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U.S. Foreign Aid to the Palestinians

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Summary

Since the formation of a Hamas-led Palestinian Authority government in March 2006, the U.S. Administration has suspended its foreign assistance program in the West Bank and Gaza Strip. 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. In the meantime, media reports suggest that the humanitarian situation for many Palestinians living in the West Bank and Gaza Strip is worsening. The Quartet (the United States, Russia, European Union, and United Nations), in conjunction with the World Bank, has attempted to forge a temporary solution that will avoid working with the Hamas-led government while providing some relief to the Palestinians. Nevertheless, some details of such an arrangement remain undetermined. The Palestinians are the largest per capita recipients of foreign aid worldwide and, with a shattered economy, are mostly dependent on external support to meet basic needs. This report will be updated as events warrant. For more information, see CRS Issue Brief IB91137, *The Middle East Peace Talks*, by Carol Migdalovitz.

Overview

Since the formation of the Hamas-led PA government on March 30, 2006, the United States has ceased providing both indirect and direct foreign aid to the Palestinians with the exception of some emergency humanitarian assistance. Following Hamas's electoral victory in the January 2006 Palestinian Authority legislative elections, Administration officials and some Members of Congress warned the Hamas leadership that the United States would no longer provide assistance to a Hamas-led PA government unless Hamas changed its charter to recognize Israel's right to exist and renounced the use of terrorist violence. On January 30, 2006, representatives of the Quartet (United States, Russia, United Nations, and European Union) conditioned future foreign assistance to the PA on the future government's commitment to nonviolence, recognition of the state of Israel, and acceptance of previous agreements. Hamas has resisted such changes, as some analysts believe that its strategy is to endure international pressure in order to strengthen its own charitable networks and weaken the resolve of foreign donors who may grow

wary of prohibiting aid over the long term. Since the United States and European Union (EU) halted most of their assistance, there have been some pledges of financial support from Arab (Saudi Arabia, Libya, Kuwait, and Qatar), majority-Muslim (Iran and Pakistan), and European countries (Russia, Norway). The EU has delivered \$143 million in emergency assistance, and the United States has pledged \$300 million in humanitarian relief, all of which is intended to bypass the Hamas-led government.

H.R. 5522, the FY2007 Foreign Operations Appropriations bill, includes no appropriation for Economic Support Fund (ESF) programs in the West Bank and Gaza territories. In FY2006, Congress appropriated \$150 million for USAID's West Bank and Gaza program, though much of that has since been suspended.

Current U.S. Restrictions on Aid to the Palestinians

Direct Assistance to the PA. Since the signing of the Oslo Accord in 1993, the U.S. government has committed more than \$1.8 billion in economic assistance to the Palestinians. 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, unless the President submits a waiver to Congress citing that doing so is in the interest of national security. To date, the United States has provided direct assistance to the Palestinian Authority on four occasions. 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 appropriations 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 to pay off overdue Palestinian utility bills to Israeli companies. Following PA President Mahmoud Abbas' May 2005 visit to the White House, President Bush transferred an additional \$50 million from unobligated ESF funds to the Palestinian Authority. That cash transfer was ultimately rescinded after the formation of a Hamas-led government in 2006.

Auditing of U.S. Assistance. For several years, Congress has mandated that U.S. aid to the Palestinians be tightly monitored in order to prevent aid from going to terrorist groups or for corrupt purposes. P.L. 109-102, the FY2006 Foreign Operations Appropriations Act, specifies that up to \$1,000,000 in ESF may be used by the Office of the USAID Inspector General for audits and inspections of the USAID West Bank and Gaza program. In addition, the act requires the U.S. Comptroller General to conduct its own audit of all funds for the bilateral West Bank and Gaza program.

Other Restrictions. In annual foreign operations appropriations bills, Congress also has restricted 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. Congress also has specified that no U.S. assistance can be provided 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 measures to combat terrorism.

U.S. Aid to the Palestinians FY2005-FY2006

With the death of Yasir Arafat in late 2004 and the election of Mahmoud Abbas as the new President of the Palestinian Authority in early 2005, there was renewed hope for restarting the dormant Middle East peace process. The United States signaled its commitment to playing an active role by stepping up diplomatic efforts and increasing aid in order to strengthen Abbas' efforts to consolidate power inside the PA.

In FY2005, the Bush Administration and Congress significantly increased U.S. economic aid through supplemental appropriations and by reprogramming economic aid that had been appropriated in previous years. President Bush also used his authority to provide \$50 million in direct assistance to the Palestinian Authority, marking only the fourth time a U.S. president has used a congressionally authorized waiver to channel aid away from indirect USAID programs and directly to the PA.

Table 1. U.S. Assistance to the Palestinians, FY2002-FY2006
(Regular and Supplemental Appropriations; Current Year \$ in millions)

Account	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Estimate	FY2006 Estimate
ESF	72.000	124.500	74.558	274.400	150.000
P.L. 480 Title II	—	9.984	—	—	—
Total	72.000	134.484	74.558	274.400	150.000

Source: U.S. State Department.

The United States took the following actions in FY2005-FY2006 to support Palestinian President Abbas.

Appropriations

- Congress appropriated \$75 million in Economic Support Funds (ESF) for USAID's West Bank and Gaza program in P.L. 108-447, the 2005 Consolidated Appropriations Act. The United States also provides, on average, between \$75 million to \$110 million annually to the United Nations Relief and Works Agency for Palestinian Refugees to support its operations in Jordan, Syria, Lebanon, and the West Bank and Gaza Strip.
- Congress appropriated \$200 million in supplemental ESF in P.L. 109-13, the FY2005 Iraq supplemental appropriations act.
- In the FY2006 Foreign Operations, Export Financing, and Related Programs Appropriations Act (P.L. 109-102), Congress has provided \$150 million in ESF for the West Bank and Gaza Strip, which is double the annual amount of economic aid for USAID programs for the Palestinians.

Reprogramming

- USAID reprogrammed an estimated \$45-\$75 million in ESF that had been previously designated for a desalinization plant in Gaza.

Direct Assistance to the PA

- President Bush used the waiver authority granted him by Congress to provide \$50 million in direct assistance to the Palestinian Authority to rehabilitate roads, water facilities, schools, and health clinics in Gaza to help ease the transition after the Israeli disengagement. The direct aid came out of the \$75 million ESF appropriation for FY2005.

Non-Lethal Security Assistance

- Of the \$200 million in FY2005 supplemental ESF, the United States designated \$2.3 million for non-lethal assistance to security forces under the command of the PA Interior Ministry. This equipment included vehicles, riot gear, and basic provisions. All items were cleared through Israeli Customs and were coordinated by the U.S. Security Coordinator for the Palestinians and USAID.

Aid for the Palestinian Elections

- As was reported in the press, USAID spent \$2.3 million in ESF on support for the Palestinian elections, which many observers allege was designed to bolster the image of President Abbas and his Fatah party.

Palestinian Authority Finances

Although media reports vary widely on the exact nature of Palestinian finances, PA expenditures in 2005 were approximately \$2 billion, and revenue, including direct external budget support, was estimated at only \$1.3 billion. The PA generates its revenues from modest amounts of collected taxes (\$400 million), customs duties collected by Israel (\$600 million), and foreign aid (\$360 million in direct aid).¹ Prior to the formation of a Hamas-run government, the PA had been already running large monthly deficits (\$700 million), which it financed by borrowing from commercial lenders and using proceeds from its investment fund. With the suspension of all direct budget support for the PA and Israel's freezing the transfer of customs revenues, the World Bank estimates that the PA is running a monthly deficit of approximately \$1.5 billion.

Ban on Unauthorized Transactions with Hamas-Led PA

On April 12, 2006, the Department of the Treasury's Office of Foreign Assets Control (OFAC) formally determined that Hamas, a designated terrorist entity, had a property interest in the transactions of the Palestinian Authority. This determination

¹ The international community also provides a large amount of indirect assistance for the Palestinian people through donations to specific development projects and charitable donations.

subsequently prohibits any and all U.S. persons from engaging in any unauthorized transactions with the Palestinian Authority. To allow for and support ongoing U.S. foreign policy priorities with regard to the Palestinians, including the potential delivery of humanitarian or financial assistance to some Palestinian entities, OFAC also released six “general licenses” that authorize transactions between U.S. persons and specific entities within the Palestinian territories.² The general prohibition on transactions with the PA does not limit transactions between U.S. persons and non-governmental organizations or financial institutions in the West Bank or Gaza. However, in practice, private individuals and entities in the U.S. have reported difficulty in carrying out financial transaction with non-PA related individuals and entities, as financial institutions around the world have taken protective measures to ensure they are not inadvertently violating the OFAC determination.³

U.S. Humanitarian Relief in 2006

With the suspension of all USAID-managed economic aid to the West Bank and Gaza Strip and the general prohibition on financial transactions by U.S. persons with the PA, the United States has tried to assuage fears that its policies are causing Palestinian suffering. According to Secretary of State Condoleezza Rice, “The United States of America is not going to stop giving money for the immunization of Palestinian children.... It would be against our values to do that. So, for the most vulnerable and innocent populations, we will find a way to respond to those humanitarian needs.” Since the formation of a Hamas-led PA government, the United States has provided a total of \$300 million in humanitarian and other aid to the Palestinians, of which \$245 million was set aside for basic human health needs, \$42 million for promoting democratic alternatives to Hamas, and \$13 million in project support costs and oversight activities.⁴

A Temporary International Mechanism (TIM)?

The European Union has spearheaded international efforts to establish a “mechanism” by which foreign donors may contribute aid to Palestinians without having to work with Hamas officials. Through a World Bank account, donations or “social allowances” may be funneled to Palestinian health workers and other needy families, but the World Bank account reportedly will not pay the salaries of most other PA civil servants. Although the United States supports the funding plan, it has said it will not pay into it. According to Israeli Foreign Minister Tzipi Livni, “As far as we are concerned, the Quartet’s decision to give further humanitarian support to the Palestinian Authority, bypassing the Hamas government, is definitely OK.” Despite support for a TIM, there is no current consensus on how cash payments are to be delivered to needy Palestinians, nor is there a procedure for determining which families qualify as needy recipients.

² The general licenses and answers to frequently asked questions are available for review at the OFAC website: [<http://www.treasury.gov/offices/enforcement/ofac/programs/terror/pa.shtml>].

³ Gregg Krupa, “Palestinians: U.S. ban halts aid to relatives,” *The Detroit News*, June 2, 2006. Even inadvertent violations could potentially subject financial institutions to a range of U.S. penalties under provisions of the USA PATRIOT Act and other laws.

⁴ U.S. State Department, “Fact Sheet on Palestinian Assistance.”

Recent Legislation

H.R. 4681 (passed in the House on May 23, 2006) would allow assistance to be provided to the PA only during a period for which a presidential certification to Congress has determined that, among other things, no PA ministry, agency, or instrumentality is controlled by a foreign terrorist organization. The bill would exempt from such limitations, among other things, assistance to the Office of the President of the PA including his personal security detail. S. 2370 (passed in the Senate on June 23, 2006) also requires a certification process to take effect before aid can be provided to the PA, but, according to *Congressional Quarterly*, it would not cut off humanitarian aid and would allow the president to waive sanctions. Section 550 of P.L. 109-234, the FY2006 Emergency Supplemental Appropriations Act, prohibits U.S. aid to the PA but provides the President waiver authority to grant some assistance to the Office of the President of the Palestinian Authority (Mahmoud Abbas) provided, among other things, that such assistance will not benefit or be re-transferred to Hamas and that the President consult Congress and provide a written policy justification for use of the waiver. Upon signing P.L. 109-234 into law on June 15, 2006, President Bush asserted that “the President’s constitutional authority to supervise the unitary executive branch and take care that the laws be faithfully executed cannot be made by law subject to a requirement to consult with congressional committees or to involve them in executive decision-making, the executive branch shall construe the references in the provisions to consulting to require only notification.”⁵

Table 2. International Assistance to the Palestinian Authority for Calendar Years 2004 and 2005
(\$ in millions)

Country/Organization	2004 Donations	2005 Donations
World Bank Trust Fund (includes contributions from the EU, Norway, Canada, UK, Japan, Australia, Korea, and France)	118	132
Saudi Arabia	77	46
World Bank (ESSP)	67	26
European Union	50	-
United States ^a	20	-
Kuwait	-	40
Algeria	-	104
Libya	14	-
Qatar	-	11
Egypt	3	1
Tunisia	2	-
Oman	-	1
Other	2	2
Total	353	363

Sources: World Bank, IMF, and PA Ministry of Finance.

a. The United States had pledged \$50 million in direct assistance in 2005 but withdrew its funding after the 2006 Hamas electoral victory.

⁵ “President’s Statement on Signing of Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,” The White House, June 15, 2006.