



## CRS Report for Congress

# U.S. Foreign Aid to the Palestinians

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### Summary

In June 2007, the United States and the European Union (EU) resumed assistance to the Palestinian Authority (PA) after President Mahmoud Abbas and his Fatah party reasserted control over the PA in the West Bank. For the previous 14 months, the United States and the EU had imposed an aid embargo on the PA because it was controlled by Hamas, a U.S. State Department-designated Foreign Terrorist Organization. During that period, humanitarian and some other forms of assistance continued to flow to the Palestinian people through international and non-governmental organizations. With the resumption of U.S. assistance, Bush Administration officials have said they hope to strengthen Abbas and further isolate Hamas, which remains in control of the Gaza Strip. In the meantime, the humanitarian situation for many Palestinians living in the West Bank and Gaza continues to deteriorate. 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 RL34074, *The Palestinian Territories: Background and U.S. Relations*, by Paul Morro.

### Overview and Recent Developments

Most U.S. assistance to the Palestinians is provided through the U.S. Agency for International Development's (USAID) West Bank and Gaza program. U.S. assistance also reaches Palestinians through contributions to the United Nations Relief Works Agency (UNRWA), which provides humanitarian relief and basic services to Palestinian refugees living in the West Bank, Gaza Strip, Jordan, Syria, and Lebanon.

In April 2006, the United States and the European Union halted assistance to the Palestinian Authority (PA) after Hamas, a State Department-designated Foreign Terrorist Organization, won legislative elections and took control of the PA. The Middle East 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, conditions that Hamas

rejected.<sup>1</sup> In March 2007, Hamas and Fatah agreed to share power in a unity government, but that government too failed to meet the Quartet conditions. During this period, the United States and the EU continued providing humanitarian assistance, along with some democracy promotion and private sector support funds, to the Palestinian people through international and non-governmental organizations (NGOs).

In June 2007, Hamas forcibly took control of the Gaza Strip. Palestinian President Mahmoud Abbas, calling the move a “coup,” dissolved the unity government and set up a Fatah-led government in the West Bank.<sup>2</sup> Within days, the United States and the EU lifted the economic and political embargo on the PA now that it is back in the hands of Fatah. In July 2007, President Bush announced plans to bolster President Abbas and the new PA government, using previously appropriated funds to provide humanitarian assistance, loans for Palestinian businessmen, and security force reform.<sup>3</sup>

## Current U.S. Restrictions on Aid to the Palestinians

**Direct Assistance to the PA.** Since the signing of the Oslo Accords in 1993, the U.S. government has committed an estimated \$1.9 billion in bilateral economic assistance to the Palestinians. According to annual foreign operations appropriations legislation, congressionally approved funds for the West Bank and Gaza Strip cannot be given directly to the PA unless the President submits a waiver to Congress stating that doing so is in the interest of national security. The United States has provided direct assistance to the Palestinian Authority on six occasions including the following:

- 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.
- 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 to pay off overdue Palestinian utility bills to Israeli companies.
- Following PA President 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, that transfer was later rescinded after the formation of the Hamas-led government in March 2006 and the PA returned \$45 million of the \$50 million.

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<sup>1</sup> For the text of the Quartet statement, see [<http://www.state.gov/r/pa/prs/ps/2006/60068.htm>].

<sup>2</sup> Scott Wilson, “Abbas Dissolves Government as Hamas Takes Control of Gaza,” *Washington Post*, June 15, 2007.

<sup>3</sup> For the text of the President’s speech, see [<http://www.whitehouse.gov/news/releases/2007/07/20070716-7.html>].

- In 2007, the Bush Administration provided a total of \$59 million to Palestinian President Abbas, of which \$43 million was used for training and non-lethal assistance to the Palestinian Presidential Guard and \$16 million was used for improvements at the Karni crossing, the main terminal for goods moving in and out of Gaza.
- In June 2007, President Bush issued a waiver to send \$18 million in direct assistance to the PA to be used for a variety of purposes, including democracy assistance, assistance to combat money laundering, and security upgrades at the Karni crossing cargo terminal.

**Other Restrictions.** Since FY2003, annual foreign operations appropriations laws have contained several additional restrictions on assistance to the Palestinians:

- **Limitation on Assistance for the PLO**, which bans aid to the PLO. No U.S. aid has ever been provided to the PLO.
- **Restriction Concerning Jerusalem**, which bans using U.S. funds for a new office in Jerusalem for the purpose of conducting diplomatic business with the “Palestinian Authority over Gaza and Jericho.”
- **Restriction Concerning Palestinian Statehood**, which bans 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. The President can waive the certification if he determines that it is important to U.S. national security interests.
- **Prohibition on Assistance to the Palestinian Broadcasting Corporation (PBC)**, which bans U.S. assistance to the PBC. Israel accuses the PBC of inciting violence against Israelis.
- **Auditing USAID’s West Bank and Gaza Program**, which calls for annual audits of all U.S. assistance to the West Bank and Gaza Strip in order to ensure that funds are not being diverted to terrorist groups.

Since FY2005, annual foreign operations appropriations have also contained a prohibition on funds for any program that would recognize or otherwise honor individuals who commit, or have committed, acts of terrorism.

## **U.S. Aid to the Palestinians FY2005-FY2008**

With the death of former PA President Yasir Arafat in late 2004 and the election of Mahmoud Abbas as the new PA President 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.

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 and, along with funds appropriated in prior years, was then reprogrammed and delivered through international organizations and NGOs using programs with no connection to the PA government.

For FY2007, P.L. 110-5, the Revised Continuing Appropriations Resolution, 2007, provided \$50 million for USAID's West Bank and Gaza program.

For FY2008, the administration sought \$63.5 million for USAID's West Bank and Gaza program and \$10 million in Child Survival and Health funds. H.R. 2764, the House version of the FY2008 Department of State, Foreign Operations and Related Programs Appropriations bill (passed by the House on June 22, 2007), contains the \$63.5 million for the West Bank and Gaza program while the Senate version (passed by the Senate on September 6, 2007) provides \$75 million. Neither bill contains the Child Survival and Health funds.

**Table 1. U.S. Assistance to the Palestinians, FY2004-FY2008**  
(Regular and Supplemental Appropriations; Current Year \$ in millions)

Account	FY2004	FY2005	FY2006	FY2007	FY2008 Request
ESF	74.558	274.400	150.000	50.000	63.500
Child Survival & Health	—	—	—	—	10.000
<b>Total</b>	<b>74.558</b>	<b>274.400</b>	<b>150.000</b>	<b>50.000</b>	<b>73.500</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 formed, 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.<sup>4</sup> In the late 1990s, there were unconfirmed press reports of CIA counterterrorism and intelligence collection training for Palestinian security officers.<sup>5</sup> In February 2005, the Administration named Lieutenant General

<sup>4</sup> General Accounting Office, "Controls Over U.S. Funds Provided for the Benefit of the Palestinian Authority," January 1996; Defense Security Cooperation Agency and U.S. Army Security Assistance Command responses to CRS inquiries, June 21-23, 2005. Also see testimony of Thomas G. Rhame, Director, Defense Security Assistance Agency, before the House Appropriations Committee, May 6, 1994.

<sup>5</sup> Tim Weiner, "CIA Officers, With Israel's Knowledge, Teach Palestinians the Tricks of the (continued...)"

William Ward as 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 \$2.3 million in non-lethal assistance to the Palestinian security services and police to facilitate their assumption of security responsibilities in these areas.

In late 2006, the State Department notified Congress of the President's intent to reprogram up to \$86 million in prior-year funding to support efforts to reform and rehabilitate Palestinian civil security forces loyal to President Abbas. However, the House Appropriations Committee placed a hold on these funds, seeking more information on where and why the money was to be spent. After the Palestinians reached agreement on the Fatah-Hamas power sharing arrangement, other Members of Congress reportedly expressed further doubts, fearing the money may end up with Hamas. In March 2007, Secretary Rice told a House Appropriations subcommittee that the Administration was now seeking to spend \$59 million in direct aid to Abbas, \$43 million for training and non-lethal assistance to the Palestinian Presidential Guard and \$16 million for improvements at the Karni crossing, the main terminal for goods moving in and out of Gaza. No holds were placed on this request.

## **Palestinian Authority Finances**

Reports vary widely on the exact nature of Palestinian finances. The PA is in the midst of a longstanding fiscal crisis due to declining economic activity, caused in part by Israeli restrictions on movement and access, and an expanding public sector. It has therefore become reliant on foreign assistance to close the fiscal gap. The crisis was exacerbated in 2006 by the international aid embargo and Israel's withholding of tax and customs revenue. According to the World Bank, even following Israel's release of withheld revenues in June 2007, the PA wage bill exceeds revenues. Prospects for enhancing revenues are dim given the cut-off of Gaza trade and the PA forecasts the need of \$1.62 billion in donor assistance per year to close the fiscal gap.<sup>6</sup>

## **Recent Legislation**

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

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<sup>5</sup> (...continued)

Trade," *New York Times*, March 5, 1998; Matthew Kaiman, "Mideast Training Program Backfires," *San Francisco Chronicle*, February 14, 2005.

<sup>6</sup> The World Bank, "Two Years After London: Restarting Palestinian Economic Recovery," September 24, 2007.

involve them in executive decision-making, the executive branch shall construe the references in the provisions to consulting to require only notification.”<sup>7</sup>

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.” 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 when Hamas is not in power. In March 2007, Representative Ileana Ros-Lehtinen introduced H.R. 1856, the Palestinian Anti-Terrorism Act Amendments of 2007, which would amend the original Act to further restrict contact with and assistance to the PA. The bill was referred to subcommittee.

H.R. 2764, the FY2008 Department of State, Foreign Operations and Related Programs Appropriations bill (passed by the House on June 22, 2007), in addition to the restrictions listed above, includes a provision prohibiting any funds, or previously appropriated funds, being used for security assistance in the West Bank and Gaza until the Secretary of State reports to the Appropriations Committees on the extent of Palestinian compliance with benchmarks — including maintaining law and order, fighting terrorism, and countering Qassam rocket launches — established for such assistance. During floor debate, by a 390-30 vote, the House adopted an amendment offered by Representative Mike Pence that would prohibit the disbursement of \$63.5 million in the bill for the Palestinian territories unless the administration certifies that the PA recognizes Israel, renounces violence, and accepts previous agreements with Israel. The Senate version of the bill (passed by the Senate on September 6, 2007) includes \$75 million in aid for the West Bank and Gaza and does not include the additional restrictions contained in the House version.

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<sup>7</sup> “President’s Statement on Signing of Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,” available online at [<http://www.whitehouse.gov>], June 15, 2006.