

CRS Report for Congress

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U.S. Aid to the Palestinians

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Summary

With the recent success of Hamas at the polls, many observers have cautioned that continued foreign assistance to the Palestinian Authority (PA) may be at risk due to Hamas' commitment to the destruction of the state of Israel and its designation as a terrorist group by the United States. Currently, the Palestinians are the largest per capita recipients of foreign aid worldwide and, with a shattered economy, are completely dependent on external support to meet basic needs. Without Western aid, a Hamas-led government may be forced to rely completely on donations from wealthy Arab Gulf states or from Iran. On the other hand, the prospect of losing U.S. and European aid may force Hamas to tone down its radical views and accept Israel's right to exist. In the meantime, foreign donors have been cautious, demanding that Hamas renounce the use of violence and recognize Israel while withholding a complete cessation of aid programs pending the formation of a new Palestinian government. This report will be updated as events warrant. For more information, see CRS Issue Brief IB91137, *The Middle East Peace Talks*, by Carol Migdalovitz.

Background

Until his death in November 2004, former PA President Yasser Arafat controlled Palestinian finances and faced widespread criticism for his lack of transparency, corruption, and misuse of foreign aid. Some observers described Arafat's use of the PA treasury as his "personal cashbox" and allege that almost half of the \$7 billion provided to the PA since its creation in the early 1990s may have been diverted by Arafat to political patronage and kickbacks.¹ Although the extent of Arafat's misuse of PA money was never fully known, Israeli leaders, Palestinian reformers, and others repeatedly accused Arafat and his inner circle of corruption; nevertheless, his total domination of Palestinian political life made him indispensable to those seeking his cooperation in achieving regional peace and many were forced to ignore such charges.

¹ David Samuels, "In a Ruined Country," *Atlantic Monthly*, September 2005.

After the renewal of Israeli-Palestinian violence in September 2000, the United States and Israel worked to isolate Arafat and demanded that PA finances be reformed. In response to external pressure, Arafat appointed Salam Fayyad, a Palestinian economist and former International Monetary Fund (IMF) representative to the PA, as Finance Minister. During his tenure, which ended in late 2005, Fayyad was credited with streamlining PA government finances and making PA expenditures more transparent. In November 2005, Fayyad resigned from his post, citing his desire to run for parliament and his frustration with international donors who have failed to follow through on pledges of aid.

Recent U.S. Aid

With the death of Yasir Arafat and the election of Mahmoud Abbas as the new President of the Palestinian Authority, 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 amounts to the Palestinians in order to strengthen Abbas' efforts to consolidate power inside the PA.

In fiscal year 2005, the Bush Administration and Congress significantly increased U.S. economic aid to the Palestinians 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 USAID programs and directly to the PA.

Table 1. U.S. Assistance to the Palestinians, FY2002-FY2006
(Regular & 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.

New 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 \$100 million annually to the United Nations (UNRWA) for Palestinian refugee camps in the 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 recent annual amount of economic aid for USAID programs for the Palestinians.

Reprogramming

- The Bush Administration and 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. According to recent reports, USAID's Office of Transition Initiatives used discretionary spending accounts for various projects, including tree planting, schoolroom additions, a soccer tournament, street cleaning, and computers at community centers.² Reportedly, the sensitivity involved in supporting such projects led USAID to remove its usual branding requirement on its sponsored activities. In reaction to critics who have charged the United States with trying to influence the outcome of the election, one USAID official stated that "we are not favoring any particular party ... but we do not support parties that are on the terrorism list. We are here to support the democratic process."³

² "U.S. Spent \$1.9 Million to Aid Fatah in Palestinian Elections," *New York Times*, January 23, 2006.

³ "U.S. Funds Enter Fray In Palestinian Elections," *Washington Post*, January 22, 2006.

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.

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. 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 acted to restrict 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.

Palestinian Authority Finances

Although media reports vary widely on the exact nature of Palestinian finances, PA expenditures in 2005 were approximately \$1.8 billion, and revenue, including direct external budget support, was estimated at only \$1.1 billion. The PA generates its revenues from modest amounts of collected taxes (\$400 million), customs duties collected by Israel (\$400 million), and foreign aid (\$320 million in direct aid). Currently, the PA is running a significant monthly deficit and has been forced to borrow from commercial lenders in order to pay salaries for its 174,000 employees, of whom approximately 58,000 are in the security services. On February 1, 2006, Israel announced that it was freezing the transfer

of customs revenues to the PA. Israeli officials noted that future transfers will be put on hold while the issue is being reviewed.

Table 2. International Direct Assistance to the Palestinian Authority for Calendar Year 2004
(\$ in millions)

Country/Organization	Donations
European Union	105.800
World Bank	92.344
Saudi Arabia	76.999
United States	20.000
Libya	13.799
United Kingdom	12.300
Norway	12.000
Japan	10.000
Canada	7.000
Egypt	3.317
Other	6.647
Total (est.)	360.206

Source: USAID, PA Ministry of Finance.

Indirect Assistance. The international community also provides a large amount of indirect assistance for the Palestinian people through donations to specific development projects. The European Union and the United States are major providers of indirect aid (\$300 million and \$345 million respectively in calendar year 2005). Assistance from Arab countries has averaged about \$200 million annually, though there may be significant other unreported donations, particularly from Persian Gulf governments.

Hamas and Potential Implications for U.S. Aid

In the short time period following the recent Palestinian legislative elections, Administration officials and some Members of Congress have warned the Hamas leadership that the United States will no longer provide assistance to a Hamas-led PA government unless Hamas changes its charter to recognize Israel's right to exist and renounces the use of 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. If Hamas should resist such changes, Congress and the Administration could potentially alter or halt U.S. assistance to the Palestinians. Some changes or new options could include the following:

- Eliminate the presidential waiver authority to authorize direct aid to the PA;⁴
- Tighten existing restrictions on the USAID West Bank/Gaza program, including the oversight of Palestinian non governmental organizations working as subcontractors;
- Direct U.S. economic aid to non-Hamas groups;
- Direct U.S. economic aid to projects run by ministries controlled by non-Hamas leaders or to the office of President Abbas; and
- End future U.S. assistance to the Palestinians but continue funding existing programs.

It is worth noting that the United States currently provides small amounts of ESF aid for projects in Lebanon, despite the participation of Hizballah, a U.S.-designated terrorist group, in parliament (14 out of 128 members) and in the current cabinet (one minor cabinet post). However, in Lebanon, Hizballah is part of a larger coalition government, whereas in the West Bank and Gaza, Hamas is poised to be the dominant player in the political arena.

Recent Legislation

H.R. 4668; referred to the House International Relations Committee on January 31, 2006. Among other things, this legislation would require the President to certify that the PA is not controlled by a foreign terrorist organization before U.S. aid to the PA is provided.

H.R. 4681; referred to the House International Relations Committee on February 1, 2006. According to *Congressional Quarterly*, this legislation, among other things, would halt bilateral aid unless the President certified that the PA had purged individuals with ties to terrorism from its security forces, arrested suspected terrorists, confiscated their weapons, and halted anti-Israeli language in Palestinian media. In addition, the bill would deny visas to Palestinian officials to visit the United States. Finally, it would require the State Department to audit U.N.-funded programs in the region to eliminate “duplicative efforts” and ensure “balance in the approach to Israeli-Palestinian issues.”

S. 2237; referred to the Committee on Foreign Relations on February 1, 2006. A bill to withhold United States assistance from the Palestinian Authority until certain conditions have been satisfied.

⁴ Section 550 (b) of P.L. 109-102, the FY2006 Foreign Operations Appropriations Act, states that the President may use this waiver if providing direct aid to the PA is important to the national security interests of the United States. By law, the waiver must be accompanied by a report to Congress detailing the steps the Palestinian Authority has taken to arrest terrorists, confiscate weapons, and dismantle the terrorist infrastructure. The report also must include a description of how funds will be spent and the accounting procedures in place to ensure that they are properly disbursed.