



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 most 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, 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

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. Since the formation of the Hamas-led Palestinian Authority (PA) government on March 30, 2006, the United States has halted most foreign aid to the PA, but has continued providing humanitarian assistance and democracy promotion and private sector support funds to the Palestinian people through international and non-governmental organizations (NGOs). Following Hamas's electoral victory in the January 2006 PA legislative elections, 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. 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 Fatah, a secular party that has recognized Israel and renounced violence. In March 2007, Hamas and Fatah agreed to share power in a unity government. The new government program does not explicitly address the first two Quartet conditions, but does agree to “respect” previous agreements.¹ Arab states are now calling for recognition of the unity government and an end to the boycott.

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 bilateral economic assistance to the Palestinians. According to annual foreign operations 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. To date, the United States has provided direct assistance to the PA 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 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 Abbas’s May 2005 visit to the White House, President Bush transferred an additional \$50 million from unobligated Economic Support Funds (ESF) funds to the PA, but that transfer was ultimately rescinded after the formation of the Hamas-led government in March 2006 and the PA returned \$45 million of the \$50 million.²

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

¹ “Haniyah Presents National Unity Government Makeup, Platform to PLC,” Gaza Palestine Satellite Channel Television in Arabic 1005 GMT 17 March 2007, Open Source Center report number GMP20070317745002.

² According to USAID, the remaining \$5 million is pending negotiation of costs incurred for discontinued road construction projects.

committed to peaceful coexistence with Israel, and is taking appropriate measures to combat 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. 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.

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. During FY2006, the United States obligated \$264 million³ in humanitarian relief and other assistance to the Palestinians.⁴

For FY2007, P.L. 110-5, the Revised Continuing Appropriations Resolution, 2007, provides up to \$50 million for USAID's West Bank and Gaza program. However, specific allocations are still to be determined.

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

Account	FY2004	FY2005	FY2006	FY2007 Estimate	FY2008 Request
ESF	74.558	274.400	150.000	50.000	63.500
Child Survival & Health	—	—	—	—	10.000
Total	74.558	274.400	150.000	50.000	73.500

Source: U.S. State Department.

³ In July 2006, after a comprehensive review and reprogramming of U.S. assistance to the Palestinians, the Administration announced it would spend \$468 million on aid to the Palestinians in FY2006, a figure that has been widely reported. The \$468 million is a total of approximately \$146 million that was obligated in FY2005, \$264 million that was obligated in FY2006, and \$58 million that was carried over into FY2007. The \$264 million FY2006 figure includes both USAID's West Bank-Gaza program and U.S. contributions to UNRWA.

⁴ USAID, "Breakdown of U.S. Government Assistance to Palestinians in West Bank and Gaza since 2002," April 16, 2007.

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.⁵ In the late 1990s, there were unconfirmed press reports of CIA counterterrorism and intelligence collection training for Palestinian security officers.⁶ 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 \$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 \$59 million for 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.

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

⁵ 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.

⁶ 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.

Palestinian territories.⁷ 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.⁸

Palestinian Authority Finances

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).⁹ The PA financed the \$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.¹⁰ Although the United States supports the funding plan,

⁷ 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>].

⁸ 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.

⁹ The international community also provides a large amount of indirect assistance for the Palestinian people through donations to specific development projects and charitable donations.

¹⁰ For more details of the TIM and the EU’s policy toward the Palestinians, see the EU website (continued...)

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.”¹¹ The TIM, initially established in June 2006 for three months, was renewed in September, December, and again in March 2007. In 2006, the EU delivered approximately \$900 million in emergency assistance to the West Bank and Gaza.

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 involve them in executive decision-making, the executive branch shall construe the references in the provisions to consulting to require only notification.”¹²

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 if Hamas relinquishes 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.

¹⁰ (...continued)

[http://ec.europa.eu/comm/external_relations/gaza/intro/index.htm].

¹¹ Harvey Morris, “Israel Endorses Decision To Aid Palestinians,” *Financial Times*, May 11, 2006.

¹² “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.