States annually provides between \$80 million and \$100 million in contributions to the UNRWA.

**Current Restrictions.** Annual Foreign Operations Appropriations measures include several limitations on funding for Palestinian organizations and institutions. 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. Nevertheless, some lawmakers are concerned that a lack of transparency and overall lack of governing authority in the West Bank and Gaza Strip could indirectly lead to U.S. funds being siphoned off for use by terrorist groups or for Palestinian uprising activities. A Palestinian audit in 1996 reportedly found that some 40% of the PA's budget had been wasted or misused.<sup>37</sup> In 2006, the Palestinian Attorney General Ahmed al-Moghani announced that \$700 million was stolen from the PA treasury and that arrest warrants had been issued for ten former officials who had fled the West Bank and Gaza Strip.

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.<sup>38</sup> In a 2002 letter to U.N. Secretary General Kofi Annan, Representative Tom Lantos reportedly wrote that, "it is difficult to escape the painful conclusion that UNRWA, directly or indirectly, is complicit in terrorism."<sup>39</sup> The United States is the largest donor to UNRWA, providing a third of its annual budget.

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<sup>36</sup> For additional detail, see CRS Report RS22370, *U.S. Foreign Aid to the Palestinians*, by Jeremy M. Sharp.

<sup>37</sup> Judy Barsalou, "Missing the Mark: Foreign Aid to the Palestinians," *Middle East Policy*, Vol.X, No.4, Winter 2003.

<sup>38</sup> On November 17, 2003, the General Accounting Office (GAO) released the results of its investigation of UNRWA. It found that UNRWA does not have an arrangement with authorities in the West Bank and Gaza to review local job applicants for UNRWA employment. See [<http://www.gao.gov/docdb/lite/details.php?rptno=GAO-04-276R>].

<sup>39</sup> "Lantos Call for Probe of UNRWA," *Ha'aretz*, May 22, 2002.

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:

U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. USAID/WBG ensures compliance with this prohibition in several ways. First, before awarding any contract or grant to an organization, USAID/WBG reviews the list of designated individuals and organizations involved with terrorism, to ensure that the organization under consideration has not been so designated. Second, the U.S. Government reviews the organization and its key personnel for possible associations with terrorist organizations. Third, every contract and grant awarded by USAID includes a clause reminding the recipient of its legal obligation to comply with the prohibition stated above. These three measures offer a high degree of confidence that no USAID/WBG assistance is being provided to individuals or organizations involved in terrorism.<sup>40</sup>

The following restrictions on aid to the Palestinians are found in H.R. 3057 (P.L. 109-102), the FY2006 Foreign Operations Appropriations Act.

- No U.S. assistance to the Palestinian Broadcasting Corporation (PBC). Israel accuses the PBC of inciting violence against Israelis. The PBC was originally designed to be an independent corporation.
- No direct U.S. assistance to the Palestinian Authority unless the President submits a waiver to Congress citing that such assistance is in the interest of national security.
- No 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.
- All U.S. assistance to the West Bank and Gaza Strip must be audited on an annual basis to ensure that funds are not being diverted to terrorist groups.

In the 109<sup>th</sup> Congress, the House on December 7, 2006, passed and sent to the President S. 2370, the Senate version of the Palestinian Anti-Terrorism Act of 2006 (passed June 23, 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 agreements and understandings. It exempts funds for humanitarian aid and democracy promotion. It also provides \$20 million to establish a fund promoting Palestinian democracy and Israeli-Palestinian peace. The earlier House version of the bill (H.R. 4681) was seen by many observers as more stringent

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<sup>40</sup> "Frequently Asked Questions - USAID West Bank and Gaza Program," The United States Agency for International Development (USAID) website: [<http://www.usaid.gov/wbg/faq.htm#aa13>].

and would have made the provision of U.S. aid to the Palestinian Authority more difficult, even if Hamas relinquishes power.

## State Sponsors of Terrorism

Under the terms of the Export Administration Act of 1979 (P.L. 96-72; 50 U.S.C. app. 2405(j)(as amended)), countries listed by the Secretary of State as “state-sponsors of terrorism” are prohibited from receiving foreign aid. In the Middle East, Iran, Libya, and Syria have long been designated as sponsors of terrorism, though Libya was removed from the list in 2006. On October 7, 2004, Iraq was officially removed from the terrorism list, though a Presidential Directive issued in May of 2003 had already lifted most restrictions. Congress authorized the President to waive application of the terrorism-related sanctions and other restrictions against Iraq in the Emergency Wartime Supplemental Act, 2003 (P.L. 108-11). Iraq had been listed as a “state-sponsor of terrorism” from 1979-1982 and then again from 1990-2004. Iran, Iraq, Libya, and Syria were all recipients of U.S. military and economic aid at one time or another in the distant past.

## The Response to 9/11: U.S. Assistance to Promote Development, Democracy, and Reform in the Middle East

After the September 11, 2001 terrorist attacks, foreign aid to the Middle East was no longer seen as exclusively serving regional security needs, but became part of an evolving U.S. national security strategy in the war on terror. Although most experts agree that the underlying causes of Islamic radicalism in the region are complex, many U.S. officials believe that foreign aid used to promote economic development, educational reform, and democratization can help eliminate terrorist breeding grounds. Since 2001, several new Administration initiatives have been designed to promote development, democracy, and reform in the Middle East and in countries with significant Muslim populations.

**The Broader Middle East and North Africa Initiative.** On June 8, 2004, at the G-8 Summit meeting in Sea Island, Georgia, U.S., European, and Arab officials unveiled the “Broader Middle East & North Africa Initiative,” a multilateral development and reform plan reportedly aimed at fostering economic and political liberalization in a wide geographic area of Arab and non-Arab Muslim countries.<sup>41</sup> The initiative builds on a November 2003 speech by President Bush and follows earlier Administration pledges to help spread democracy in Iraq and in other Arab countries. BMENA was re-named the “Forum for the Future,” though many observers believe the initiative has lost support. The 2006 Forum for the Future took place in Jordan but received little international attention. Democracy advocates have criticized the Forum for lacking substance and showcasing reform rather than investing more resources and political support in Arab civil society. The Forum for the Future provides micro-financing and other forms of financial assistance, though some analysts assert that these initiatives merely duplicate the existing work of development agencies and focus on economic rather than on political reform.

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<sup>41</sup> See CRS Report RS22053, *The Broader Middle East and North Africa Initiative: An Overview*, by Jeremy M. Sharp.



**The Middle East Partnership Initiative.** On December 12, 2002, Secretary of State Colin Powell announced the creation of The Middle East Partnership Initiative (MEPI), a program to encourage reforms in Arab countries by strengthening Arab civil society, encouraging micro-enterprise, expanding political participation, and promoting women's rights.<sup>42</sup> MEPI represents an attempt to take a more thematic approach to foreign aid in the Middle East by stressing its reform elements. Although funding for MEPI represents only a small portion of total aid to the region (2%), some U.S. officials stress that MEPI represents a philosophical commitment to ensure that future U.S. economic aid encourages social, political, and economic reforms in Arab countries. Some observers assert that if the MEPI reform agenda were applied broadly to Middle East development projects, it might produce difficulties or unforeseen consequences.

**Table 10. Middle East Partnership Initiative Appropriations, FY2002-FY2007 Request**

(Regular & Supplemental Appropriations; Current Year \$ in millions)

FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
29.000	90.000	89.469 <sup>a</sup>	74.400	99.000	120.000

a. The FY2004 Iraq Reconstruction Relief Funds Supplemental (P.L. 108-106) specifies that \$30 million in Iraq reconstruction funds may be transferred to MEPI for FY2004.

Congress also provides democracy-promotion funds to the State Department and non-governmental organizations for programs in countries with significant Muslim populations. In FY2006, the National Endowment for Democracy's Muslim Democracy Program and the State Department's Human Rights and Democracy Fund will receive \$3 million and \$12 million respectively. The FY2006 Foreign Appropriations Act specifies that \$6.5 million may be used for grants to educational, humanitarian, and non-governmental organizations and individuals inside Iran and Syria to support the advancement of democracy and human rights. The Administration's FY2006 supplemental budget request seeks \$75 million for international broadcasting, democracy promotion, and other public diplomacy activities to support dissidents inside Iran.

### **Altering U.S. Assistance to Egypt<sup>43</sup>**

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 suppresses its own population, including minority

<sup>42</sup> See CRS Report RS21457, *The Middle East Partnership Initiative: An Overview*, by Jeremy M. Sharp.

<sup>43</sup> See CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.



Christians, and continues to allow Egyptian state-owned media outlets to publish unsubstantiated conspiracy theories regarding Israel and the Jewish people.

The Administration and Egyptian government assert that reducing Egypt's military aid would undercut peace between Israel and Egypt. Overall, many U.S. observers believe that U.S. support for Egypt stabilizes the region and extends U.S. influence in the most populous Arab country.<sup>44</sup> Supporters of continued U.S. assistance note that Egypt helps train Iraqi and Palestinian security forces, cooperates with the U.S. military, provides access and facilities to U.S. forces in the Middle East, and is helping patrol the Egyptian-Gaza border after Israel's 2005 withdrawal from the Gaza Strip.

For years, Congress has specified in annual foreign operations appropriations legislation that ESF funds to Egypt are provided with the understanding that Egypt undertake certain economic reforms and liberalize its economy. USAID believes that its programs have helped contribute to Egypt's economic growth and macroeconomic stability. Others note that Egypt still has a bloated public sector, and assert that U.S. economic aid mainly helps subsidize Egypt's social welfare and education budget. U.S. policymakers have repeatedly suggested that trade with and investment in Egypt may be as effective as aid in reforming the Egyptian economy.

#### **Legislative Proposals and Congressional Action on Aid to Egypt.**

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. 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.

The FY2005 Consolidated Appropriations Act (P.L. 108-447) stipulates that U.S. funds for democracy and governance activities in Egypt are no longer subject to the prior approval of the Egyptian government. At this point, it is unclear how this provision will affect USAID programming in Egypt. USAID completed a \$32 million NGO Service Center in order to facilitate the growth of independent, non-governmental organizations in Egypt.

In the 109<sup>th</sup> Congress, 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).

The conference report (H.Rept. 109-265) on H.R. 3057, the FY2006 Foreign Operations Appropriations Bill, fulfills the entire request for Egypt (\$495 million in ESF, \$1.43 billion in FMF); however, it designates \$100 million in economic aid for

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<sup>44</sup> "Aid to Egypt: Why the Current Mix Works," *MEI Perspective*, Remarks by Ambassador Edward S. Walker Jr., the Middle East Institute, March 8, 2002.

USAID education and democracy and governance programming and conditions another \$227.6 million on Egypt's meeting economic reform benchmarks set out in a March 2005 memorandum of understanding between the United States and Egypt. In addition, conferees stated that "not less than 50 percent of the funds for democracy, governance and human rights be provided through non-governmental organizations for the purpose of strengthening Egyptian civil society organizations, enhancing their participation in the political process and their ability to promote and monitor human rights." Conferees did not include a Senate provision conditioning U.S. assistance to Egypt on the construction of an FM transmitter tower for Radio Sawa.

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.

## 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.