



## **CRS Report for Congress**

# **U.S. Foreign Aid to the Palestinians**

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### **Summary**

Since the formation of a Hamas-led Palestinian Authority (PA) government in March 2006, the Bush Administration has suspended direct and indirect foreign assistance to the PA, although humanitarian and other aid to the Palestinian people continues. U.S. policy makers have stated that foreign aid will not resume until Hamas, a U.S. State Department-designated Foreign Terrorist Organization, disavows violence, recognizes Israel, and accepts previous agreements. Hamas has not complied with these demands. In the meantime, media reports indicate that the humanitarian situation for many Palestinians living in the West Bank and Gaza Strip is worsening. The European Union, in conjunction with the World Bank, has established a temporary mechanism that allows it to avoid working with the Hamas-led government while providing some relief to the Palestinians. 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 Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz.

### **Overview**

Since the formation of the Hamas-led Palestinian Authority (PA) government on March 30, 2006, the United States has ceased providing both direct and indirect foreign aid to the PA, but has continued providing emergency humanitarian assistance and democracy promotion and private sector support funds to Palestinians through international and non-governmental organizations (NGOs) in the West Bank and Gaza Strip. Following Hamas's electoral victory in the January 2006 PA legislative elections, Administration officials and some Members of Congress warned the Hamas leadership that the United States would no longer provide assistance to the 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 (the United States, Russia, the United Nations, and the European Union) conditioned future assistance on the government's disavowal of violence, 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 weary of prohibiting aid over the long term. Since the United States and the European Union (EU) halted their assistance, several Arab (Saudi Arabia, Kuwait, and Qatar) and European (Russia, Norway) countries have channeled assistance through the office of PA President Mahmoud Abbas, leader of the rival Fatah party, which accepts Israel's right to exist. In 2006, the EU delivered \$815 million in emergency assistance and the United States disbursed \$468 million of FY2006 and previously appropriated funds in humanitarian relief and other assistance, all of which bypassed the Hamas-led government.

H.R. 5522, the FY2007 Foreign Operations Appropriations bill (passed by the House on June 9, 2006), included no appropriation for Economic Support Fund (ESF) programs in the West Bank and Gaza Strip. The Senate version of H.R. 5522 (not enacted) recommended appropriating \$25 million for ESF programs in the West Bank and Gaza and rescinded \$75 million in prior year appropriated funds. 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 resolution expires on February 15, 2007. In FY2006, Congress appropriated \$150 million for the U.S. Agency for International Development's (USAID) West Bank and Gaza program, though much of that has since been suspended or reprogrammed. (See below.)

## **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 an estimated \$1.9 billion in economic assistance to the Palestinians. Approximately 80% of U.S. funding has been channeled through USAID contractors and 20% through private voluntary organizations. According to annual foreign operations legislation, congressionally approved funds for the West Bank and Gaza Strip cannot be used for the PA, 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 PA on three occasions. In 1993-1994, the United States provided \$36 million through the Holst Fund at the World Bank for direct assistance to the PA and an additional \$5 million in cash and equipment for the Palestinian police. From 1995-2002, no U.S. aid went to the PA or any of its constituent bodies. On July 8, 2003, the Bush Administration 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. In a fourth instance, 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 PA, but that transfer was ultimately rescinded after the formation of the Hamas-led government in March 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, specified that up to \$1 million 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 required the U.S. Comptroller General to conduct his 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 former PA President 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. As noted above, President Bush also used his authority to provide \$50 million in direct assistance to the PA, but this transfer was subsequently rescinded after formation of the Hamas-led government.

In FY2006, Congress appropriated \$150 million for USAID's West Bank and Gaza program. Following the formation of the Hamas-led government, some of this funding was suspended, while some, along with funds appropriated in prior years, was reprogrammed and delivered through international organizations and NGOs using programs with no connection to the PA government.

**Table 1. U.S. Assistance to the Palestinians, FY2003-FY2007**

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

| Account           | FY2003<br>Actual | FY2004<br>Actual | FY2005<br>Actual | FY2006<br>Actual | FY2007<br>Estimate     |
|-------------------|------------------|------------------|------------------|------------------|------------------------|
| ESF               | 124.500          | 74.558           | 274.400          | 150.000          | 150.000<br>(requested) |
| P.L. 480 Title II | 9.984            | —                | —                | —                | —                      |
| <b>Total</b>      | <b>134.484</b>   | <b>74.558</b>    | <b>274.400</b>   | <b>150.000</b>   | <b>150.000</b>         |

Source: U.S. State Department.

## U.S. Assistance to Palestinian Security Forces

Since the early 1990s, a small amount of U.S. aid has at times been directed to support the creation, training, and supplying of Palestinian security forces. In 1994 and

1995, as these forces were being stood up, the United States provided a one-time \$5 million cash payment for salaries of Palestinian policemen and two shipments of surplus military trucks, spare parts, boots, and blankets. In the late 1990s, there were unconfirmed press reports of CIA counterterrorism and intelligence collection training for Palestinian security officers.<sup>1</sup> In February 2005, the Administration named Lieutenant General William Ward U.S. security coordinator for Gaza to support Israel's forthcoming withdrawal from the Gaza Strip and areas of the northern West Bank. Following the pullout, the Administration provided \$3 million in non-lethal assistance to the Palestinian security services and police to facilitate their assumption of security responsibilities in these areas. Numerous press reports in late 2006 said that Lt. Gen. Ward's successor, Lt. Gen. Keith Dayton, was coordinating the training of members of Force 17, the presidential guard loyal to PA President Abbas, at a camp near Jericho.<sup>2</sup> One report claimed the United States was planning to provide the force with assault rifles and ammunition.<sup>3</sup> The reports indicate that the assistance is designed to bolster Abbas loyalists for a possible showdown with Hamas forces. The Administration has not confirmed these reports.

## **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 Foreign Terrorist Organization, had a property interest in the transactions of the Palestinian Authority. This determination prohibits any and all U.S. persons from engaging in unauthorized transactions with the PA. 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 released six "general licenses" that authorize transactions between U.S. persons and specific entities within the Palestinian territories.<sup>4</sup> The general prohibition on transactions with the PA does not limit transactions between U.S. persons and NGOs 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 transactions 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.<sup>5</sup>

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<sup>1</sup> Tim Weiner, "CIA Officers, With Israel's Knowledge, Teach Palestinians the Tricks of the Trade," *New York Times*, March 5, 1998; Matthew Kaiman, "Mideast Training Program Backfires," *San Francisco Chronicle*, February 14, 2005.

<sup>2</sup> Amit Kohen and Baraq Ravid, "U.S. Supports, Funds, Trains Abu Mazin's Future Army," *Maariv*, October 16, 2006, OSC document number GMP20061016741003.

<sup>3</sup> WorldNetDaily.com, "U.S. Weapons to be Transferred to Terrorists?" October 12, 2006.

<sup>4</sup> 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>].

<sup>5</sup> Gregg Krupa, "Palestinians: U.S. Ban Halts Aid to Relatives," *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.

## Palestinian Authority Finances

Media reports vary widely on the exact nature of Palestinian finances. PA expenditures in 2005 were approximately \$2 billion, while revenue, including direct external budget support, was estimated at \$1.3 billion. The PA generates revenues from modest amounts of collected taxes (\$400 million), customs duties collected by Israel (\$600 million), and foreign aid (\$360 million in direct aid).<sup>6</sup> The PA financed this \$700 million annual deficit by borrowing from commercial lenders and using proceeds from the Palestine Investment Fund. After the formation of the Hamas-led government in March 2006, key donors suspended direct budget support for the PA and Israel froze the transfer of customs revenues, drastically reducing PA revenue. According to the PA Ministry of Finance, gross revenues for the first half of 2006 were \$231.3 million as compared to \$597.6 million for the same period in 2005, a 61% decline. In addition, the PA lost access to commercial bank loans as banks feared running afoul of U.S. anti-terror sanctions. Relying only on domestic tax revenue and cash carried through the Egyptian border crossing with Gaza, the PA has been unable to pay PA employees their full salaries since March 2006, although it did manage partial payments on at least four occasions. Some observers are concerned that many of these cash payments emanate from Iran. Israel is attempting to clamp down on this practice and in December 2006 forced PA Prime Minister Haniyeh to deposit \$35 million in cash in a Cairo bank before allowing him to reenter Gaza.

## The Temporary International Mechanism (TIM)

In June 2006, the Quartet endorsed a Temporary International Mechanism (TIM) proposed by the European Union to channel aid directly to Palestinians, bypassing the Hamas-led government. Through a World Bank account, European donations or “social allowances” are paid directly into the bank accounts of some Palestinian public sector workers and other needy families. The TIM also provides essential services in the Gaza Strip through fuel deliveries to hospitals and clinics as well as by maintaining water and waste water treatment facilities.<sup>7</sup> Although the United States supports the funding plan, it does 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.”<sup>8</sup> The TIM, initially established in June for three months, was renewed in September and again in December.

## U.S. Humanitarian Relief in 2006

Following the suspension of all USAID-managed economic aid to the PA 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.

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<sup>6</sup> The international community also provides a large amount of indirect assistance for the Palestinian people through donations to specific development projects and charitable donations.

<sup>7</sup> For more details of the TIM and the EU’s policy toward the Palestinians, see the EU website [[http://ec.europa.eu/comm/external\\_relations/gaza/intro/index.htm](http://ec.europa.eu/comm/external_relations/gaza/intro/index.htm)].

<sup>8</sup> Harvey Morris, “Israel Endorses Decision To Aid Palestinians,” *Financial Times*, May 11, 2006.

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 government, the United States has provided a total of \$468 million in humanitarian and other aid to the Palestinians, of which \$277 million was set aside for basic human health needs, \$77 million for securing and expanding democracy, \$97 million for private sector development, and \$18 million in project support costs and oversight activities.<sup>9</sup>

## Recent Legislation

On December 21, 2006, President Bush signed into law P.L. 109-446, the Senate version of the Palestinian Anti-Terrorism Act of 2006, which bars aid to the Hamas-led Palestinian government unless, among other things, it acknowledges Israel’s right to exist and adheres to all previous international 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 law limits the PA’s representation in the United States as well as U.S. contact with Palestinian officials. In a signing statement, the President asserted that these and several other of the bill’s provisions impinge on the executive branch’s constitutional authority to conduct foreign policy and he therefore viewed them as “advisory” rather than “mandatory.”<sup>10</sup> The original House version of the bill (H.R. 4681, passed on June 23, 2006) was seen by many observers as more stringent as it would have made the provision of U.S. aid to the PA more difficult even if Hamas relinquishes power.

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 because “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.”<sup>11</sup>

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<sup>9</sup> U.S. State Department, “Fact Sheet on West Bank and Gaza Assistance,” October 2006.

<sup>10</sup> For the text of the signing statement, see the White House website, [<http://www.whitehouse.gov/news/releases/2006/12/20061221-4.html>].

<sup>11</sup> “President’s Statement on Signing of Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,” [<http://www.whitehouse.gov/news/releases/2006/06/20060615-14.html>], June 15, 2006.