THE FOREIGN AFFAIRS BUDGET

DEMOCRACY, GOVERNANCE, AND HUMAN RIGHTS IN THE MIDDLE EAST AND NORTH AFRICA

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ABOUT THE PROJECT ON MIDDLE EAST DEMOCRACY (POMED)

The Project on Middle East Democracy is a nonpartisan, nonprofit organization dedicated to examining how genuine democracies can develop in the Middle East and how the U.S. can best support that process. Through research, dialogue, and advocacy, we aim to strengthen the constituency for U.S. policies that peacefully support democratic reform in the Middle East.
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# ACRONYMS

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<tr>
<td>CBJ</td>
<td>Congressional Budget Justification</td>
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<td>DRL</td>
<td>Bureau of Democracy, Human Rights, and Labor, U.S. Department of State</td>
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<td>IDA</td>
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<td>IMET</td>
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<td>MCC</td>
<td>Millennium Challenge Corporation</td>
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<td>Middle East Partnership Initiative, U.S. Department of State</td>
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<td>NADR</td>
<td>Nonproliferation, Anti-terrorism, Demining, and Related Programs</td>
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<td>NEA</td>
<td>Bureau of Near Eastern Affairs, U.S. Department of State</td>
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<td>Office of Near East Affairs Assistance Coordination, U.S. Department of State</td>
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EXECUTIVE SUMMARY

When President Donald J. Trump took office in January 2017, many supporters of democracy and human rights feared that his administration would weaken already-timid support for democratic principles in U.S. foreign policy. Since his inauguration, President Trump and top officials have taken steps that have confirmed these fears, generating bipartisan concern about the direction of American foreign policy.

Trump and senior officials have praised authoritarian leaders, including some of the world’s worst human rights abusers, have rarely spoken in defense of rights and freedom, and have publicly downplayed the role of human rights and democracy in U.S. foreign policy. In proposing 30 percent cuts to foreign aid and diplomacy globally, Trump’s Fiscal Year 2018 budget request signals deep skepticism about the value of U.S. efforts to support democracy, human rights, and governance abroad. It marginalizes diplomacy and all non-military forms of international engagement, including most types of foreign aid. The budget request aims to slash the budget of the State Department and the U.S. Agency for International Development (USAID) to help fund a large increase to the Defense Department budget, prioritizing military engagement over diplomacy. Coupled with a proposal to close USAID Missions in as many as 37 countries around the world and to reorganize and reduce the size of the State Department, this would leave the United States woefully underrepresented and unprepared to respond to a host of global challenges.

As this report describes, these worrying trends are clearly visible in Trump’s budget for the Middle East and North Africa. The administration proposes deep cuts in bilateral assistance to most aid recipient countries in the region, with especially large cuts to programs to support democracy, human rights, and governance. The budget makes plain that its top priority in the region is counterterrorism, especially the fight against the Islamic State (ISIS). It further shows that the administration sees counterterrorism almost exclusively as a job for military, intelligence, and security agencies with little or no role for the State Department or other civilian government agencies. In addition, the administration has not shown interest in addressing the role of domestic repression by authoritarian allies in fueling discontent, radicalization, terrorism, and violent conflict.

KEY FINDINGS:

President Trump’s first budget request includes drastic cuts to foreign affairs spending, including in foreign aid to most recipient countries in the Middle East and North Africa. While the budget proposes a 12 percent cut in funding to the MENA region as a whole, this understates the impact on most countries in the region, as the three largest recipients of U.S. foreign assistance – Israel, Egypt, and Jordan – are exempted from any significant cuts. The budget proposes large cuts in bilateral assistance to Iraq, Lebanon, Morocco, Syria, Tunisia, the West Bank and Gaza, and Yemen, ranging from 20 percent to 67 percent.

Under Trump, U.S. engagement with the Middle East and North Africa is becoming even more militarized, at the expense of diplomacy and development. The proposed budget would represent the highest proportion of U.S. foreign aid—80 percent—ever devoted to military and security assistance for the MENA region. In recent years, the Defense Department (DOD) has been steadily taking on a larger role in managing and administering security assistance, traditionally led by the State Department. The Trump administration’s budget would likely accelerate this trend. The proposal to shift Foreign Military Financing (FMF) for most countries from grants to loans could lead many recipient governments to seek DOD-managed security assistance to replace FMF grants, rather than taking on loans.
Deep cuts to leading U.S. democracy assistance mechanisms demonstrate the administration’s skepticism about the value of supporting democracy abroad. The FY18 budget request underscores the administration’s hostile rhetoric toward human rights and democracy in U.S. foreign policy by proposing steep (50 to 66 percent) cuts to the democracy assistance programming of the State Department’s Bureau of Democracy, Human Rights, and Labor; the Middle East Partnership Initiative; and the Near East Regional Democracy fund.

Despite proposing substantial changes to foreign aid programs around the world, the Trump budget leaves Egypt’s bilateral assistance – an aid package long overdue for reform and modernization – mostly untouched. The FY18 budget request proposes no meaningful changes to one of the world’s largest and most longstanding recipients of U.S. foreign aid, despite bipartisan views that aid to Egypt is long overdue for an overhaul. The proposed budget ignores Egypt’s escalating repression, including a draconian new NGO law that could make many U.S. assistance projects impossible to implement. The administration also proposes no reforms for Egypt’s outdated military assistance package.

Amidst worsening violent conflict and humanitarian crises in Iraq, Syria, and Yemen, the budget proposes dramatic reductions to lifesaving humanitarian assistance accounts. More than 32 million refugees and internally displaced people across the MENA region are in desperate need of humanitarian assistance due to ongoing armed conflicts. As military campaigns in Iraq, Syria, and Yemen escalate, the humanitarian needs of people fleeing violence and of communities recovering from war are enormous. The FY18 budget proposes to slash funding for these accounts when they are needed more than ever.

After Congress granted a new high of bilateral assistance to Tunisia in FY17, the FY18 request reverses course by proposing sharp cuts in aid to the Arab world’s only emerging democracy. In FY17, Congress appropriated $165.4 million in bilateral assistance to Tunisia to support the country’s transition to democracy. But the administration’s FY18 request proposes a 67 percent cut – the largest cut in bilateral aid to any country in the MENA region – by eliminating its FMF grant and halving economic assistance. U.S. investment in Tunisia has shown strong returns, with U.S. aid helping the Tunisian government implement tough economic reforms, improving its ability to counter security threats such as from ISIS, and bolstering the country’s thriving civil society sector.
Each year, this report aims to analyze the state of U.S. government funding and appropriations for the Middle East and North Africa, with an emphasis on the impact on human rights and the prospects for genuine democratic change in that region. This year that task is more challenging in some respects, due to unique circumstances in Washington.

President Trump's first budget request to Congress, for Fiscal Year 2018, includes a drastic 30 percent cut in global spending for international affairs, down to $40.2 billion from $57.5 billion enacted in FY17.² Despite the proposed drastic cuts and changes to the foreign affairs budget, the administration's budget request contains far less detail about the goals, strategies, priorities, and plans for spending the requested foreign assistance funds than in previous years. The FY18 Congressional Budget Justification — the document that explains and justifies the details of the President's budget request for international affairs — is several hundred pages shorter than usual, because it omits any narrative sections for each recipient country of U.S. foreign assistance, always included in the past.

Moreover, the lack of detail in the budget request is representative of a broader absence of a clear strategic vision for cutting international affairs spending and restructuring the agencies that carry out U.S. diplomacy and development programming. Many observers have argued that the administration's strategic review should be completed and decisions about the restructuring of the State Department and USAID should be made prior to proposing large cuts and wholesale changes to U.S. foreign aid and diplomatic engagement.

This combination of proposed cuts and changes to the budget on an unprecedented scale, accompanied by less detail, explanation, and justification for those changes, results in a remarkable level of uncertainty as to what degree it will be the starting point for congressional appropriations. Numerous members of Congress, including Senators Bob Corker (R-TN) and Lindsey Graham (R-SC), have dismissed the Trump administration's first budget request as "dead on arrival" and "a waste of time," implying that it should not be the basis for congressional appropriations.

Regardless of the ultimate fate of the 2018 budget request and the proposed cuts, there is value in analyzing the details of the budget in the framework of ongoing U.S. funding for the MENA region. The details of this budget request are an important reflection of this administration's initial thinking, priorities, and approach to the region. In addition, an analysis of the potential impact of the proposed budget changes can contribute to debates about those potential changes, including as the congressional appropriations process continues.

As in previous years, this report aims to go beyond the numbers in the budget request and in recent congressional appropriations by examining changes to the types of programming supported and the policy decisions that surround the various programs and budget allocations. The report is based not only on analysis of all relevant budget documents and legislation, but also on substantive discussions and interviews with a wide range of relevant actors: current and former executive branch officials, congressional staff, representatives of a variety of democracy and human rights organizations, as well as civil society activists and democracy advocates in the MENA region.

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² Unless specified otherwise, references in this report to "foreign assistance" refer to the Function 150 International Affairs account of the federal budget request for Fiscal Year 2018 and prior years. Although a growing portion of security assistance is allocated through the Defense budget and appropriations process instead of through traditional State Department channels, any reference to Defense Department budget and funding will be noted explicitly.
THE BIG PICTURE:
U.S. ASSISTANCE FOR THE MIDDLE EAST AND NORTH AFRICA

U.S. officials are quick to highlight that the Middle East and North Africa is a top priority for the administration and that the FY18 budget request reflects that level of interest. Indeed, the request includes $6.6 billion in total assistance to the region, which is (by a significant margin) a larger share than any other region at 26 percent of the global total. Furthermore, the proposed $6.6 billion in foreign aid to the MENA region represents a cut of only 12 percent from the level allocated for the region in FY16, a far smaller cut than proposed for any other region.

As is true of the global foreign aid budget however, taking these numbers at face value can be misleading because the budget does not request significant cuts in aid for Israel, Jordan, or Egypt. Taken together, assistance to these three countries constitutes 83 percent of the budget for the entire MENA region in the FY18 request. As such, the administration’s budget requests $1.12 billion in assistance for the rest of the region, which represents a large cut of 31 percent from the FY16 levels, in line with the size of cuts proposed for other regions.

The breakdown of assistance for the region by objective or program area does not represent a dramatic change from previous years, but it does exacerbate existing concerns with the balance of foreign aid to the region. Previous editions of this report have criticized the steadily increasing militarization of U.S. assistance to the region, during the Bush and Obama administrations alike. Last year’s edition of this report noted: “Sadly, the enormous gap between the levels of military and security expenditures and support for economic and political development has only grown wider over the course of the Obama administration.” Unfortunately, in the Trump administration’s first budget request that gap has grown even wider. Over the eight years of the Obama administration, spending on military and security assistance averaged 75 percent of the annual budget request for foreign affairs. President Trump’s first budget request seeks 80 percent of the State Department’s aid budget for military and security assistance. If Congress were to appropriate funds in line with the budget request, this would be the highest proportion of U.S. foreign aid to the region allocated for military and security assistance, exceeding the previous high of 79 percent in FY15.

In addition, the Trump administration appears likely to accelerate two other trends related to the growing militarization of U.S. engagement with the MENA region. First is the existing trend of supplementing the large amounts of security assistance grants to the region with Foreign Military Sales (FMS), which grew dramatically in scale over the course of the Obama administration but appear likely to grow even further under President Trump. Secondly, although this report focuses primarily on the budget request under the Function 150 International Affairs Account, to be allocated through the State Department, in recent years the Defense budget and appropriations act have taken on a larger share of U.S. foreign aid, and the Trump administration’s initial budget accelerates that trend as well.

The share of democracy and governance funding during the Obama administration averaged 5.3 percent annually, while President Trump’s request seeks only 4 percent of funding for the same objective. The FY18 budget request designates $296.6 million for democracy and governance programming in the region, a reduction of more than 30 percent from the FY17 request of $427.5 million, but still more than was spent annually on such programming from Fiscal Year 2013 to 2015.

The following sections detail a number of proposed structural and account changes put forth by the Trump administration that could have a significant impact on the nature of U.S. foreign assistance to the region. In addition to those changes discussed below, proposed changes to the Brownback Amendment and legislative language restricting aid following military coups remain important and relevant.
Because those two proposals are identical to changes proposed in previous years that were discussed in detail in earlier editions of this report, they are not discussed in detail here. Please refer to the last year’s edition of this report for that analysis.²

 State Department and USAID Reorganization

In March 2017, President Trump issued an Executive Order on a “Comprehensive Plan for Reorganizing the Executive Branch.”³ The


order directs the Director of the Office of Management and Budget (OMB) to “propose a plan to reorganize governmental functions and eliminate unnecessary...components of agencies, and agency programs.” By September 9, 2017, the head of each agency is required to submit a proposed plan to reorganize the agency, if appropriate, in order to improve the efficiency, effectiveness, and accountability of that agency. Secretary Tillerson has described the State Department and USAID as having “not evolved” to meet new challenges and threats to U.S. national security, and pledged a comprehensive redesign and restructuring of those agencies. Secretary Tillerson has suggested the redesign

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plan will likely take until the end of 2017 to be finalized, with implementation beginning in early 2018. To begin that process, Secretary Tillerson and his senior aides hired a consulting firm to distribute surveys to State Department and USAID employees to seek input on how to streamline operations. More than 35,000 employees of the two agencies responded to the survey (approximately 43 percent of the employees who were sent the survey), and many “indicated longtime frustration with the way the agencies function, including poor technology and duplicative and redundant processes that make frequent workarounds necessary.” In particular, USAID employees expressed concern over the consequences of a move to fully integrate USAID into the State Department, one proposal which administration officials are considering.

Numerous independent development experts and organizations have also criticized this proposal. Shannon Green and Daniel Runde, analysts at the Center for International and Strategic Studies (CSIS), argue that, “While there are certainly changes that can be made at both organizations, a State Department/USAID merger—where personnel, procurement, programmatic, and budgeting functions are combined—would be a huge mistake.” Drawing on the lessons learned from the integration of the U.S. Information Agency (USIA) into the State Department in 1999, they argue that USAID integration would likely lead to considerably reduced funding for development and that genuine development “cannot be achieved if it is exclusively tied to short-term and rapidly evolving policy imperatives.” The Modernizing Foreign Assistance Network (MFAN) has determined that an even more independent lead aid agency (with a Cabinet-rank official leading it) is the first “structural requirement” to make U.S. development “more effective, efficient and accountable.”

For the sake of comparison, New Zealand, Australia, and Canada all merged their development aid agencies into their foreign ministries from 2009-2013. In those countries, the budgets for both aid and diplomacy were reduced as a result, and many development professionals lamented that aid was politicized. For example, foreign assistance to address poverty reduction abroad was treated as a political favor to foreign governments, with assistance levels based not on need but on the political priorities of the day. In Canada, the Minister of Development within the Ministry of Foreign Affairs still retains a cabinet-level seat, which allows that official to retain high-level input into policy, but other countries saw a diminished policy role for their head development officials.

Other observers from the pro-democracy community have suggested that putting aid programs closer to the policymaking at the State Department could be beneficial. Of course, democracy assistance is more inherently political by nature than humanitarian or economic development assistance, so it is already more closely tied to policy decisions. In addition, USAID’s current position outside the State Department has not insulated it from dramatic funding changes in response to shifting policy priorities.

Congress has expressed skepticism about the proposal to merge State and USAID and, prior to implementing any such reorganization, have required a report in the FY17 Omnibus Appropriations Act from the Secretary of State that includes “a detailed justification and analysis containing:

1. the impact on personnel, both foreign service and civil service;

8 Ibid.
At his congressional hearings to defend the administration's FY18 budget request, Secretary Tillerson was repeatedly questioned about his intentions to merge State and USAID. He responded, "the State Department and USAID, like many other institutions here at home and around the world, have not evolved in [their] responsiveness as quickly as new challenges and threats to our national security have changed and are changing." Tillerson acknowledged the "intense interest in prospective State Department and USAID redesign efforts," though he would not answer whether the two would be merged.

Members of Congress from both parties urged Secretary Tillerson to communicate broadly with the Hill on any plans for reorganization and how it could impact USAID. Senator Foreign Relations Committee (SFRC) Chairman Bob Corker (R-TN) reminded Tillerson during the committee's hearing on the budget request that the State Department Authorization bill is the appropriate vehicle to amend the relevant authorities, and asked Tillerson to work with the committee collaboratively in implementing redesign efforts. Senator Cardin (D-MD), ranking member of SFRC, admonished Tillerson for ignoring requests to brief the committee on the state of the reorganization and reminded him that certain changes would require agreement by the committee as they are mandated by statutes. In another hearing, Senator Cardin said the “OMB directive reducing personnel could very well cripple the ability to [carry] out missions... I know how important it is that for USAID [it has] independence within the State Department family.”

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Senators Todd Young (R-IN) and Jeanne Shaheen (D-NH) are also leading efforts to examine streamlining foreign aid, as co-chairs of a Center for Security and International Studies task force launched in March 2017 on reform and reorganization of U.S. development assistance. Senator Shaheen expressed her concern “that the Trump administration’s stated interest in reorganizing and reforming the State Department and U.S. Agency for International Development [USAID] is an effort to provide cover for the deep cuts to the respective agencies’ budgets proposed by the administration.”15 The Congressional Task Force is scheduled to release a report of its findings in July 2017, and is expected to make proposals on how to streamline U.S. development assistance effectively without merging USAID into the State Department. Ambassador Mark Green, the administration’s nominee for USAID Administrator, pledged during his June 2017 confirmation hearing to meet with the Task Force and receive its recommendations.16

Ambassador Green’s nomination for USAID Administrator has been widely praised by the democracy and development community, including by the U.S. Global Leadership Coalition, which described him as “an exceptional choice for USAID Administrator... [and] an invaluable partner to maximize our nation’s development and diplomacy impact.”17 In line with his background in democracy assistance, Green said during his confirmation hearing that, “I think democratic governance is awfully important. For the investments that we’re all talking about to be sustainable over the long haul, what has to go with them is citizen-centered, citizen-responsive political systems... You can count on me to be a forceful advocate for prioritizing democracy.”18

Green was introduced at his Senate confirmation hearing by longtime friend and former colleague in the House of Representatives, Speaker Paul Ryan, as “the perfect person for this job... you could not have a better person to lead this kind of an organization.”19 Senator Bob Menendez (D-NJ) told Green:

“I have full confidence in your experience and commitment to the mission of USAID... However, my concern for USAID, however, is that your passion for public service, and what I take to be your fundamental belief that the United States should be a leading advocate on the world stage for democracy, human rights and the values or [being their] champion here at home is not necessarily shared by some leading figures in the administration.

Earlier this week, Secretary Tillerson came before this committee to explain indefensible cuts to critical American foreign-policy and foreign assistance initiatives, programs in support of democracy, economic development, life-saving humanitarian and health initiatives and unfortunately nothing in my mind to assuage the concerns that I share with others that USAID and the institutional knowledge, the technical expertise and the long-term programming it houses would be folded into a weakened and less effective State [Department].”

Specifically, although Ambassador Green is well-liked and widely respected by Congress and the development community, many fear that he may not be able to dissuade Tillerson from a State Department reorganization that could undermine USAID’s role. During Green’s confirmation hearing, Senator Bob Menendez (D-NJ) specifically pressed Green, “Do you believe AID should remain an independent

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entity in the State Department?" Green replied:

“It’s less of a question of where boxes should be and what they should look like, and more taking a look at what the mission is and how do we organize around it… I believe that the State Department and USAID need to be closely aligned, but I believe that they have different cultures within each institution… USAID is an operational agency. It is not so much a diplomatic agency or policy-setting agency as it is one that carries out [and] uses soft power tools to advance [policy] priorities [which are] identified by the State Department, by the White House.”

Within the development community, Congress, the State Department, USAID, and other parts of the administration there is broad agreement on streamlining foreign assistance to find efficiencies, especially between USAID and the State Department, but which stop short of a full merger. In many areas, the administration will need to gain cooperation from Congress on any major reorganization in order to amend relevant legal authorities that establish the structure and processes of USAID and the administration of foreign assistance.

One more modest yet significant step that would not require explicit congressional authorization is the closure of USAID missions in countries that the Secretary of State does not deem as priorities to U.S. national security interests. In his opening remarks at Ambassador Green's confirmation hearing, SFRC Ranking Member Ben Cardin (D-MD) described one of the direct challenges facing USAID as "a proposal to withdraw USAID missions from 37 countries." Senator Jerry Moran (R-KS) also questioned the proposal to reduce USAID missions around the world, at a time when China is pledging billions in global infrastructure development: "in addition to the humanitarian [impact of reduced budgets], the rightness of the cost is that others will take advantage of our absence.”

One development expert interviewed for this report suggested Tillerson could also receive strong pushback from ambassadors at posts where USAID missions may be targeted, as ambassadors would chafe at having a policy tool taken away from them. Instead, a more pragmatic approach might be to identify countries with USAID missions ready to “graduate” from the type of large, long-term U.S. assistance managed by such missions and put them on a several year glide-path for scaling down and closing programs rather than abruptly doing so overnight.

A subset of this larger State-USAID merger debate is the question of merging the State Department's Bureau of Conflict Stabilization Operations (CSO) and USAID's Office of Transition Initiatives (OTI). OTI was created in 1994 to “bridge the gap between emergency disaster relief programs and long-term development assistance” and is generally utilized for its rapid response capabilities, as USAID programs often require much longer timelines to launch. CSO was established in November 2011 “to promote more effective civilian efforts to prevent and manage crises and conflict under State Department leadership...with a mandate to provide the ‘institutional focus for policy and operational solutions for crisis, conflict, and instability.’" Since the creation of CSO, some analysts and members of Congress have focused on the potential overlap between CSO and OTI. Both mechanisms often work in similar environments, i.e. “in unstable environments

such as transitions from violent conflict to peace or after the fall of authoritarian governments, as well as those existing during other crisis situations,” with a general division of labor as “CSO providing personnel to carry out specific tasks and OTI funding and implementing larger programs.”

The FY18 budget requests a 50 percent reduction in funding for CSO from the current FY17 level, to $15.7 million. Proposed funding for OTI also includes a reduction of 21 percent from FY17 levels, to $92 million. One congressional staffer interviewed for this report suggested this year’s budget request for CSO may indicate intent to eliminate the bureau. CSO was not created by congressional mandate, as other bureaus such as DRL were, so Secretary Tillerson could more easily eliminate the bureau and reassign staff to OTI and other agencies. Another representative of a democracy promotion organization suggested that CSO was only created “because the State Department wanted its own OTI for Iraq and Syria” work, and that CSO and OTI could be easily merged.

In the June 2017 House Foreign Affairs Committee hearing on the FY18 budget request, Rep. Darrell Issa (R-CA) noted the 50 percent proposed cut to CSO and reiterated his request (made previously to Secretary Kerry) to move toward “combining them, deciding who gets this job, either State or USAID but not both.” Secretary Tillerson replied that the purpose of his redesign efforts were to identify exactly these kind of areas where there are duplicative and overlapping efforts within the interagency bureaucracy, which “will lead certainly to combined efforts, delivering on mission for less cost.”

If the administration does indeed decide to move forward with merging USAID fully into the State Department, it would be the largest restructuring of U.S. agencies ever within the U.S. diplomacy and development sectors. More than 80,000 employees are now anxiously awaiting results of the Tillerson-led review and reorganization process, which will reveal plans for how the two agencies will be redesigned, including a potential full merger. In the meantime, development experts and members of Congress are leading initiatives to produce alternative proposals on how to streamline development assistance more effectively, while maintaining USAID as an independent agency.

In general, there is a clear consensus in the foreign policy community that the State Department and USAID could benefit from some significant restructuring and modernization, but there is less consensus on exactly what that should include or look like. Regardless of how far-reaching the outcomes of the redesign, Congress has communicated clearly to Secretary Tillerson the necessity of closely working with members to gain their approval for any reorganization plans, as well as to properly amend authorities and statutes which govern the structure and processes of various elements of the State Department and USAID. Ambassador Green has not yet been confirmed by the Senate as USAID Administrator, though he enjoys widespread bipartisan support and will likely be confirmed soon. It remains to be seen whether he will be the last administrator to manage USAID as an independent agency or if he will leave a legacy of modernizing assistance while maintaining USAID’s independence.

**ECONOMIC SUPPORT AND DEVELOPMENT FUND (ESDF)**

This year’s budget request includes a list of “Key Account and Program Consolidations and Eliminations,” including a new proposal to eliminate the Development Assistance (DA) account and provide economic and development assistance through a new, consolidated Economic Support and Development Fund (ESDF) account that replaces the Economic Support Funds (ESF) account. Through ESDF, assistance previously provided separately in

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25 Ibid.
the DA, ESF, Assistance for Europe, Eurasia, and Central Asia (AEECA), and Democracy Fund (DF) accounts will support “only those countries and programs that are most critical to U.S. national security and strategic objectives.”

Historically, DA funds have been used to “support core U.S. Agency for International Development (USAID) interventions and partnerships.”27 Though the programs prioritized have changed over time (for example, from large infrastructure projects to programs focused on education, health, and livelihoods), DA’s overall goal to promote economic development and build human capital in the developing world has remained largely consistent. ESF funds are also generally used to support programs that aim to “promote political and economic stability, often through activities indistinguishable from those provided under regular development programs.”28 The ESF account is administered by both the State Department and USAID, with the State Department primarily controlling the overall policy and allocation of funds, while USAID implements the majority of the programs.

Though the objectives and initiatives advanced by DA and ESF often overlap, the two accounts (at least in theory) diverge in terms of how they prioritize advancing U.S. national security interests as a goal of U.S. foreign assistance. Attempting to stabilize volatile regions of particular importance to U.S. interests through targeted investments is often a primary objective of ESF funding, even if some of the programs funded are indistinguishable from DA programs, such as funding for education and public health in the MENA region. Scott Morris, an analyst at the Center for Global Development (CGD), has noted that “ESF objectives are driven by [US] strategic considerations, not poverty reduction.”29 DA-funded programs, though addressing similar issues, often demonstrate a greater focus on the goal of global development for development’s sake, as opposed to development to advance specific U.S. national security objectives.

The MENA region has historically not been a large recipient of DA funds (in part because nearly every country in the MENA region is considered more important to U.S. national security interests than many countries in other regions of the world) with the exception of small, periodic amounts of DA allocated for Morocco. Therefore, on the surface, the consolidation of DA and ESF account authorities would have little direct impact on U.S. foreign assistance to countries in the Middle East and North Africa. But in other parts of the world, Jeremy Konyndyk, senior policy fellow at the CGD, has warned that the ESDF consolidation may herald a bilateral assistance strategy “guided more by immediate diplomatic policy goals

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than by durable development outcomes.”

The Modernizing Foreign Assistance Network (MFAN) concurred, arguing that combining DA and ESF would “subordinate long-term development goals to short-term strategic interests.”

This year’s budget request states that the funds requested for ESDF will be focused on foreign assistance in regions and on programs that “advance U.S. national security by helping countries of strategic importance meet near- and long-term political, economic, development, and security needs.” As a result, the FY18 request proposes eliminating economic and development assistance to “48 lower priority units (i.e. countries, bureaus)” when compared to programming in FY16. “Those proposed eliminations do not include any countries in the MENA region, however. In FY16, ten countries received a total of $1.61 billion in ESF and DA funds. In the FY18 budget request, the ESDF funds requested for those same countries totals $1.59 billion.”

Globally, in addition to consolidating the authorities of the DA and ESF accounts, the FY18 budget proposal seeks just $4.9 billion for ESDF, which would represent a 46 percent decrease from the comparable FY17 level. In the bigger picture, foreign governments and bureaus slated for elimination as recipients of ESDF in FY18 might put pressure on appropriators and the administration to justify why MENA countries should continue to receive foreign assistance at or near similar levels in an environment of widespread budget cuts to development aid.

This administration’s justification for the creation of ESDF – i.e. that foreign assistance should be used solely as a tool to promote U.S. national security interests and policy priorities, rather than as a combination of a policy tool and for the sake of human development in itself – is an important indication of how narrowly the Trump administration views the role of foreign assistance. It also ignores the inherent connections between human development and U.S. national security interests – such as the role effective development assistance plays in helping to prevent humanitarian crises, failed states, and violent conflicts that could pose future threats to U.S. national security. Even for countries in the region that would continue to receive assistance under ESDF, new policy priorities by the administration might create pressure to end programs within those countries with more nebulous, long-term outcomes (such as education and health programs) in favor of more immediate priorities such as programs to “open markets and foster economic opportunities for U.S. businesses.”

In order to merge the DA and ESF accounts, congressional authorizations for those accounts may need to be amended. Senator Isakson (R-GA) raised this issue with Secretary Tillerson in the June 2017 hearing on the budget request, suggesting that merging these two accounts would require new authorizations from Congress for such restructuring. The ESDF proposal is also connected to broader questions of restructuring the State Department and USAID in order to streamline foreign assistance authorities and policies, which are discussed in the section beginning on page 6.

**HUMANITARIAN ASSISTANCE**

In addition to the bilateral assistance accounts which constitute the majority of U.S. assistance to the Middle East and North Africa, several MENA countries also receive funding from global humanitarian accounts such as Migration and Refugee Assistance (MRA), International Disaster Assistance (IDA), and PL. 480 Title II (Food for Peace). Armed conflicts in Syria,
Iraq, and Yemen have displaced millions of people and created humanitarian crises across the region. Countries that host large numbers of Syrian and Iraqi refugees, such as Turkey, Lebanon, and Jordan are heavily dependent on international aid to absorb and support growing refugee populations within their borders. In Yemen, the armed conflict has left millions on the verge of starvation as a cholera epidemic and famine threaten much of the country. But while humanitarian needs across the region reach new levels, the administration’s FY18 budget request proposes dramatic reductions to these lifesaving accounts.

The FY18 budget request proposes to eliminate the Food for Peace account, instead suggesting that “funding for emergency needs [is requested] within the more efficient International Disaster Assistance (IDA) account.” Secretary Tillerson testified in June 2017 that “in comparing those two methods of delivery [of Food for Peace and IDA] clearly IDA is far superior in its speed of delivery, its ability to get the needed aid to people quickly.”34 However, the International Rescue Committee has warned that the “proposal to eliminate Title II food aid, along with reductions in food-security programming, would impact an additional 30 million people, effectively doubling the global famine.”35 International food aid programs have also been historically popular in Congress as well, since the creation of Food for Peace by President Eisenhower in 1954. Chairman of the House Agriculture Committee Mike Conaway (R-TX) defended funding for Food for Peace in June 2017: “Americans are big-hearted folks who love seeing the U.S. flag on a donated bag of rice.”36

From FY13 to FY16, Yemen received at least $320 million from the Food for Peace account. In the FY17 omnibus, Congress included an additional $990 million under the IDA account for famine prevention, relief, and mitigation for Yemen, South Sudan, Somalia, and Nigeria. Ten Senators, including Senate Appropriations Committee Chairman Thad Cochran (R-MS) and Vice Chairman Patrick Leahy (D-VT), wrote to OMB Director Mick Mulvaney in May 2017 stating, “Humanitarian aid can sometimes take months to reach its intended destination. It is imperative that [this $990 million] be released without delay.”37 In July 2017, USAID announced the release of nearly $639 million of this $990 million to address the crises in South Sudan,
Nigeria, Somalia, and Yemen.38

At the time of publication, administration officials reported that it had not yet been decided how much of that $990 million would be allocated for Yemen. In June 2017, Senator Chris Coons (D-CT) asked about delays in obligating $1.3 billion in IDA funds. Secretary Tillerson said that aid delivery on the ground was difficult in some areas, including in Yemen via the port of Hodeida, and that he was working with partners on the ground to ensure aid reached those most in need. For further discussion of assistance to Yemen, including disaster assistance, please see the country section beginning on page 78.

The FY18 IDA request of $1.8 billion would provide humanitarian assistance for international disaster relief, rehabilitation, and reconstruction, “with a focus on crises at the forefront of U.S. national security interests... including in Syria, Iraq, Yemen, Nigeria, Somalia, and South Sudan.” The budget request also includes broad transfer language to allow funding to be transferred between IDA and MRA accounts, which would “allow funding to shift to MRA if there is an unexpected increase in refugee needs or to IDA if there is an unexpected increase in internal displacements in evolving conflicts.”

While the administration’s budget request praises IDA as “efficient and flexible,” it also proposes to reduce funding for the account by 34 percent from its FY17 allocation. The request urges “other donors, including non-traditional donors, to increase funding for humanitarian assistance and lessen the burden on the United States to respond. [The U.S. government] will also continue to challenge international and non-governmental relief organizations to become more efficient and effective in order to maximize the benefit to recipients of assistance.”

Of the $2.75 billion requested for MRA in FY18, at least $1.2 billion is designated for the Middle East and North Africa. This funding will support protection and assistance programs for more than 32 million refugees and internally displaced people across the region, including at least 14 million Iraqis, 11 million Syrians, five

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HIGHLIGHTS

- The administration’s budget request includes a proposal to transfer the Foreign Military Financing (FMF) of more than 50 countries from grants to loans.
- While this proposal could impact up to $1.1 billion in FMF globally, more than 80 percent of FMF goes to Israel, Egypt, Jordan and Pakistan — and those four countries are exempted from this move.
- Such a change, combined with language in the FY17 National Defense Authorization Act (NDAA) broadening the authority of the Department of Defense to provide security assistance, could accelerate recent trends of shifting the provision of security assistance from the Department of State to the Department of Defense.

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39 In FY16 and FY17, approximately $50 million was allocated for ERMA.
million Palestinians, and two million Yemenis. Across the MENA region, observers expect the needs and numbers of these people only to increase in the coming year, and have strongly criticized the administration’s proposal to cut these accounts in FY18. Senator Dick Durbin (D-IL) said to Secretary Tillerson:

“Currently, Jordan has absorbed 3 million or 4 million refugees in a nation of 7 million people. So what does this budget do to Jordan? This budget cuts by 18 percent migration and refugee assistance to countries like Jordan. We’re not accepting refugees, we’re saying to the countries that are, we’re going to cut your funding. Think of a more creative way to feed those refugees. 1.4 million Syrian refugees. It just doesn’t work, Mr. Secretary.”41

When pressed on U.S. assistance to refugees across the region, Secretary Tillerson replied that the primary U.S. foreign policy goal and only real solution is to liberate ISIS-occupied territories in Syria and Iraq so that refugees are able to return home: “It’s not the objective to have Jordan have to house those refugees now and forevermore.” He also repeatedly suggested that part of the approach was to ask other countries to provide more assistance, an approach he labeled “leaning in.” Senator Durbin retorted, “I think we’re leaning on, we’re not leaning in. And we’re leaning on the poorest people on earth.”42 Senator Leahy (D-VT), ranking member of the Senate Appropriations Committee, asked Secretary Tillerson, “Does it make us safer if we don’t do anything to help the refugee situation that’s overwhelming allies of ours like Jordan?” Senator Lindsey Graham (R-SC), chairman of the Senate Appropriations Subcommittee Foreign Operations, argued that the FY18 budget request was not “based on threats we face. I just don’t see how given the displacement of this many people and no end in sight, that…[this] reduction in disaster assistance is consistent with the threats we face from the disasters that are going on all over the world.”43

One congressional staffer interviewed for this report suggested that Congress is very unlikely to eliminate the Food for Peace account, or reduce MRA or IDA accounts in a year of such high need. If anything, appropriators may reduce bilateral funding lines in order to fully fund these global accounts. Administration officials suggested global MRA and IDA are more flexible funding sources than country-specific ESF designations, as they have fewer pre-obligation requirements, enabling programs to be funded more quickly. At least for FY18, strong congressional support for the MRA, IDA, and Food for Peace accounts, coupled with the unprecedented need for the lifesaving assistance they provide, will likely mean these accounts are preserved and funded at high levels. But the administration could make another push for eliminating and consolidating certain accounts as part of its reorganization process, which is discussed in further detail beginning on page 6.

FOREIGN MILITARY FINANCING

LOANS VS. GRANTS

When the White House first released the broad outlines of its FY18 budget request in March, one of the most dramatic proposed changes was to shift all Foreign Military Financing (FMF) assistance from grants to loans, with Israel as the lone exception. In FY16, at least 55 countries were recipients of FMF grants from the United States, totaling $6 billion. With Israel ($3.1 billion) exempted, the Trump administration’s budget blueprint justified shifting $2.9 billion in FMF grants to loans “in order to reduce costs for the U.S. taxpayer, while potentially allowing recipients to purchase more American-made weaponry with U.S. assistance, but on a repayable basis.”

When the administration released its more detailed FY18 budget request in May 2017, however, the Trump administration had expanded the list of countries exempted from the move to FMF loans beyond Israel ($3.1

42 Ibid.
43 Ibid.
billion) to include requests for FMF grants for Egypt ($1.3 billion), Jordan ($350 million), and Pakistan ($100 million). Altogether, these four countries’ FMF totals $4.85 billion, equivalent to about 81 percent of the global FMF total in FY16. Six other countries in the Middle East and North Africa (Bahrain, Iraq, Lebanon, Morocco, Oman, and Tunisia) receiving $417.9 million in FY16 FMF grants were not exempted and are included in the proposed change to FMF loans.

To continue providing security assistance to those six countries and the dozens of others not exempted, the budget requests $200.7 million for a new global FMF fund to be used as either loans and/or grant assistance to “solidify partner-nation commitments and leverage U.S. assistance to the greatest effect.” This global fund is requested under the State Department’s Bureau of Political-Military Affairs (PM), and the request also includes $70 million in administrative expenses for PM to manage FMF grant and loan programs, as well as International Military Education and Training (IMET).

The FMF loan proposal has generally been met with skepticism in Congress. Senator Patrick Leahy (D-VT), ranking member of the Senate Appropriations Committee, noted in a letter to the Senate Budget Committee that a shift to FMF loans “would require poorer countries to reimburse the United States (which past experience has shown they are unable to do) for assistance that is in our security interest to provide to them.” In addition to the budget strain placed on foreign governments seeking to buy U.S. defense equipment and services, Senator Leahy said the move would “erode the State Department’s foreign relationships and increase demands on DOD, when providing this type of assistance is not their core mission. Otherwise these countries will take their business elsewhere and U.S. industry will be the loser.”

Senator Lindsey Graham (R-SC), chairman of the Senate Appropriations Subcommittee on State and Foreign Operations, has expressed concerns that foreign governments might seek other suppliers if the United States asks them to buy U.S. equipment on a loan rather than grant basis: “The last thing I want allies to do is go to the Russians and the Chinese because we are penny-wise and pound-foolish.” Rep. Kay Granger (R-TX), chair of the House Defense Appropriations subcommittee, asked Secretary Tillerson in June 2016, “If we cut [FMF], who does it? How many countries go to Russia, how many countries go to China? There’s a cost there and it’s not a dollar cost, it’s a cost in lives...are you really considering it seriously?” Secretary Tillerson responded that, “OMB has asked us to look at other ways to support countries’ foreign military finance, including where countries have the capacity to consider loan guarantee structures,” but also suggested that some countries which traditionally received FMF grants may be able to instead seek security assistance through DOD-funded programs to meet those same needs:

“Secretary Mattis and myself have also set up a process where...there are some areas that are closely aligned to our same objectives in certain countries, where if we are ensuring we’re coordinating their budgets with ours, we think we can still meet a lot of the objectives of our foreign military financing.”

The FY17 omnibus includes $1.6 billion in counter-ISIL funds, consolidating train and equip funds for Iraq and Syria, and expanding the countries eligible to receive assistance from this fund. In addition to Iraq and Syria, Lebanon and Jordan were made eligible to receive funding from this fund in FY17, and the FY18 House defense appropriations bill proposes expanding this pool of eligible countries also to include Egypt and Tunisia. Section 333 of the FY17 National Defense Authorization Act (NDAA) expanded the DOD’s “global train and equip”

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authority for additional purposes, many of which appear to overlap with activities traditionally funded by FMF. For example, the FY18 budget request for FMF to Egypt is intended to support maritime and border security operations, one of several new activities now also authorized under Section 333. The scope of authorized foreign capacity building by the DOD was broadened to include training and equipping for: “counter-weapons of mass destruction (WMDs) operations; counter-illicit drug trafficking operations; counter-transnational organized crime (TOC) operations; maritime and border security operations; military intelligence operations in support of lawful military operations; humanitarian and disaster assistance operations; and national territorial defense of the foreign country concerned.”

As Senator Leahy’s letter cited previously highlighted, Congressional members and staff worry that shifting security assistance from State (FMF) to Defense-managed accounts (Section 333) is a change that could have profound impacts on defense budgets and U.S. diplomacy, despite requirements for the Secretary of State’s “concurrence” on such programs before implementation. Rep. Granger (R-TX) warned against rumors of drawing more heavily from defense budgets for foreign security assistance, suggesting that she would oppose “moving any extra new programs [from the State Department budget] into defense.” Secretary Tillerson replied, “That is certainly not what we have underway…. [Secretary Mattis and I] been working this particular issue of how we ensure our funding in areas that is complementary to theirs and theirs is complementary to ours, how we coordinate that. And there’s no intention of transferring programs.”

Congressional staff have expressed concerns that divorcing military assistance from the State Department could further empower military voices at posts abroad, and diminish the influence of diplomats in a scenario where “the DAT [defense attaché] becomes the most important person at the Embassy, even more than the Ambassador.” Providing additional security assistance through DOD under Section 333 rather than through the State Department would continue recent trends: DOD-managed security assistance accounts have grown from $8.5 billion in FY14 to $11.2 billion in the FY18 request, while State-managed security assistance accounts have decreased from $8.6 billion in FY14 to $7.1 billion in the FY18 request.

In the FY17 omnibus, appropriators require a report from the State Department on the potential impact of transitioning FMF assistance from grants to loans, including “the budgetary and diplomatic impacts, and the extent to which such a transition would affect the foreign policy interests of the United States. That report was due to Congress in early July, though at the time of publication it has not yet been submitted.

Administration officials interviewed for this report noted that the U.S. government has little institutional memory on how to manage FMF loans; with the exception of a $2.7 billion FMF loan to Iraq, FMF loans have not been widely used as a financing mechanism since the 1980s. Historically, efforts to offer FMF loans to countries around the world in the 1980s created a number of problems both for recipient countries and the U.S. government. Due to widespread lack of repayment, $26.4 billion in FMF loans was outstanding in 1988. According to the GAO, at least 14 foreign governments’ loans were refinanced at concessional interest rates over the next few years, with costs to the U.S. government totaling $1.8 billion. At least nine countries were sanctioned during this time period for defaulting on repayment of U.S. loans. Egypt and Israel also took on more than $15.7 billion in FMF loans until they were shifted to a grant basis in 1985, and many of those past loans were either restructured or forgiven.

Under the proposal in the FY18 budget request, all countries would be eligible for FMF loans from the U.S. government. However, the best terms offered (repayment over 12 years at a 5 percent interest rate) may not be competitive against loans offered by other countries on the global market. And for poorer countries with bad credit, the terms of FMF loans would have to be even stricter, requiring higher interest rates. Administration officials have suggested that the proposed $200.7 million global fund could be used to contribute to the subsidy cost of the loan in order to improve the terms.

But many officials in the administration and in Congress have expressed serious reservations with a large expansion of FMF loans, particularly with the long-term implications for countries unable to repay the loans. Drawing on the lessons from the 1980s, they suggested it might even be irresponsible of the U.S. government to offer loans to countries for large military purchases knowing the high risk of default on those loans, and the broader impact that could have on foreign countries’ economic stability. There are a few wealthier countries that now receive very small FMF grants either as a relic of the Cold War era (Czech Republic and Poland) or as a sign of political support (Bahrain and Oman). It could make sense to graduate these recipients to FMF loans, but most FMF recipients are relatively lower-income and ill-suited for such a change.

Another claimed benefit of shifting to loans, i.e. “potentially allowing recipients to purchase more American-made weaponry with U.S. assistance,” is largely untested. With the exception of Iraq, which applied all $250 million of the FMF grant it received in FY16 to the subsidy cost of a $2.7 billion loan, there are no other recent examples of recipient countries of FMF grants using them to increase their purchasing power in the form of loans. Administration officials have sent surveys to diplomatic posts overseas to gauge foreign governments’ interest in FMF loans.

In many ways, requiring more than 50 countries to shift from FMF grants to loans would be a massive change in how the U.S. develops and maintains its strategic partnerships around the world, and many countries would likely look elsewhere to diversify their defense suppliers. On the other hand, the administration’s decision to exempt the four largest recipients of FMF grants (which together receive approximately 80 percent of the world’s FMF) means that the bulk of the costs of the FMF grant program is not being closely re-examined at all. Egypt’s military assistance package, which is discussed in greater detail in the country section on page 34, is severely outdated and should be one of the first places the administration looks when trying to restructure military aid to more closely align U.S. strategic interests with investments of U.S. tax dollars. Some Congressional staff suggest that this year’s FMF loan proposal could have that unintended consequence: if more than 50 countries are seeking to convince appropriators to maintain their FMF grants, it puts extra attention and pressure on the four exempted countries to justify why they should have their FMF grants maintained at the same level. Of those four, Egypt is perhaps the most obvious target as it has the second largest FMF package in the world ($1.3 billion), lacks the level of broad Congressional support enjoyed by Israel and Jordan, and its FMF package has long been widely criticized as outdated.

Some congressional staff suggest that the proposal is unlikely to be implemented, for all of the reasons mentioned above, along with the absence of any serious effort by the administration to convince Congress of the merits of the change. Although FMF loans may make sense for a few small-dollar, legacy recipients of FMF grants, the proposal is unlikely to be adopted in the wide-ranging manner proposed. Regardless, the broader trend of security assistance increasingly implemented by the DOD rather than the State Department should be closely watched by congressional appropriators, both for the impacts of this shift on U.S. diplomacy as well as the lower levels of oversight and transparency surrounding DOD-managed security assistance.
OFFICE OF NEAR EASTERN AFFAIRS ASSISTANCE COORDINATION (NEA/AC) AND THE MIDDLE EAST PARTNERSHIP INITIATIVE (MEPI)

In June 2014, the State Department created the Office of Assistance Coordination in the Near Eastern Affairs Bureau, which replaced the Office of the Special Coordinator for Middle East Transitions that had been established in 2011 to oversee the U.S. assistance response for Egypt, Libya, and Tunisia following the Arab uprisings. This new office, referred to as NEA/AC, was established to improve coordination of all assistance for the region provided through appropriations for the State Department, Foreign Operations, and Related Programs, including all USAID-managed assistance. In fiscal year 2017, the NEA/AC office expects to obligate more than $142 million to support economic development, good governance, education, democracy programs, and human rights reform in 20 countries in the region.50

As described in previous editions of this report, NEA/AC also absorbed the Office of the Middle East Partnership Initiative (MEPI), a move seen as controversial by many in the pro-democracy community. While administration officials have defended the integration as a practical decision to coordinate assistance and share institutional knowledge more broadly, outside observers have been frustrated by the lack of clarity regarding its mission, priorities, and role. Many of these critics have worried that the absorption of MEPI into NEA/AC, paired with a steadily decreasing budget for MEPI, has diminished its historic role as a pro-democracy, pro-civil society actor within the NEA bureau.

While MEPI spent $66.5 million on programs in FY16, this year’s budget request includes only $25 million for MEPI, a cut of more than 62 percent. If enacted, this funding level would represent the lowest level since MEPI was established in 2002, when the Bush administration reprogrammed $29 million in FY02 funds to launch the Initiative. This appears to reflect the generally diminished appetite for supporting independent civil society and other reform-oriented programs, as well as declining support for MEPI in particular.

Not only is MEPI’s overall budget request down 58 percent from the FY17 request, but the objectives prioritized in the FY18 budget request are dramatically reordered. This year’s request proposes that 74 percent of MEPI’s budget be spent on economic growth programs, a significantly higher proportion than at any time in the past. Historically, the primary emphasis of MEPI’s programing has been democracy and governance: the proportion of MEPI’s budget dedicated to the GJD objective ranged from 42 to 83 percent over the period from FY06 to FY17, while the proportion of MEPI’s budget dedicated to economic growth never exceeded 19 percent during that same time period. This shift is in line with widespread perceptions that MEPI is steadily moving away from its previous focus on supporting democracy and governance.

In previous years, State Department officials were defensive about criticism from the democracy community that MEPI was getting “out of the democracy game,” but that now seems to be more clearly acknowledged. MEPI officials describe the top priorities of the initiative as promoting stability and economic opportunity, including some governance programming to reinforce those priorities. And they state clearly that MEPI programs no longer champion human rights or fundamental freedoms, instead leaving such work to the DRL bureau.

In the past, MEPI had been especially proud of its open and public partnerships with local actors across the region, including independent civil society and pro-reform voices. But direct support for civil society has grown much more

difficult as autocratic governments across the region have moved to close the political space for such groups to operate. As a result, such public, visible support has become less practical, in favor of the quieter approach preferred by other mechanisms such as DRL or the NED in restrictive or closed countries. NEA officials interviewed for this report said that MEPI has “taken sides” in the past by supporting civil society when not welcomed by the host governments, but that this approach had backfired and that MEPI would no longer “take sides” in this way. Of course, such a shift would be described by democracy advocates in the region as merely choosing to side with the repressive governments in the region rather than with pro-democracy actors.

Indeed, MEPI now appears to be working to improve its relationships with host governments in the region and consequently to support projects welcomed and encouraged by those governments. MEPI officials now describe the governments of Algeria or Kuwait as “willing partners” that value the need and benefit of MEPI to help address bloated public sectors through work on regulatory reforms and with entrepreneurs.
State Department officials defended the dramatic reorientation of MEPI's work toward support of entrepreneurship and economic growth programs as “rightsizing” and being responsive to local needs. For example, working with public-private partnerships is cited as an example of innovation through leveraging private sources of funding to expand the impact of U.S. government assistance, and they note that funding opportunities for entrepreneurship see much higher response rates than those focused on democracy and governance or education. Rather than supporting democratic reform programs that could be viewed as confrontational by repressive governments, their goal is to work with states to open space for entrepreneurs and enhance relations with citizens in the private sector. NEA officials contend that MEPI continues to take risks and carry out controversial programming, such as projects with sex workers in the region. But while this work on issues may be viewed as “taboo” or controversial according to societal norms, it is clear that MEPI no longer seeks to support programs opposed by the host governments.

Some members of the democracy community criticize this approach as a self-imposed rebranding effort in an attempt to better sell MEPI's mission to a new administration less interested in supporting democracy in the region. Many observers expressed frustration with the reticence of NEA/AC and MEPI to program available FY17 funds due to fears of potential cuts in FY18. Coupled with the absence of a Senate-confirmed Assistant Secretary to lead the Bureau of Near Eastern Affairs, there is a lack of policy direction that is leading to many inquiries about potential new funding opportunities, but few of those inquiries seem to materialize into concrete Notices of Funding Opportunities (NOFOs). As a result, some members of the democracy promotion community described programs administered by NEA/AC as “running on fumes” as MEPI is second-guessing what programs they should fund and how they should present them to leadership at the State Department and OMB.

As in the past, a portion of MEPI's budget remains allocated to providing support for their local grants programs, which give small grants directly to nascent civil society organizations as well as “to directly develop partnerships and empower women on both the national and local levels between government officials, businesses, civil society, and citizens to advance our interests in stability and prosperity.” In addition, Congress is likely to renew its perennial earmark of $12 million for MEPI's funding for scholarships for Arab students to attend American universities in Cairo and Beirut. MEPI officials said they want to continue working on educational enhancement and leadership development programs (such as the Leaders for Democracy Fellowships and Tomorrow's Leaders program), and redouble efforts to strengthen support to alumni of such programs afterward. For example, an aspiring Arab student who participated in the LDF program that went on to start a local initiative could be funded by MEPI's Local Grants program, incubating the organization until it developed enough capacity to graduate and seek larger sources of financial support.

Some congressional staff and former State Department officials have long expressed their desire to eliminate this earmark so that MEPI could have greater flexibility in its educational programming. One congressional staffer interviewed for this report criticized the English-language requirement of these scholarships as only benefitting the wealthy elite in these countries who do not need scholarships, and suggested the three American universities that benefit from the earmark receive a significant windfall in tuition revenue from the funds. More broadly, if MEPI's budget is enacted at the $25 million level requested in FY18, and $12 million of that is earmarked for scholarships, the $13 million remaining for programming across the entire region would be spread too thin to have any real impact.

Since its integration into NEA/AC in 2014, MEPI has made some progress in its communication and outreach to the pro-democracy community to more clearly define its strategy and priorities in the region. But that clarity has come with an affirmation of some of what democracy advocates had feared would happen to MEPI – it has lost its former identity as a strong pro-
reform office within NEA that was willing to support independent pro-democracy actors across the region without the need to maintain close relationships with host governments.

In addition to the shifts in MEPI’s programming, MEPI also no longer plays the pro-reform role in policymaking that it once did. MEPI staff interviewed for this report acknowledge that the initiative is now a tool for implementing policy rather than influencing what U.S. policy in the region will be. MEPI is no longer a pro-reform voice within policy debates in the State Department, and it is shifting from its historic role of backing independent democracy voices in the region to an approach that largely hinges on cooperation with autocratic governments. MEPI continues to run smaller-scale, more flexible programs than USAID, and continues to have programming in countries where USAID’s presence is limited. But it is no longer willing to support programs that it views as important to reform if those programs would be perceived as confrontational by the host governments.

Eight years ago, during the transition to the Obama administration, there were serious questions as to whether MEPI – an initiative created by the Bush administration – would survive the transition and be supported by the Obama administration. The Obama administration put these questions to rest in its first budget, by requesting $86 million, a 72 percent increase over the existing budget at the time. MEPI continued to grow during the early years of the Obama administration, before this trend was reversed in President Obama’s second term, during the tenure of NEA Assistant Secretary Anne Patterson. The absorption of MEPI into the NEA/AC Office and its shift away from more confrontational pro-democracy programming seemed to diminish its stature and importance within the Department, an impression reinforced in the Obama administration’s final budget request for FY17, which included the smallest budget allocation for MEPI of the administration’s eight years.

Today, the fate of MEPI – and perhaps also of the NEA A/C Office more broadly – under the Trump administration will likely be tied to larger decisions about reorganizing and restructuring the State Department. But the sharp budget cut requested for FY18, along with lagging Congressional support, certainly calls the Initiative’s future into question once again. Amid the debates on MEPI’s future eight years ago, a Brookings Institution paper made the case that “Dismantling MEPI would certainly ‘press the reset button’ on America’s democracy diplomacy in the Middle East, but it might also suggest to regional governments that they can begin to repress with impunity.” Although MEPI has not yet been formally dismantled, the changes that it has undergone in recent years are part of a broader move away from confronting autocratic governments over their domestic repression, a move that has unsurprisingly coincided with those governments brutally repressing with impunity.

USAID MIDDLE EAST REGIONAL (MER)

As noted in last year’s edition of this report, the Middle East Regional (MER) is “largely a bureaucratic and budgetary heading referring
to an allocation of funds to USAID for the MENA region, outside of the bilateral assistance packages to specific countries.” While not a self-contained program or initiative, it generally fulfills the roles previously played by USAID’s now-closed Office of Middle East Programs (OMEP) at the Embassy in Cairo, which focused on regional and cross-border programs, and also plays a role in some additional democracy and governance programming.

USAID’s Middle East Bureau manages MER activities, with staff based in Washington and Frankfurt. According to USAID employees interviewed for this report, there are now approximately 16 staff based in Frankfurt and working on the MENA region, including individuals focused on Libya, Yemen, and Lebanon, as well as a number of technical experts including regional democracy and economic specialists.

The FY18 budget request describes the MER’s purpose as “the design and [management of] regional assistance mechanisms that field missions can utilize quickly when challenges or opportunities warrant immediate actions, thereby expediting the field’s ability to respond.” In other words, MER designs frameworks for substantive programs on a range of subjects and
needs, to which other parts of the assistance community may “buy in.” This is significant “for limited and non-USAID presence countries that often do not have the time or staff to design and award stand-alone programs.” Because they are not mandated for use in a specific country ahead of time, like the bilateral accounts, funds allocated under the MER heading have also provided USAID with needed flexibility to respond to volatile and unpredictable needs that have arisen in recent years.

The FY18 request appears to raise significant questions about the future of the MER heading and programs, seeking only $5 million, including $1.2 million for Peace and Security, $1.5 million for GJD, $1.5 million for Economic Growth, and $800,000 for Investing in People. The budget request describes potential programming as including “accountable governance and stabilization (including education), economic reform and job creation, and CVE.” The FY17 request sought six times ($30 million) the Trump administration’s FY18 request. Between FY09-FY16, MER’s budget request steadily grew, with the Obama administration requesting a peak of $40 million in FY16. Newly released spending figures show that only $11.9 million of the FY16 funding was spent, 30 percent of the initial request. Most of the discrepancy is attributed to only $1.2 million (5 percent) being spent on Economic Growth, compared to the $22.3 million requested for the objective. Additionally, only $1.5 million (18 percent) of the $8 million for GJD programming has been spent. Officials interviewed for this report noted that the underspent MER in FY16 was due to a shift to the aforementioned “buy-in” approach, which focused on using MER funding to set up programs which country missions can then buy into using bilateral funds. They added that this approach is consistent with a shift of program management and budgets to the country-level, especially where in-country presence is growing, such as in Tunisia.

Additionally, a portion of MER funds were designated for Civil Society Innovation Centers in the past, including $3.6 million FY17 and $5 million for FY16. The centers were originally announced as part of President Obama’s “Stand with Civil Society” initiative announced in September 2014. The FY18 budget request makes no mention of these centers, and it remains uncertain whether the Trump administration will continue to support them. The centers do remain a USAID project, for the time being at least, although the location of a center for the MENA region has still not yet been determined. Such a center could potentially be important both for providing practical support and for sending a signal of the importance of civil society as the space rapidly closes for such groups in the region. But as is the case with a variety of initiatives and programs, the fate of these civil society centers will likely be determined in conjunction with larger decisions about potential restructuring of USAID following the strategic review now underway.

BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR (DRL)

The Bureau of Democracy, Human Rights, and Labor (DRL) leads efforts within the State Department to advance human rights including labor rights, promote democratic institutions and the rule of law, and protect fundamental freedoms, including religious freedom. Perhaps most well known for producing the State Department’s annual congressional reports on human rights, child soldiers, labor, and international religious freedom practices, the bureau also carries out a variety of democracy and governance programs worldwide, with a particular focus on protecting human rights and supporting civil society. Consistent with the administration’s emphasis on countering terrorism, the section of this year’s budget request regarding the DRL bureau notes: “Antidemocratic attributes, such as the denial of fundamental freedoms, create conditions ripe for instability and extremism and result in regional or global disruptions which often have direct implications for U.S. national security.”

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The FY18 budget request includes $50 million for DRL programming globally, the lowest amount requested for DRL's budget since FY06 when the Bush administration requested $27 million. Throughout that same period however, Congress has granted a higher level of funding for DRL than requested by the administration each year, and Congressional support has only grown stronger within the past few years. Funding allocated to DRL will support religious freedom programs, transparency and labor rights programs in China, Internet freedom programs, and support the work of the UN High Commissioner for Human Rights (UN OHCHR). Not mentioned in this year’s budget request are DRL’s rapid response programs, including: Lifeline (provides emergency assistance to civil society organizations); Dignity for All (for LGBT activists); Justice Defenders (to assist human rights lawyers); Protection for
Journalists Initiative (to provide training on how to operate safely in difficult environments); and the Global Gender-Based Violence Initiative (for survivors of the most egregious cases of gender-based violence). In FY17, DRL’s request included $9 million for these programs, which was a 50 percent increase over the FY16 level for Lifeline programs. Since 2011, DRL officials interviewed for this report stated that the Lifeline Fund has provided targeted assistance to 1,131 CSOs operating in 101 challenging countries.

The FY18 request does note that DRL actual spending in FY16 was $93.5 million; $88.5 million of this amount was earmarked by Congress under the Democracy Fund heading. In recent years, Congress has steadily increased overall funding under the Democracy Fund heading, which is divided between DRL and USAID/DCHA. In FY17, Congressional appropriators increased funding significantly for the Democracy Fund, from $150.5 million to $210 million.5 Moreover, nearly all of this increase is earmarked for DRL – of the $60 million increase, $56.9 million is designated for DRL, with only $3.1 million designated for USAID/DCHA.

The FY17 omnibus appropriations act notes under the Democracy Funding heading: “funds appropriated under this heading that are made available to the National Endowment for Democracy and its core institutes are in addition to amounts otherwise available by this Act for such purposes,” and the explanatory report requires DRL’s Assistant Secretary to consult with the Appropriations committees on the intended uses of the $56.9 million increase in funds. Some administration officials interviewed for this report understood that language to mean that Congress intends for this $56.9 million increase to DRL to be provided to the NED and its four core institutes (National Democratic Institute, International Republican Institute, Center for International Private Enterprise, and the Solidarity Center). Other observers have suggested that interpretation is but one possibility, as DRL could provide some of that additional funding to NED and the core institutes, and also program some of those funds to other DRL programs and initiatives.

In addition to the $145.4 million from the Democracy Fund in FY17, DRL was also mandated by Congress to manage a number of congressionally-earmarked programs funded through other accounts, including: $6.5 million for forensic assistance, $15 million for democracy, rule of law, and environmental programs in China. Of the $145 million in the Democracy Fund, $13 million is designated for Internet freedom, and $10 million for international religious freedom. Altogether, after this process, DRL is responsible for programming at least $166.5 million globally in FY17, a significant increase over its level of funding in any previous year.5 DRL is also often responsible for programming funds transferred from separate country-specific ESF accounts, which will likely increase this overall figure even further.

This year’s budget request also includes new language suggesting DRL will be able to reduce U.S. funding levels for multi-stakeholder engagements “in accordance with improved burden sharing by other members of the community” to a number of global platforms, including the Community of Democracies (CD), the Freedom Online Coalition (FOC), and the Open Government Partnership (OGP). State Department officials interviewed for this report were surprised at this language, noting that U.S. contributions to those platforms in the past were only very small amounts, in the range of $250,000-$500,000 contributions toward initiatives with multi-million dollar annual budgets. For example, the last published U.S. government contribution (as of June 2016) to the Open Government Partnership was $350,000 in 2015, when OGP’s annual budget was $5.5 million.55

This funding cut is proposed to come out of DRL’s

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54 According to federal budget documents, DRL was allocated $166.6 million in FY08, but this included $99.2 million for the National Endowment for Democracy. Both prior and since FY08, funding for the NED has been allocated in its own separate account.
55 For high income countries such as the United States the minimum contribution level is $100,000 and the recommended contribution level is $200,000. For the Community of Democracies, each of the 30 member states of the Governing Council (including the United States), make voluntary financial contributions.
budget for its operating costs, the Diplomatic and Consular Programs (D&CP) budget line, rather than from the ESDF funds that support its programming. The FY18 request for DRL under the D&CP account is $34.5 million, a $1.7 million decrease below the FY17 estimate; cost savings are intended to come from “careful stewardship of limited travel and contract resources.” Officials interviewed for this report said that such a directive could impact travel of DRL’s front office policy officials, but not the programming staff who travel to conduct program oversight (as such travel is normally covered by programmatic ESF). They also suggested that limitations on contract resources could impede their ability to hire short-term contractors (often retired State Department officials) who help produce the department’s annual human rights and international religious freedom reports.

DRL officials describe the bureau’s comparative advantage over USAID, MEPI, and INL programming in the region as including the ability to do discreet, thematic regional programs, as most of its funding is not tied to country-specific accounts. DRL often takes the lead in supporting local NGOs in restrictive environments, as USAID and INL programs often rely more heavily on close working relationships with host governments, while MEPI’s brand of public partnerships with civil society only works in permissive environments. DRL officials estimate that more than $87 million will be spent in the MENA region from FY16 funds, with key countries including Iraq ($18 million), Syria ($6 million), Tunisia ($9 million), Libya ($3 million), and Yemen ($3 million).

Indeed, the Trump administration’s first budget does aim to move in that direction by requesting only $50 million for DRL, the lowest request in the past decade. In addition, the Department-wide hiring freeze that has been in place since January 2017 poses a particular challenge for the DRL bureau, in light of Congress significantly increasing its budget in the FY17 Omnibus Appropriations Act. State Department officials acknowledged the challenges of managing such a large increase in programmatic funds without being able to hire additional staff. Even when the hiring freeze is lifted, Secretary Tillerson has said that they would probably adopt a 1:3 hiring requirement where any new hire must
be preceded by three departures, which could continue to impede the bureau's ability to effectively program its additional funds.

The DRL bureau could potentially prove to be a source of friction between Congress and the administration, as a place for Congress to demonstrate its support for democratic values abroad to an administration perceived to be uninterested. It seems likely that Congress will once again support DRL with a significantly higher level of funding than requested in FY18, but it remains to be seen whether administration policies will continue to impede the programming of these additional funds. Another key element to observe in this regard will be the administration's upcoming nomination of an assistant secretary to lead DRL. As a Senate-confirmed position, the nomination and confirmation process of an assistant secretary could present another opportunity for the Senate to signal the importance of DRL and of democracy and human rights as central elements of U.S. foreign policy.

NEAR EAST REGIONAL DEMOCRACY FUND (NERD)

Following the May 2017 landslide re-election of Iranian President Hassan Rouhani, Secretary of State Rex Tillerson expressed the hope that Rouhani will end Iran's material and financial support for terrorist groups and that he will restore “the rights of Iranians to freedom of speech, to freedom of organization, so that Iranians can live the life that they deserve.”

As Tillerson's remarks came in Riyadh while standing next to Saudi Arabian government officials, many questioned the human rights criticism, particularly in the absence of any such criticism whatsoever regarding human rights in Saudi Arabia. Acting Assistant Secretary of State for Near Eastern Affairs Stuart Jones drew widespread media attention for his difficulty in justifying this discrepancy when asked during a press briefing soon thereafter.

U.S.-funded democracy and human rights programs for Iran are conducted in large part through the Near East Regional Democracy fund (NERD). Established in March 2009 as the successor to the Bush administration’s Iran Democracy Fund, NERD funding is not legally mandated to be spent on Iran but is generally understood as provided by Congress for that purpose.

The Trump administration’s FY18 budget request of $15 million would be a 50 percent reduction compared to the FY17 request ($30 million). This is the first cut sought for the fund after five consecutive budget requests seeking $30 million for the account (FY13-FY17). The budget request states that funding would support freedom of expression and human rights advocacy efforts, as well as “innovative digital media tools” for transparency and secure communications.

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However, while Congress has consistently supported the fund — routinely exceeding the Obama administration’s budget requests by a few million dollars — one congressional staff member interviewed for this report expressed doubts that $15 million in funding could have a meaningful impact. If the administration had a policy goal to support democracy and human rights, this staff member stressed, there needed to be a “go-big-or-go-home” mentality that devoted significantly more resources, accompanied by political will to support more confrontational approaches.

Congress will ultimately decide the funding level of the NERD account, but the larger focus will remain on the Trump administration’s broader policy approach toward Iran. In May 2017 in Saudi Arabia, President Trump declared that, “All nations of conscience must work together to isolate Iran, deny it funding for terrorism, and pray for the day when the Iranian people have the just and righteous government they deserve.”59 For now, it is unclear to what degree the repression of human rights and democracy in Iran—as opposed to broader geopolitical concerns—plays a role in informing the administration’s view of what a “just and righteous government” in Iran might look like.

While it receives an annual appropriation from Congress, the National Endowment for Democracy (NED) is an independent, nongovernmental institution “dedicated to the growth and strengthening of democratic institutions around the world.”60 It receives oversight from Capitol Hill as well, where historical bipartisan support remains strong. The 2016 NED annual report describes its support for the MENA region as a three-pronged approach which strengthens the capacity of nascent think tanks, promotes networking and collaboration at the national and regional level, and develops promising policy analysts and experts.

The FY18 budget request proposes $103.5 million for the NED, renewing the request levels of the Obama administration, which were regularly exceeded by supporters in Congress.


Interestingly, this year’s budget request includes a suggested breakdown of the NED budget allocation, which includes $16.6 million (16 percent) for the Middle East and North Africa. This is the second-largest proposed regional allocation for NED funding, behind only Asia ($18.4 million). Additional funding from multiregional programs would increase the portion of the NED budget devoted to the Middle East. The last time such a regional breakdown was included in the budget request was FY13, when the Obama administration proposed $17 million of the $104 million requested go toward the MENA region directly.

Congress exceeded the NED budget request for the tenth consecutive year in FY17, appropriating $170 million. This amount matches the FY16 spending level. Congress appropriated $135 million to the NED in each of the 2014 and 2015 fiscal years. Increases in funding since FY09 reflect the views of key members of Congress who generally prefer the NED’s approach to democracy promotion, which emphasizes bolstering civil society and support for local grantees, over those of U.S. government agencies. The FY17 figure includes $117.5 million for the “traditional and customary manner,” which includes support for the NED’s four core grantees—the International Republican Institute (IRI), the National Democratic Institute (NDI), the Center for International Private Enterprise (CIPE), and the Solidarity Center.

The remaining $52.5 million is designated for other democracy, human rights, and rule of law programs. This additional funding allows the NED to pursue new programs that are thematic and global in scope. These programs may include initiatives to respond to closing space for civil society, to confront the spread of extremism, to address systemic corruption and kleptocracy, to help support a new generation of emerging civic leaders, and to support digital rights, freedom, and security in the MENA and other regions. Additional funds will be used for a contingency account to respond quickly to rapid political change.

Despite governments’ efforts across the region to restrict independent civil society, many indigenous organizations still show a strong need and desire for outside assistance, even in the most restrictive environments. But growing legal obstacles and impediments in numerous countries such as Algeria, Egypt, and several Gulf states present enormous challenges for such programming. In spite of the challenges, the NED is more able to provide support in such environments than government agencies such as USAID or MEPI. As such, the NED has sought to emphasize programming in countries and program areas where support from U.S. government agencies is reduced. With the current uncertainty and proposed further cuts to democracy and governance programming through the State Department and USAID, the NED could play a valuable role in maintaining support for democratic actors in the region.

### HIGHLIGHTS

- The Trump administration’s budget proposal for the NED mimics low requests seen under the Obama administration that were regularly exceeded by Congress.
- The NED’s ability to support civil society in increasingly restrictive environments continues to be critical for the MENA region.
Most U.S. democracy and governance programs in the Middle East and North Africa (MENA) are funded by several hundred million dollars from the Governing Justly and Democratically (GJD) assistance category and are administered by USAID. USAID also administers many bilateral economic aid programs in the Middle East. Six countries in the region host USAID missions: Egypt, Iraq, Jordan, Lebanon, Morocco, and the West Bank and Gaza. The USAID mission in Yemen is closed due to the ongoing conflict. Tunisia and Libya do not have formal missions, but USAID staff members work from the U.S. embassy in Tunis on both countries while the U.S. embassy in Tripoli remains closed.

The forthcoming sections describe U.S. assistance—including for GJD, economic reform and development, security assistance, and humanitarian aid—to these locations, along with assistance for Syria, which does not have a USAID presence. Syria has not traditionally been a recipient of U.S. assistance until recently, but the United States now spends significant resources on the conflict.
HIGHLIGHTS

- In a year of significant and widespread budget cuts, the FY18 budget request for Egypt is notable in that it proposes to maintain Egypt’s aid package without any significant changes.

- Widespread frustration with President al-Sisi’s ratification of Egypt’s draconian new NGO law has prompted consideration, for the first time, of a comprehensive review of the U.S. economic assistance package to Egypt.
• For the first time in more than thirty years, all of the remaining payments for Egypt’s outstanding contracts can be paid off without obligating any additional FMF.

• In the absence of contractually-binding payment schedules which have required Egypt’s FMF to be renewed at $1.3 billion annually for years, Congress has a major opportunity in FY18 to introduce major, long-overdue changes to Egypt’s military assistance package.
More than six years after the revolution that overthrew Hosni Mubarak, Egypt under President Abdelfattah al-Sisi has reverted to a military-backed authoritarian state. Repression and human rights violations occur at unprecedented levels, with mass imprisonment of suspected Muslim Brotherhood supporters and thousands of others viewed by the regime as opponents or even critics. Civil liberties have been rolled back and incidents of violence and terrorism are on the rise, while Egypt continues to detain American citizens as political prisoners and crack down on Egyptian and international civil society organizations. The security environment has worsened in the Sinai and across the country, and the economy continues to deteriorate despite the infusion of billions of dollars in Gulf aid and a $12 billion IMF loan.

In the context of these troubling developments, key figures in the Trump administration have been eager to strengthen relations with Egyptian President al-Sisi as a key ally in the fight against terrorism. In April 2016, then-General Mattis, now Secretary of Defense, said “the only way to support Egypt’s maturation as a country with civil society, with democracy, is to support President [al-Sisi].” During al-Sisi’s April 2017 visit to the White House, President Trump stated “we are very much behind President [al-Sisi]; he has done a fantastic job in a very difficult situation.” While many observers in the democracy community were very critical of the Obama administration’s inconsistent and weak policy on human rights in Egypt, the public posture of unconditional support from the Trump administration is alarming at a time when al-Sisi’s government is more repressive than ever.

Prior to President al-Sisi’s April 2017 visit to Washington, Foreign Minister Sameh Shoukry visited Washington to lay the groundwork for al-Sisi’s meetings, including sharing a long and detailed “wish list” of requests from the U.S. government. This list included changes to Egypt’s foreign assistance package: the restoration of cash flow financing, waiving of existing conditions on Egypt’s remaining FY16 military aid, increased military and economic assistance without conditions, financial support for debt relief or a loan guarantee. Officials interviewed for this report said that this list of requests was quietly dropped ahead of al-Sisi’s visit, and these requests were not raised in his private meeting with President Trump. One request that President Trump did reportedly make of al-Sisi was to release Aya Hijazi, an American citizen jailed in Egypt for three years. A few weeks after al-Sisi’s departure, Hijazi and her husband were acquitted of all charges, released from prison, and relocated to the United States.

Although President al-Sisi came and left Washington without any new tangible commitments from the Trump administration on U.S.-Egypt aid, it was not because those

63 One benefit the Trump administration did provide to Egypt after al-Sisi’s visit (detailed further below) was to exempt Egypt from a global decision to shift FMF recipients from grants to loans. Egypt was not initially exempted from this decision in March 2017, but the list of exempted countries for which the administration requested FMF grants was quietly updated to include Egypt in May 2017.
requests were rejected outright. Once it was clear that such commitments were unlikely to be secured during al-Sisi’s visit, the Egyptian government may have seen the visit as an opportunity to build a relationship with President Trump that could be capitalized on to extract some of these financial commitments at a later date, perhaps when President Trump makes an official visit to Cairo.

In a year of significant and widespread budget cuts, the FY18 budget request for Egypt is notable in that it proposes to maintain Egypt’s aid package without any significant changes. Both Egypt’s economic and military assistance packages from the United States have been increasingly criticized in recent years as outdated and ineffective, which would make them ideal candidates for significant changes in a year when the administration is looking to dramatically overhaul U.S. foreign assistance.

**MILITARY AND SECURITY ASSISTANCE**

When the White House first released the broad outlines of its FY18 budget request in March, many observers were surprised at a new proposal to move all foreign military financing (FMF) grants to loans, with Israel as the lone exception. FMF grant funding to Egypt has held constant at approximately $1.3 billion per year since the mid-1980s, and moving that FMF to a loan basis would be the first time Egypt would be asked to repay its FMF since the early 1980s. But when the administration released its more detailed FY18 budget request in May 2018, the Trump administration expanded the list of countries exempted from the move to FMF loans for “key strategic partners” beyond Israel, including a request for a $1.3 billion FMF grant for Egypt (for further discussion of the broader proposal to convert FMF grants to loans, please see the section beginning on page 17).

In addition to the $1.3 billion in FMF, the FY18 budget request includes $75 million in Economic Support and Development Funds (ESDF). Economic aid to Egypt has been declining steadily for the past two decades, including throughout the Obama administration. ESF for Egypt declined from $411 million in FY08 to a historic low of $112.5 million in FY17. As a result, whereas economic assistance was 24 percent of Egypt’s bilateral assistance in FY08, it is today only five percent of bilateral funding in the FY18 budget request. Correspondingly, the portion of Egypt’s bilateral aid dedicated to military and security assistance has increased from 76 percent in FY08 to 95 percent in the FY18 budget request.

In addition to ESF and FMF, Egypt also receives small amounts of INCLE funding. Administered by the Bureau of International Narcotics and Law Enforcement Affairs (INL) at the State Department, $2 million in INCLE funding is designated to support work with the Office of the Public Prosecution in Egypt to improve their ability to investigate and prosecute cases. This programming has grown more controversial as the Office of the Public Prosecution has increasingly become an important tool of the regime for repressing dissent, including by targeting peaceful critics of the al-Sisi regime.64 Despite criticism of the prominent role of this office, U.S. officials assert that all of the Egyptian prosecutors participating in the program are vetted “change agents” who want to ensure prosecutions rely more on evidence than confessions (which historically have often been extracted by torture at the hands of Egyptian police or intelligence officials). But critics have noted that years of such programming have not resulted in any visible improvement in the conduct of the office. INL funds would also

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support training of the judiciary on sexual and gender based violence and criminal forensics.

**ECONOMIC ASSISTANCE**

Regarding Egypt's economic assistance, Congress has designated $60 million annually since 2012 from Egypt's ESF for the Egyptian-American Enterprise Fund (EAEF), until the fund is fully capitalized at $300 million. According to its annual report for 2016, the EAEF has received $212 million of this funding. The Fund is intended to invest in small and medium-sized enterprises (SMEs) to benefit Egypt's development. Previous editions of this report noted that as of January 2016, the EAEF had made only two investments, in part because the Egyptian Central Bank rejected EAEF’s attempt to purchase a bank that would lend money to small and medium enterprises (SMEs). According to testimony from EAEF Chairman James Harmon in June 2017, the Fund has now invested a total of $98 million in three Egyptian companies and one Egyptian venture capital firm.

One U.S. official interviewed for this report expressed skepticism of the limited impact of EAEF investments. While those investments may enrich some individuals and companies in Egypt, they are not likely to have a large-scale macroeconomic impact to create jobs for millions of unemployed Egyptians. The final $60 million tranche of funding for EAEF has not yet been delivered, which this official suggested should instead be reprogrammed to other needs in the region. On the other hand, one congressional staffer said the EAEF is practically the only current ESF-funded program in Egypt that was showing a real return on investment, and suggested additional funding should be provided to continue the program.

The amount of democracy and governance programming in Egypt continues to decrease, from $50 million or more annually from FY06 to FY08 down to only $7.8 million requested for FY18. Reflecting the highly sensitive programming environment, some of the U.S. government’s funding announcements for democracy activities in Egypt are not made public, and as implementation has become increasingly difficult, applicants are required to submit both contingency and security plans in their proposals.

The amount of democracy and governance programming in Egypt continues to decrease, from $50 million or more annually from FY06 to FY08 down to only $7.8 million requested for FY18.

And with the signing of a draconian new NGO law further restricting the work of civil society organizations and outside funding for their activities, coupled with the intense and escalating crackdown on NGOs (including freezing their assets), it is uncertain whether even this modest amount requested for GJD in FY18 can actually be spent in Egypt. One congressional staffer suggested that a portion of Egypt’s ESF be “fenced off” to create some type of trust fund for Egypt’s pro-democracy NGOs, supporting the work of those forced into exile to continue operations while providing a reserve fund from which to support democracy work when conditions in Egypt improved enough to allow pro-democracy voices to return to the country.

While the Obama administration took some initial steps to open the door for restructuring Egypt’s military aid package, neither the administration nor Congress has taken any concrete steps to forge a coherent approach to Egypt’s economic aid. As Amy Hawthorne, deputy director for research at POMED, noted:

“The operating environment has become ever more inhospitable for donors as the military-backed government has imposed new security controls and pursued nationalist policies that run counter to U.S. hopes for a more open economy and political system. U.S. assistance often is attacked in the state media as part of an effort to destabilize or even destroy Egypt. Recently, the United States transferred, in an unprecedented move, more than $100 million to other countries because it was impossible to carry out the planned projects in Egypt...The United States reduced the aid not because Egypt no longer needs foreign assistance, but because of disagreements with Egypt over the aid program and difficulties in spending all the funds.”

Although the size of the backlog of ESF has shrunk over the past year, $400 million still remains unspent due to political instability, multi-year commitments for scholarship programs, and lack of cooperation by Egyptian government interlocutors. Administration officials interviewed for this report estimated that approximately $200 million of the backlog is related to the Higher Education Initiative (HEI), which requires obligation of funding for multi-year scholarships up front, but requires several years to be then spent down. Instability in Egypt, including changes in Egypt's leadership and a limited U.S. presence in Cairo to manage the funds when political turbulence has required temporary staff evacuations, have also delayed the ability of U.S. officials to spend ESF. Administration officials note that Egyptian government officials were asked (and agreed) to remove specific impediments allowing them to move unspent FY15 backlogged ESF. That said, one U.S. official said it is easier to do programming even in Syria amid civil war than in Egypt today because of the lack of cooperation from the Government of Egypt and numerous impediments faced routinely.

**EGYPT’S NEW NGO LAW**

In last year’s version of this report, we highlighted two of USAID’s main implementing partner organizations which faced clear obstruction from the Egyptian government (Counterpart International and RTI International). Administration officials said that only a few of USAID’s 40 programs in Egypt have been stalled or blocked by the Egyptian government, and more than 35 of those programs are moving forward. That said, Egypt’s draconian new NGO law will impose potentially crippling constraints on funding, as it requires all funding from donors outside Egypt to be approved by a new “National Authority for Regulating International NGOs” that includes security, defense, and intelligence officials. Numerous U.S. officials expressed serious concerns with the NGO law and were closely watching for executive regulations to see how it would be implemented, which they expected to be published in July 2017.

In his testimony on the FY18 budget request in June 2017, Secretary Tillerson said that he was “extremely disappointed by the recent legislation that President al-Sisi signed regarding NGO registration and preventing certain NGOs from operating.” Rep. David Price (D-NC) suggested that perhaps President al-Sisi was encouraged to sign the NGO law (which had been passed by the parliament in November 2016) “by the embrace of President Trump” in April and May 2017. Tillerson responded that, to his knowledge, there was no discussion between Trump and al-Sisi that “would have in any way encouraged him to sign [the law].” Tillerson also claimed...
that he and other U.S. officials had urged al-Sisi not to sign the bill, and that “it may have been a miscalculation on his part.” Tillerson’s criticism of the NGO law in this hearing marked the first time that any Trump administration official commented publicly on the controversial new law, two weeks after President al-Sisi ratified it.

Members of Congress had also long warned President al-Sisi against signing the NGO law. After the Egyptian parliament passed the law in November 2016, Senators John McCain (R-AZ) and Lindsey Graham (R-SC) declared:

“[T]his legislation will only deepen the NGO crisis that began in 2011 with dozens of American and international NGO workers wrongfully convicted and a number of NGOs shut down. For years, we have asked the Egyptian government to resolve Case No. 173 and pass a new NGO law that would enable Egyptian and international non-governmental organizations to operate without undue restrictions in the country. Yet the Egyptian government has rebuffed those requests. And the passage of this legislation would make resolution of this issue nearly impossible… Should President al-Sisi sign into law this draconian legislation, we will endeavor to strengthen democratic benchmarks and human rights conditions on U.S. assistance for Egypt in fiscal years 2017 and 2018.”

The demand to close Case No. 173 and revise Egypt’s NGO law in accordance with international best practices was also underscored in a bipartisan resolution in March 2017, cosponsored by Senators Marco Rubio (R-FL), Ben Cardin (D-MD), Tim Kaine (D-VA), Todd Young (R-IN), and Bob Menendez (D-NJ), which was introduced the week before al-Sisi’s visit to Washington.

After President al-Sisi signed the NGO law on May 29, in defiance of these requests, Senators Graham and McCain urged President al-Sisi “to amend the law to bring it in line with international human rights standards and Egypt’s Constitution…As we have stated previously, with this law in place, Congress should strengthen democratic benchmarks and human rights conditions on U.S. assistance for Egypt.”

Senators Marco Rubio (R-FL), Ben Cardin (D-MD), Todd Young (R-IN), Catherine Cortez Masto (D-NV), Susan Collins (R-ME), Tim Kaine (D-VA), Bob Menendez (D-NJ), Bob Casey (D-PA), Chris Coons (D-DE) and Jeanne Shaheen (D-NH) also warned that “Congress will take the Egyptian government’s recent actions into consideration as we review our bilateral assistance to Egypt to ensure that the American people’s tax dollars are used appropriately.”

Administration officials acknowledge they are privately considering a number of responses to the ratification of the new NGO law. Under the FY16 Omnibus Appropriations Act, the law requires Secretary Tillerson to certify or waive that “the Government of Egypt is taking effective steps to protect freedoms of expression, association, and peaceful assembly, including the ability of civil society organizations and the media to function without interference” in order to release $195 million of Egypt’s $1.3 billion FMF package for FY16. Secretary Tillerson has not yet made any decision on the waiver yet.
though he will need to do so by September 30, 2017 – otherwise, that $195 million would be impounded and returned to the U.S. Treasury. One U.S. official interviewed for this report suggested that one option Tillerson could also choose is to issue a waiver to release that $195 million, while simultaneously moving to reprogram a portion or even most of those funds to countries other than Egypt to signal his displeasure with the Egyptian government.

Additional options under consideration include, for the first time in recent history, a comprehensive review of Egypt’s ESF. As the Brownback Amendment only applies to democracy programs, the U.S. government is not legally prohibited from giving a foreign government the ability to veto other economic assistance programs, and some U.S. officials are inclined to try and continue funding programs in Egypt even under the repressive new restrictions. One potential option under consideration would be to close the USAID Mission in Cairo, which is one of the world’s largest and longest-running (established in 1975). Other options being considered are more measured, including suspending USAID-funded programs until the law is revised, reprogramming a significant portion of Egypt’s $400 million backlogged ESF to other countries, and zeroing out democracy programs in Egypt while maintaining minimal ESF support to continue $35 million in education and scholarship programs annually.

As noted previously, the goals of U.S. economic assistance to Egypt have not changed significantly since ESF was expanded in the late 1970s. Especially now that economic assistance from the United States has decreased to a new low of $112.5 million in FY17, that amount alone is not enough to have a meaningful macroeconomic effect in an underdeveloped country with more than 90 million people. And while there may be important humanitarian needs to address in Egypt, USAID officials cannot expect to have any real, widespread development impact in the absence of government cooperation – which is minimal at best and openly hostile at worst. In many circles, Egypt is increasingly seen as more of a U.S. liability than an asset in the region; some U.S. officials privately advocate for continued economic assistance as a “life vest” so the country does not destabilize even further than it already has.

A closer look at Egypt’s FMF program

The military assistance program also faces some challenges, even though the FY18 budget request renews Egypt’s FMF at $1.3 billion. Previous editions of this report have discussed attempts in recent years to modernize Egypt’s military assistance package, to withhold portions of Egypt’s FMF based on democracy and governance conditions, and to adjust the amount of annual FMF provided. With rare and limited exceptions, nearly all of those attempts have failed to achieve their desired impact, as 1) Egyptian government and military officials have rebuffed attempts to shift their purchases of military equipment from the United States away from expensive, prestige items such as F-16s and M1A1 Abrams tanks to equipment more properly suited for counterterrorism and border security, 2) successive administration officials have repeatedly used waivers and other legal workarounds to avoid holding the Egyptian government accountable for their actions.

77 While the military coup in Egypt and subsequent crackdown in Rabaa Square triggered an Obama administration review on U.S. military assistance to Egypt in 2013, this review did not encompass economic assistance.
78 These items could include Blackhawk helicopters to improve the military’s rapid reaction capabilities, and equipment to improve surveillance, target acquisition, and reconnaissance through ISTAR systems that might enhance counterinsurgency operations, according to David Schenker at the Washington Institute https://www.foreignaffairs.com/articles/egypt/2017-05-10/egypts-failed-war-terror
government accountable to meeting democracy and governance benchmarks; and 3) the amount of FMF provided to Egypt each year could not be reduced due to cash flow financing structuring of those contracts which obligated the full amount of Egypt’s $1.3 billion in FMF funding to meet payments scheduled years in advance.

When the Obama administration announced a resumption of FMF to Egypt in March 2015, the White House also declared that “beginning in fiscal year 2018, we will discontinue Egypt’s use of cash flow financing (CFF) – the financial mechanism that enables Egypt to purchase equipment on credit.”79 From 1987-2017, Congress has provided approximately $1.3 billion in FMF every year, and the Egyptian government has used that funding and CFF privileges to maximize their buying power, spreading out large purchases of F-16s and Abrams tanks across multiple years in advance. Since the announcement to discontinue CFF, the Egyptian government has not been permitted to sign any new contracts with cash flow financing, and Egypt’s FMF has been used to pay down the balances of existing contracts. The account in the U.S. Federal Reserve used to pay Egypt’s FMF contracts currently has a sufficient balance to pay off all of the remaining payments for Egypt’s outstanding contracts.

Although this may appear to many observers a minor technical point, the implications could be quite significant – for the first time since the United States granted Egypt CFF privileges in the early 1980s, Congress is not obligated to provide FMF at or above previous years’ levels for the sake of meeting contractual obligations. This could open the door for appropriators to reduce the amount of FMF provided to Egypt in FY18. In the past, for example, when the Senate Appropriations Subcommittee for State and Foreign Operations included only $1 billion in FMF for Egypt in their version of the FY15 appropriations bill, the full $1.3 billion was eventually granted, in part because of contractual obligations to U.S. defense manufacturers. The FY18 request’s proposal to move at least 50 countries from FMF grants to loans (see the section beginning on page 17 for a more detailed discussion of this proposal), could also incentivize appropriators to look to reduce Egypt’s FMF in order to free up funds to provide FMF grants to some of those other countries.

It appears that the Egyptian government is still hoping to convince the Trump administration to reinstate CFF, and some observers fear that President Trump could restore it as a gift to President al-Sisi. Some U.S. officials suggested that it is unlikely that CFF would be reinstated fully, but could be partially reinstated to fund purchases for narrowly-defined defense needs in the interests of U.S national security. But reinstating CFF even for “narrow” purposes would provide a loophole that both the Egyptian government and sympathetic U.S. government officials could abuse, forestalling real attempts to modernize the content of Egypt’s military assistance package.

Moreover, since CFF has been phased out, there has been no real impact on the U.S. ability to support Egypt’s defense needs. If anything, CFF proved an impediment to doing so in the past – for example, Egypt was unable to use its FMF to buy Hellfire missiles to replenish depleted stocks after using them for counterterrorism missions.

in the Sinai because it had already “maxed out” all of its FMF in advance due to CFF across multiple defense contracts in 2015. Requiring Egypt to save up their FMF for large expenses is consistent with the process by which every recipient country in the world except for Israel abides, and also incentivizes recipients of FMF grants to set aside a portion of their allocations for flexibility in purchasing weapons as circumstances and needs change – agility that is critical for responsible defense planning.

The second change announced in March 2015 by the Obama administration was to channel Egypt’s FMF “toward the acquisition and sustainment of new equipment in four categories – counterterrorism, border security, maritime security, and Sinai security.” After this announcement, administration officials developed a detailed spreadsheet of equipment that fit into these four categories, which has been in place since mid-2015 and has been used to decide which items the Egyptian government can purchase with FMF. Not included in these new categories is one of Egypt’s favored legacy weapons systems from the United States, M1A1 Abrams tanks. An administration official reported that there are no outstanding orders of M1A1 Abrams tanks in the pipeline (for the first time in thirty years), as all tanks contracted have been fully paid for and delivered to Egypt. The Egyptian government has requested additional deliveries of these tanks, though both State and Defense Department officials have hewed to this spreadsheet and refused to provide them. That said, the new administration could seek to amend the items on this list moving forward.

The Egyptian government has also reportedly sought to purchase Predator drones from the United States, though that request was denied. Egypt has also sought to acquire U.S. military equipment, such as frigates, through the Excess Defense Articles (EDA) mechanism. David Schenker, an analyst at the Washington Institute for Near East Policy, has flagged a number of Egypt’s purchases of foreign military equipment from its own national funds, including “European equipment intended for conventional warfare against an unidentified enemy.” These major purchases include four German submarines, twenty-four French Rafale fighter jets, and two French Mistral-class amphibious assault ships.

Clearly, the Egyptian military has a penchant for purchasing prestige military equipment more appropriately suited for a traditional war against another country, rather than countering the insurgent and armed non-state actors that most threaten Egypt’s security today. As Elliott Abrams of the Council on Foreign Relations testified in April 2017: “after the nearly 40 years and $50 billion in U.S. military assistance since Camp David, it’s becoming clear that American assistance to Egypt’s armed forces has not succeeded in making that army even minimally capable, nor has it bolstered the determination of the leadership in Cairo to deploy forces on difficult combat missions.” Former DRL Assistant Secretary Tom Malinowski echoed this criticism, describing Egypt as having “contributing virtually nothing positive to

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regional security or prosperity...It has played no significant role in the counter-ISIS coalition... The Egyptian military has taken our aid while consistently rejecting the advice we’ve offered alongside it.\footnote{“Hearing to Review United States Assistance for Egypt,” U.S. Senate Subcommittee on State, Foreign Operations, and Related Programs, April 25, 2017, https://www.appropriations.senate.gov/hearings/hearing-to-review-united-states-assistance-for-egypt/}

Another benefit from the removal of CFF and winding down the outstanding balances of Egypt’s FMF is that it removes the adverse incentive on the Secretary of State to repeatedly waive conditions on withheld FMF in order to make payments on Egyptian contracts with U.S. arms manufacturers. In previous editions of this report, we have detailed successive examples of former Secretaries of State using the national security waiver to override democracy and governance conditions placed on Egypt’s FMF by Congress. The timing of those decisions was triggered not by an improvement of conditions in Egypt, but instead they were necessitated by impending payment schedules for Egypt’s FMF contracts and fear of U.S. government liabilities if those payments were not made on time.

LOOKING AHEAD

As mentioned above, now that Egypt has sufficient funds in its account to pay all outstanding contracts for the first time in modern history, Congress has an opportunity to 1) reduce the overall amount of FMF provided to Egypt and prohibit the reinstatement of cash flow financing; 2) strengthen the democracy and governance conditions on Egypt’s FMF; 3) increase the amount of FMF tied to meeting such conditions; and 4) exclude any waiver authority for the Secretary of State to override such conditions.

As mentioned above, now that there is a sufficient balance to pay off all of the remaining payments for Egypt’s outstanding contracts, there are no contractually-binding payment schedules which require Egypt’s FMF to be renewed at $1.3 billion. Rather, administration officials can work with their Egyptian counterparts and Congress to come up with a new list of mutually-identified defense equipment and services that Egypt needs to counter modern security threats, and identify how much funding will be required to purchase those equipment and services. If Egypt’s leaders used their FMF to purchase the counter-terrorism equipment they need - instead of expensive and unnecessary additional tranches of M1A1 Abrams tanks and F-16s - the amount of FMF required to support those purchases would likely be significantly less than $1.3 billion annually. Congress should also include a provision in FY18 to preemptively prohibit cash-flow financing (CFF) for Egypt, which would prevent the Trump administration from unilaterally reinstating CFF privileges.\footnote{As was last attempted in the FY15 Senate State and Foreign Operations Appropriations Bill, appropriators could insert the following provision: "the Secretary of State shall not initiate any new cash flow financing contracts for defense articles and services for Egypt."

As mentioned previously, Lindsey Graham (R-SC), chairman of the Senate Appropriations Committee on Foreign Operations declared that “Congress should strengthen democratic benchmarks and human rights conditions on U.S. assistance for Egypt” in response to al-Sisi’s ratification of Egypt’s new NGO law and refusal to resolve Case No. 173.\footnote{“Statement on Egyptian Law Imposing Severe Restrictions on NGOs,” The Offices of Sens. John McCain and Lindsey Graham, May 31, 2017, https://www.mccain.senate.gov/public/index.cfm/2017/5/statement-by-mccain-graham-on-egyptian-law-imposing-severe-restrictions-on-ngos} One way for Congress to strengthen those conditions would be to more narrowly define them. For example, the FY17 Omnibus Appropriations Act tied a portion of Egypt’s FMF to steps taken by the Egyptian government to allow “civil society organizations and the media to function without interference.” In FY18, appropriators could tighten this FMF conditionality by specifically requiring the Egyptian government to 1) repeal/revise the NGO law in accordance with international standards and 2) drop Case No. 173 against Egyptian and international NGOs.

In accordance with strengthening the FMF conditions, Congress has tied only 15 percent of Egypt’s FMF in FY16 and FY17 to meeting these
conditions ($195 million each year), permitting the vast majority ($1.105 billion) to flow freely to Egypt regardless of its escalating crackdown and efforts to further close the political space. In FY18, Congress could also increase this amount to a significantly higher percentage of the FMF package, perhaps 50 percent, to strengthen its value in discussions with the Egyptian government to reverse negative trends on human rights and governance.

Finally, some long-time observers of Egypt assistance have concluded that conditioning Egypt's military aid does not work, as the administration has historically been able to extract little from the Egyptian government in return for continued provision of FMF. But part of that reason is that a national security waiver to Egypt aid is almost always provided - and always used - by the Secretary of State to override any such conditions. The last time Congress did not provide a waiver on Egypt's aid conditions was in the FY14 Omnibus Appropriations Act, though financial and political pressures led to the insertion of new legislative text in the FY15 Omnibus Appropriations Act to work around this restriction. The Egyptian government has rightly concluded that they need only wait in order to receive their FMF in full, undermining the pressure to make progress on human rights and governance. Congress has an opportunity in FY18 to reclaim the use of U.S. assistance as leverage with Egypt, by not including a national security waiver and communicating clearly to the Egyptian government that conditions must be met if Egypt wants to receive its full military assistance package from the United States.

For far too long, the Egyptian government has treated foreign assistance from the United States as an entitlement, while contributing little to regional security. More recently, Egypt has played no meaningful role in U.S. attempts to build a global coalition to counter ISIS in Iraq and Syria, nor even been willing to heed U.S. advice on confronting the threat of the ISIS affiliate in Sinai that threatens the Egyptian mainland. The U.S. military aid package to Egypt is a relic from the past, better suited to counter threats that Egypt faced in 1979 than it faces today. Although the Obama administration did not make major changes to the U.S. military aid to Egypt, it did initiate some reforms that pave the way for larger changes to modernize Egypt's FMF package. It now remains to be seen whether the Trump administration and Congress will follow through with further changes to bring Egypt's military aid in line with today's threats and with U.S. interests, which include a reversal of Egypt's escalating domestic repression.

The new administration should resist requests from the Egyptian government to reverse these changes out of any short-sighted desire to please President al-Sisi. FY18 represents a pivotal year for Congress to enact long-overdue, significant changes to Egypt's FMF package – appropriators are finally free from the contractual constraints that have limited their ability to make significant changes in the past – it is time to go big, by legislating a wholesale review and restructuring of Egypt's bilateral aid package, to a degree not possible in nearly 30 years. These changes should mandate a comprehensive updating of both Egypt's military and economic assistance to bring them in line with current realities. Of all countries in the region examined by this report, Egypt is most overdue and ready for an overhaul of U.S. assistance along the parameters outlined above.

86 The FY15 act allowed “prior year funds” to be made available “at the minimum rate necessary to continue existing programs.”
IRAQ snapshot

HIGHLIGHTS

• The number of Iraqis displaced by war is greater than ever, yet in FY18 the Trump administration proposes to significantly reduce humanitarian accounts – including International Disaster Assistance (IDA) and Migration and Refugee Assistance (MRA) – which provide critical resources for addressing Iraq’s humanitarian needs.

• While the U.S.-supported military campaigns are successfully reclaiming territory from ISIS in Iraq, U.S. policymakers should not overlook the importance of inclusive and transparent governance in Iraq to bringing about and sustaining peace in the long term.

ECONOMIC SUPPORT FUNDS (ESF) BREAKDOWN, FY09-18

TOTAL FY18 REQUEST

GJD FUNDING, FY09-18
Since Prime Minister Haidar al-Abadi took office in mid-2014, he has promised to implement a series of reforms to make the government more inclusive, accountable, and effective. With many of his domestic reform proposals stalled in parliament, many Iraqis have grown impatient and participated in mass public protests against the government. In May 2016, supporters of Muqtada al-Sadr, a prominent Shia cleric and political leader, stormed Parliament after it failed to approve a cabinet reshuffle to create a more technocratic government. After years of mounting tensions between Kurdish political parties and stagnation within the Kurdish Regional Government (KRG), Kurdish leaders have worked toward reconciliation and made plans on a referendum to support Kurdish independence after the defeat of ISIS. Backed by Coalition support, Iraqi forces reclaimed Fallujah and Mosul from ISIS in major military campaigns over the last year. With assistance from the United States and Coalition partners, the Government of Iraq has recovered 60 percent of ISIS-seized territory.

The Trump administration has been heavily focused on Iraq, as its primary goal in the region is the defeat of ISIS in Iraq and Syria. However, the administration’s inclusion of Iraq on its controversial travel ban earlier this year created tensions in the bilateral relationship, though Iraq was removed from the list of countries subject to the ban when it was amended and re-issued in March 2017. A few weeks after this change, PM Abadi met with President Trump at the White House to discuss plans for recovery after the defeat of ISIS in Iraq, which has decimated communities across the country. For example, after nine months of fighting to liberate Mosul, thousands of Iraqis were killed and nearly one million forced from their homes. According to Mercy Corps, “Nearly every building on the western side of Mosul was completely destroyed. With this level of devastation, it’s very unlikely that the hundreds of thousands of displaced families will be going home anytime soon.”

The United States has provided more than $1.4 billion in humanitarian assistance for Iraqis since Fiscal Year 2014 to support the work of the UN and NGOs to respond to one of the fastest-growing displacement crises in the world. The UN estimates that 11 million Iraqis will need assistance in Iraq in 2017, with approximately three million internally displaced. Through accounts such as International Disaster Assistance (IDA) and Migration and Refugee Assistance (MRA), the United States provides emergency food assistance, shelter, urgent medical care, and other urgent relief to more than 13 million suffering Iraqis in the country and across the region. The FY18 budget request includes a proposal for broad new transfer authority between the IDA and MRA accounts, precisely for situations like the Iraq crisis where humanitarian needs can increase suddenly and dramatically (for example, with the liberation of Mosul). However, the FY18 budget request also proposes significant reductions to both of these humanitarian accounts - for more detail on these cuts, please see the section beginning on page 14.

The FY18 budget request proposes $347.9 million in bilateral assistance for Iraq, which is a 32 percent decrease from the FY17 request.

Of the $347.9 million requested in FY18, approximately $298 million is requested for Peace and Security programs, $46.5 million for democracy and governance (GJD) programs, $3 million for investing in people, and $500,000 for economic growth programs.

The $46.5 million requested in FY18 for democracy and governance programs will reinforce the Iraqi government’s economic reforms under the umbrella of the IMF’s Stand-By Arrangement and World Bank programs; provide technical assistance to key ministries; strengthen governance and government responsiveness; and promote reconciliation, accountability, and human rights. This figure represents a 12 percent decrease from the $53 million requested for GJD programs in FY17. The State Department’s DRL Bureau administers a significant amount of bilateral funds for democracy and governance programs in Iraq, including $18 million in programming using FY16 funds.

The very modest $500,000 requested for economic growth programs for Iraq in FY18 is the same level of funding allocated for this objective in FY16. In FY17, the vast majority of the ESF requested and appropriated in FY17 ($255 million) was categorized under the “economic growth” objective, though it was not to support traditional economic growth development programs, but instead used to subsidize a five-year $1 billion economic loan guarantee for Iraq announced in January 2017. The loan guarantee is intended to support the IMF reform program in Iraq, and will provide Iraq access to low-cost financing “essential to delivering critical services to all the people of Iraq, while laying the foundation for long-term stability and growth through economic and institutional reforms.”

In addition, the United States has also provided $265 million in stabilization assistance over the past two years through the United Nations Development Programme (UNDP), while other countries and donors have provided approximately $412 million. These funds will support efforts to establish basic security, re-establish essential services, restore local economies, stabilize communities, and allow Iraqis to finally return home.

Of the $298 million requested for Peace and Security programs, $250 million will support conflict mitigation and reconciliation programs, focusing on stabilization and recovery in areas liberated from ISIS; $40 million will be for NADR funding to support programs to focus on the survey, marking, clearance, and destruction of U.S.-origin munitions across Iraq. The FY18 request also zeroes out Iraq’s FMF grant, instead proposing to shift Iraq’s military assistance to a loan basis (for further detail on the FY18 proposal to convert FMF grants to loans, please see the section beginning on page 17).

Since 2012, Congress has appropriated more than $2 billion in FMF funding for Iraq. Iraq’s FY16 FMF allocation of $250 million was applied to the subsidy cost for a $2.7 billion FMF loan to fund the purchase of a wide range of U.S. military equipment and services, including “F-16 sustainment, munitions, CLS for several current platforms, an Air Force training academy, and training and equipment for the Kurdish Peshmerga, all critical to ensuring a strong, viable Iraqi military.” In addition to FMF, Iraq has also purchased more than $22 billion in U.S. military equipment since 2005 as Foreign Military Sales (FMS), and received numerous weapons systems under the Excess Defense Articles (EDA) program, including armored vehicles, helicopters, and individual

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91 Ibid.
92 This cumulative figure includes $150 million allocated in FY17, $83 million allocated in FY15, $22 million allocated in FY16, and $10 million allocated in FY11.
body armor for use in the fight against ISIS.95

The FY17 Omnibus Appropriations Act also included $1.6 billion in counter-ISIL funds, consolidating train and equip funds for Iraq and Syria and expanding the countries eligible to receive assistance from this fund (for more details on this fund, and expanded NDAA authorities to define what this funding can be used for, please see the section on FMF loans beginning on page 17). Administration officials interviewed for this report note that a large portion of that $1.6 billion in counter-ISIL funds allocated for FY17 will be carried over and programmed in FY18 in Iraq.

In his remarks at the March 2017 summit for the global anti-ISIS coalition, Secretary Tillerson outlined three successive phases of the campaign to defeat ISIS: military operations, stabilization, and normalization. In this normalization phase, Tillerson noted the need to work with local leaders and local governments to “take on the process of restoring their communities.” And, although he praised PM Abadi’s “desire for stability and inclusive governance,” absent was a strong emphasis on the need for Iraq’s leadership to pursue political inclusion – the lack of which created grievances that enabled the rise and rapid spread of ISIS several years ago. PM Abadi did acknowledge that the collapse of some Iraqi army units in the face of ISIS advances was due to corruption, and highlighted the importance of decentralization of government, but did not mention at all the importance of political inclusion at the national level.96

While the administration’s Iraq policy primarily focuses on supporting Iraqi military operations against ISIS, issues of effective governance, service delivery, and transitional justice will be key to preventing further communal fracturing and bringing the conflict to an end. Although Congress granted additional FY17 assistance to Iraq to help meet these challenges, the effectiveness of such funding will always hinge, in part, on inclusive, accountable, and responsive political leadership by PM Abadi and other Iraqis. Military operations against ISIS and addressing emergency humanitarian needs are critical in the short-term, but a failure to pay attention as well to the importance of inclusive and transparent governance and human rights would repeat mistakes of the past. Addressing democracy and governance issues in Iraq is key to ameliorating the grievances that considerably complicate efforts to bring about peace or sustain it.

And while this section has focused primarily on bilateral assistance requested for Iraq, addressing Iraq’s pressing needs also heavily relies on multi-country humanitarian accounts such as IDA and MRA. As noted above, the FY18 budget request proposes drastic cuts in funding for these lifesaving accounts, in a year that Iraq’s humanitarian needs are greater than ever (please see the section on these accounts beginning on page 14 for additional details). In the FY17 Omnibus Appropriations Act, Congress exceeded the Obama administration’s final budget request for funding for Iraq through various accounts, recognizing these dire needs. In order to maintain resources at adequate levels to respond to the needs in Iraq, Congress will need to reject the administration’s proposed deep cuts both to the Iraq-specific aid allocation as well as to humanitarian aid accounts.

95 Ibid.
HIGHLIGHTS

• The Trump administration views Jordan as the “linchpin” of U.S. policy in the Middle East.

• The country will continue to receive enormous amounts of economic, military, and humanitarian assistance.

• Negotiations for a new Memorandum of Understanding for assistance are reportedly underway, and annual U.S. commitments may approach $2 billion.
Despite his reputation in Washington as a reformer, Jordan’s King Abdullah II continues to expand his control over the state rather than cede power to Jordan’s citizens or elected bodies. Last spring, parliament granted the King the power to appoint high-level officials without parliamentary oversight or approval. Increasingly confined to the role of a rubber stamp, the parliament’s “independence has been curtailed not only by a legal system that rests authority largely in the hands of the monarch, but also by carefully crafted electoral laws designed to produce pro-palace majorities with each new election.”

Citizens are losing faith in the political process, as demonstrated by the low 37 percent voter turnout for the September 2016 parliamentary elections, a sharp decrease from the 57 percent turnout in the 2013 legislative elections. Meanwhile, public dissent remains dangerous: 18 prominent activists, including a former parliamentarian and army general, were arrested in January 2017 for “incitement” after they criticized government corruption. The charges were later dropped, but the incident sent a clear message to would-be state critics.

President Trump met with King Abdullah in Washington twice since taking office, and the King visited a third time in July 2017 to meet with Vice President Mike Pence, several Cabinet Secretaries, and White House senior advisor Jared Kushner. In April, President Trump said he is “deeply committed to preserving our strong relationship - which I will - and to strengthening America’s longstanding support for Jordan.”

In FY16, Jordan overtook Egypt as the second-highest recipient of U.S. assistance globally. Initial estimates project that the country received $1.6 billion in FY16 assistance, even before factoring in Migration and Refugee Assistance aid (yet to be calculated for FY16), which has averaged more than $162 million annually to Jordan since FY13. A three-year, nonbinding Memorandum of Understanding (MOU) that pledged to provide at least $1 billion in annual U.S. assistance (though this level was consistently exceeded) from FY15-FY17 has expired. The Government of Jordan is expected to pursue a

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104 Notably, under the Obama administration the United States provided three loan guarantees at a cost of $413 million to provide the Government of Jordan access to $3.75 billion in loans. The funds needed to provide these loan guarantees were drawn from the economic assistance (ESF) account.
new agreement at a significantly increased level, rumored to approach $2 billion annually.\textsuperscript{105}

Despite the absence of a new MOU, the FY18 budget request proposes $1 billion in bilateral aid for Jordan, including $635.8 million (64 percent) for economic support. Of the proposed economic aid, $375 million is slated for a direct cash transfer to pay Jordan’s foreign debts along with $25 million to finance a World Bank concessionary loan, according to the CBJ. This sum would add to the nearly $2 billion\textsuperscript{106} in cash transfers given to Jordan from FY11 to FY17 to “provide the macroeconomic stability necessary to realize the [Jordanian government’s] development priorities.”\textsuperscript{107} Jordan’s debt-to-GDP ratio stands at 94 percent in 2017, one of the highest in the region.\textsuperscript{108}

Of the economic aid requested in the FY18 budget, $40 million is allocated for GJD programming, a $5 million (14 percent) increase over the FY17 request. Projects generally focus on promoting community cohesion, participatory decision-making, and addressing local community-identified issues. Notably, GJD spending in Jordan peaked in FY16 at $60 million ($13 million higher than the FY16 request). But despite this apparent rise in funding, democracy organizations interviewed for this report commented that, due to uncertainty over future budget figures, money allocated from previous fiscal years was being conserved by U.S. government agencies, forcing temporary staff reductions.

Additionally, in April 2017 the Jordanian government backed off plans to implement a new law to further restrict the country’s NGO community, which could have hampered U.S. support for Jordanian civil society. The law would have prevented the registration of groups whose aims violated “national security, public safety, public health, public order, public morals, or the rights and freedom of others,” as well as necessitated explicit prior approval for any organization to receive foreign funding.\textsuperscript{109} Members of Jordanian civil society were relieved to see the law shelved for the moment, but they remained concerned that a similarly restrictive law will be reintroduced in the future.

The Peace and Security portion of the FY18 request includes $350 million in FMF, $10.4 million in NADR, and $3.8 in IMET. The FMF seeks to support the Jordanian Armed Forces’ “efforts to modernize and enhance [its] ability to counter asymmetric threats and to fight terrorism,” as well as “[improve] interoperability with the United States to participate in coalition operations.” Jordan is among the three MENA countries whose FMF aid is not proposed to be fully converted from grants to loans in the Trump administration’s budget. It has received nearly $2.2 billion in FMF grants from FY12 to FY17.

Importantly, Jordan also benefits from numerous other accounts for military aid. Since FY14 alone, the United States has given Jordan at least $909 million in security aid from Department of Defense accounts, including the Counterterrorism Partnerships Fund, the Operations and Maintenance Fund, and the Section 1206/Authority to Build Partner Capacity account.\textsuperscript{110} Jordan is also eligible to receive funding from the Counter-ISIL Train and Equip Fund, funded at $1.6 billion in the FY17 Omnibus Appropriations Act and another proposed $1.7 billion in the FY18 House defense appropriations draft bill.

\textsuperscript{106} This estimate combines the USAID estimate of $1.5 billion as of May 2017 and the $470 million included in the FY17 consolidated appropriations act.
\textsuperscript{108} “Report for Selected Countries and Subjects: Egypt and Jordan,” International Monetary Fund, https://goo.gl/uyY22n
The United States continues to devote significant amounts of aid to Jordan to ease the burden of hosting refugees - Jordan currently hosts approximately 2.5 million refugees, including more than 650,000 Syrians. Since the start of the Syrian civil war, the United States has given Jordan more than $926 million to meet refugees’ basic needs and support other programs for the refugee population.

The administration and Congress should encourage a reversal of the current trend of constraining political space and weakening Jordan’s parliament.

With the Trump administration signaling that it will continue Obama-era aid policy toward Jordan, Congress will almost certainly continue its strong support for Jordan and the King. Capitol Hill has routinely granted both military and economic assistance in excess of the administration’s request, including approximately 28 percent more than the Obama administration’s FY17 budget request for both economic aid and FMF in the FY17 Omnibus Appropriations Act.

Congress seems intent on increasing U.S. bilateral aid to Jordan as well. Chair of the Senate Appropriations Subcommittee on State and Foreign Operations Lindsey Graham (R-SC) said after a February 2017 meeting with the King that, “We’re about to renegotiate a Memorandum of Understanding with Jordan […] I would like to increase the amount of aid we give to Jordan […] and I think from an American taxpayer’s point of view, investing in Jordan is a good investment.” During the same visit, Ranking Member of the Senate Foreign Relations Committee Ben Cardin (D-MD) said, given its commitment to refugees, Jordan is “entitled to greater economic help from the international community.”

Sen. Dick Durbin (D-IL), when criticizing proposed cuts to the Migration and Refugee Assistance (MRA) account, told Secretary of State Tillerson that such reductions tell host countries like Jordan, “We’re going to cut your funding. Think of a more creative way to feed those refugees.” Secretary Tillerson responded that the Trump administration is working to ask other countries to “fill in some of the needs that Jordan has.”

With an administration that views Jordan as the “linchpin” of U.S. policy in the region and a Congress that may be even more supportive, Jordan seems very likely to remain the second-largest recipient of U.S. assistance globally. As we have seen in other Arab countries, Jordan’s stability and its status as a reliable U.S. partner and strategic ally could be threatened as the King and the government move to close public space, constrain civil society, and limit avenues for dissent. The administration and Congress should encourage a reversal of the current trend of constraining political space and weakening Jordan’s parliament. Otherwise, the enormous financial investment that the United States has made in Jordan risks being squandered.

HIGHLIGHTS

- At a key political moment, continued lack of U.S. attention to Lebanon’s political progress is a cause for concern.
- Lebanon is poised to receive growing amounts of U.S. security aid despite proposed cuts to its FMF package.
AFTER YEARS OF GRIDLOCK, LEBANON'S STALLED POLITICAL PROCESS HAS LURCHED FORWARD, TAKING SEVERAL IMPORTANT STEPS. IN OCTOBER 2016, MICHEL AOUM ASSUMED THE PRESIDENCY, FILLING THE EXECUTIVE SPOT AFTER A 29-MONTH VACANCY. IN JUNE 2017, PARLIAMENT PASSED A LONG-AWAITED ELECTIONS LAW.115 While reactions to the law have been mixed,116 it is nonetheless an important step that paves the way for overdue legislative elections in May 2018, and it may also allow the government to move forward with passing its first budget in more than a decade.

Thus far, the only high-level Trump administration engagement with Lebanon has been a visit by CENTCOM Commander Joseph Votel to Beirut, during which he praised the Lebanese Armed Forces (LAF) and pledged that the United States will remain the institution’s “steadfast and foremost security partner.”117 President Trump’s hawkishness toward Hezbollah and its patron Iran may further complicate an already delicate partnership, but U.S. policy toward Lebanon seems slated to remain, in large part, focused on maintaining short-term stability.

The FY18 budget requests a 56 percent reduction in bilateral aid compared to the FY17 budget request, from $233.5 million to $103.8 million. This figure includes $85 million for economic aid (ESDF) and $18.8 million for Peace and Security assistance. The request seeks cuts across objectives as well as a proposed elimination of FMF assistance.

The request also includes $15 million for democracy and governance programming, constituting a $5.5 million (26.7 percent) decrease from FY17’s budget of $20.6 million. The FY18 breakdown includes $1 million for rule of law and human rights, $7 million for good governance, and $7 million for civil society. The $1 million in funding for the rule of law and human rights program area is a sharp cut (89 percent) from the $8.58 million requested by the Obama administration for FY17.

Representatives of several democracy organizations interviewed for this report expressed dismay at underwhelming U.S. financial support for democracy programs in Lebanon. At a moment of momentum in Lebanon for important and overdue political steps, they lamented the lack of interest by the U.S. government in supporting programming related to the upcoming 2018 parliamentary elections. To mitigate the funding cuts, administration officials interviewed for this report suggested a surplus of unspent GJD funding from previous years will allow them to continue programming as opportunities arise, and that election support may be reprogrammed from regional accounts. Administration officials noted, however, that there are complications with programming that directly supports Lebanon’s elections due to Hezbollah’s designation by the State Department as a Foreign Terrorist Organization (FTO) and its role in Lebanon’s national government. Officials also noted that Lebanon’s well-developed professional civil society needs minimal funding to conduct coordinated and effective electoral work.

The largest share of the proposed cut to Lebanon’s aid budget reduction is attributed to the zeroing out of Lebanon’s FMF grants. In FY17, the
Obama administration requested $105 million for FMF, but the Trump administration aims to transition Lebanon’s FMF assistance into loans (see the FMF loan section beginning on page 17 for additional detail). Assuming the FY17 budget level is fully obligated, Lebanon will have received more than $850 million in FMF from FY09-FY17. Beyond general skepticism on Capitol Hill toward the proposed large-scale transition from FMF grants to loans, Lebanese Armed Forces (LAF) in particular enjoy strong support in Congress and it seems unlikely that Lebanon’s FMF grant will be entirely zeroed out as proposed. The FY18 budget request does include security assistance in the form of $2.75 million for IMET, $6.25 million for INCLE, and $9.82 million for NADR. Ongoing INCLE programs are shifting from traditional train and equip programs to focus on community policing improvements with the Internal Security Forces and to address Lebanon’s significant prison overcrowding.

In August 2016, U.S. Ambassador to Lebanon Elizabeth Richard said the United States provided “over $221 million in [security] equipment and training” in 2016 alone. Regardless of the decision by Congressional appropriators on Lebanon’s FMF grants, the country will continue to receive hundreds of millions of dollars of security assistance through other accounts. Lebanon is among a select number of countries eligible for the $1.6 billion Counter-ISIL Train and Equip Fund contained in the FY2017 Omnibus Appropriations Act and another $1.8 billion proposed in the FY18 House defense appropriations draft bill for the same fund. Lebanon also benefits from tens of millions of dollars annually from Department of Defense funding that permits reimbursements for operations that enhance the LAF’s “ability to increase or sustain security along its borders.”

While U.S. policy toward Lebanon, as is the case with much of the region, continues to take on a growing security focus, the United States has also provided significant amounts of humanitarian funding to assist with Syrian refugees. An April 2017 announcement of $167 million in additional funding for Lebanon to aid refugees and the host communities brought U.S. humanitarian assistance to Lebanon since FY2012 to nearly $1.4 billion. Additionally, Congress appropriated $2 million in the FY17 Omnibus Appropriations Act for a pilot scholarship program to aid refugees in Lebanon for degree and certificate programs. However, there are concerns that proposed cuts to humanitarian aid accounts in the FY18 budget request could hurt host countries, including Lebanon, as well as refugees living in them. Please refer to the section on proposed cuts to the MRA and IDA accounts on page 14 for additional details.

As mentioned above, Congress remains broadly supportive of U.S. aid to Lebanon, particularly to the LAF. Both House and Senate members
regularly introduce bills lauding the U.S. partnership with the LAF, while acknowledging the burden placed on the country by the refugee influx. 124 This congressional support is complicated by Hezbollah’s role in the country. In November 2016, when Hezbollah held a parade in Syria featuring U.S.-made military equipment, some analysts viewed this as evidence of direct LAF cooperation with the organization and called for Congress to suspend assistance to the LAF. 125 The Pentagon denied that the LAF had any role in supplying the equipment to Hezbollah, rejecting official Israeli claims to the contrary. 126

The breaking of Lebanon’s political stalemate could be a critical step to maintaining stability and allowing further political progress, and the U.S. administration should seize the opportunity to support continued progress and reform. While Congress is likely to prevent cuts to the bilateral assistance relationship as large as proposed, the continued lack of attention on Lebanon’s political progress is cause for concern. In addition, the increasing provision of security assistance to Lebanon through the Department of Defense rather than the Department of State could foster even greater securitization of an already security-heavy bilateral relationship.

LIBYA snapshot

HIGHLIGHTS

- The Trump administration has sent mixed signals on its vision for Libya, publicly supporting the UN-backed government while simultaneously undermining it.
- The $31 million bilateral aid request for Libya is the highest it has been since at least FY09.
- Despite a difficult environment, the State Department is optimistic about opportunities to make a positive impact with in-country programming, and its recent spending reflects that optimism.
With three competing governments, active terrorist groups, and a patchwork of frequently shifting alliances, Libya has struggled to advance toward meaningful political stability. While a meeting between the UN-backed Government of National Accord (GNA) Prime Minister Fayyaz Serraj and rival General Khalifa Haftar initially evoked cautious optimism, the country remains starkly divided.127

Trump administration officials have largely hewed to the Obama administration’s position of strong public support for the GNA. Before the Senate in March 2017, AFRICOM Commander Tom Waldhauser called “the instability in Libya and North Africa [perhaps] the most significant near term threat to the U.S. and allies’ interests on the continent,” adding, “We must maintain pressure on the ISIS Libya network and concurrently support Libya’s efforts to reestablish legitimate and unified government.”128 Then, in May 2017, U.S. Ambassador to Libya Peter Bodde, who is based in Tunis, met with Prime Minister Serraj in Tripoli to reiterate U.S. support for the GNA. Waldhauser accompanied Ambassador Bodde during the two-hour visit, the first to Libya by a high-ranking official since 2014. President Trump also reportedly met PM Serraj briefly on the sidelines of a summit in Riyadh in May 2017.129

Nevertheless, the public support for the GNA has been undermined publicly and privately by the administration. In response to an April 2017 plea from Italian Prime Minister Paolo Gentiloni’s for the United States to fill a “very critical” role in supporting the GNA, President Trump said, “I do not see a role in Libya. I think the United States has right now enough roles.”130 Behind the scenes, according to one report, a number of officials contend that the Trump administration is “largely disinterested in Libya,” and “has delivered a clear message to [General Haftar]: play ball with whatever strategy comes out of Cairo and Abu Dhabi,”131 two governments that Trump openly admires and have both undermined the UN-backed government. As analyst Frederic Wehrey suggested, “Trump’s counter-terrorism focus, anti-Islamism, and embrace of Arab despots are a godsend for Haftar.”132

With these apparent contradictions in mind, the $31 million requested for FY18 bilateral assistance to Libya is 51 percent more than the Obama administration’s $20.5 million FY17 request. Of the FY18 request, $14.3 million is for the GJD objective, nearly identical to the $14 million sought in FY17. Specifically, funds will support constitutional drafting and the elections commission, improve basic service

delivery, and bolster the public’s confidence in the democratic transition.133

The 2018 budget request seeks $15.8 million in Peace and Security funding – a 300 percent increase from the 2017 request ($4.5 million). This figure includes $7.8 million that will be devoted to conflict mitigation and reconciliation, $7 million to NADR programming, and $1 million for INCLE. An additional $4 million is requested from the multilateral Export Control and Related Border Security (EXBS) account to provide land and maritime border security training to counter ISIS.

Despite relatively small bilateral requests in recent years, the State Department has obligated significant resources for programming in the last year. Since July 2016, the DRL Bureau notified $4 million in FY17 funding for civil society-led reconciliation, media training, and transitional justice programs; the INL Bureau obligated $3 million for justice and prison initiatives with the GNA; and OTI notified that a portion of a $30.2 notification will be devoted to Libya for counter-ISIL work. An additional $10 million has been notified to support the UN Support Mission in Libya (UNSMIL). Most significantly, in April 2017, the State Department obligated $49.5 million in ESF (2.5 times the FY17 request) for conflict mitigation and GJD programs. These significant financial obligations reflect optimism from a number of administration officials that there are opportunities to make a positive impact with programming in Libya, despite no official U.S. presence in the country.

Democracy organizations interviewed for this report show significantly less optimism and lamented a number of obstacles in implementing effective programs. These obstacles include a U.S. government ban on American NGO workers traveling to Libya (forcing projects to be implemented out-of-country or by under-resourced local staff); onerous and inconsistent legal restrictions from competing Libyan governments for local staff and difficulties maintaining NGO registration; and programming that does not meet the needs of Libyans.

Libya’s political and security situation remains exceedingly complex, necessitating a clear and consistent U.S. policy to advance U.S. interests. Unfortunately, this administration has shown little inclination toward developing that sort of policy. If confirmed, the rumored invitation by the Trump administration for General Haftar and Prime Minister Serraj to convene in Washington sometime in 2017 would be a welcome first step toward emphasizing the need for a political solution.134 But without thoughtful policy consideration and consistent engagement, U.S. policy will remain muddled, and it will be difficult to exercise even minimal amounts of influence on the ground.

133 Notably, the CBJ states that Libya will also benefit from funding from different bureaus and multilateral accounts. For example, the State Department Bureau of European and Eurasian Affairs will support continuing work on a political solution to end the conflict in Libya, among other countries. Additional money may also be devoted to Libya from multilateral accounts, including the Migration and Refugee Assistance account and USAID Middle East Regional (MER; see the MER section for additional detail).

MOROCCO snapshot

HIGHLIGHTS

- Trump administration engagement with Morocco is markedly quieter than with other longstanding allies—President Trump has not met King Mohammed VI nor nominated a new ambassador.

- Taken alone, the small size of the bilateral aid package is misleading (the FY18 request proposes $16 million—just 52 percent of the $33.5 million requested in the FY17 budget). In addition, U.S. assistance to Morocco has been heavily supplemented through the Millennium Challenge Corporation since 2007, as well as additional DOD programs.

- Congress is unlikely to cut Morocco’s FMF (as proposed). Appropriators also renewed legislative language in FY17 making U.S. aid to Morocco available to be spent in Western Sahara.
Protests over corruption and marginalization that erupted in the Rif region in May 2017 show no signs of abating. More than 100 have been arrested and more than two dozen jailed for lengthy terms, leading to intensifying protests as well as the spread of smaller demonstrations across the country.\(^\text{135}\) Despite King Mohammed VI’s reputation in the United States as a reformer, the superficial reforms undertaken since 2011 have left many Moroccans unsatisfied. As analyst Ursula Lindsay suggests, the King possesses such tight control over the country that protestors know “the only decisions that truly count are his,” undermining the credibility of local and ministerial intermediaries not seen as directly linked to the monarch.\(^\text{136}\)

Morocco has long been among the United States’ close allies in the region, and while that is unlikely to change, the relationship with Morocco does not appear to be a priority for the Trump administration. King Mohammed VI appears to be the only Arab monarch yet to meet with President Trump, and the U.S. Embassy in Morocco has remained without an ambassador since January 2017 – and no clear nominee is on deck for the post. President Trump quietly received the new Moroccan Ambassador to the United States in April 2017,\(^\text{137}\) and Secretary of Defense Mattis reportedly expressed a desire to deepen the U.S. alliance with Morocco.\(^\text{138}\) But aside from Morocco’s Minister Delegate of Foreign Affairs attending an anti-ISIS summit in Washington in March 2017,\(^\text{139}\) this administration’s engagement with Morocco has been markedly quieter than with the United States’ other longstanding allies.

The Trump administration’s FY18 bilateral request proposes $16 million in bilateral aid, just 52 percent of the $33.5 million requested in FY17. The FY18 request includes $10 million in ESDF funding and $6 million in Peace and Security money. Taken alone, the small size of the bilateral aid package is misleading, as U.S. assistance to Morocco has been heavily supplemented through other accounts, including more than $1.1 billion in economic aid through two compacts with the Millennium Challenge Corporation since 2007, as well as additional DOD programs.\(^\text{140}\)

Of the FY18 ESDF request, $3.3 million (33 percent) is requested for GJD funding, all of which will support civil society, a reduction of 45 percent over the FY17 GJD request. The remainder of the economic aid request includes $3.6 million for education and $3 million to enhance private sector competitiveness.

Morocco is among the very few MENA countries that have regularly received funding from the Development Assistance (DA) account (at least $75 million total since FY2010). Between FY2010-2013, the Obama administration requested funding for GJD, investing in people, and economic growth objectives through the DA account. For unclear reasons, beginning in FY2014 those requests were made under the ESF account, though it appears that, in some cases, money originally sought for programming under the ESF account was later obligated from DA instead. For example, economic assistance requested in FY16 under ESF for Morocco was later reported as having been programmed from the DA account at roughly corresponding levels. While this may have been a simple budget gimmick, there are subtle distinctions between ESF and DA funds, and the Trump administration has proposed combining ESF, DA, and several other accounts into the ESDF account in the name of efficiency (while drastically reducing the overall amount of overall funding requested).


\(^{140}\) “Morocco,” Millennium Challenge Corporation, https://www.mcc.gov/where-we-work/country/morocco
For additional information, please refer to the ESDF section on page 12.

For FY18 Peace and Security funding, Morocco is among a number of MENA countries whose FMF accounts are zeroed out under the FY18 request; the FMF cut represents the majority of the drastic reduction in overall bilateral aid. Under the FY18 budget request, Morocco would potentially be offered FMF loans instead of grants (see section on FMF loans vs. grants on page 17 for additional information). The remainder of Morocco’s bilateral Peace and Security aid request includes $2 million for IMET, $2.5 million for INCLE, and $1 million for NADR.

Even if Morocco’s FMF package is fundamentally altered, the country seems likely to remain a recipient of significant amounts of U.S. security assistance through other means. In the last calendar year alone, the United States granted $34.6 million in Excess Defense Articles to the Kingdom in addition to a $108 million arms sale notified in December 2016 for missiles. Morocco is also among a number of countries that have cumulatively received more than $700 million in DOD capacity-building programs under Section 2282 authority from June 2016 to June 2017, according to congressional notifications. This authority (previously known as Section 1206) allows the Department of Defense to provide broadly-defined assistance and training to countries for a range of counterterrorism purposes.

Current State Department programming includes approximately $9 million in FY15 and FY16 INCLE funds to combat human trafficking, train law enforcement to deal effectively with returning foreign fighters, and provide the judiciary with anti-corruption training. Administration officials interviewed for this report express the desire for Morocco to become a regional leader on these issues, eventually assuming a larger role in training other countries in the region. But on other programs, there is a sense in the democracy promotion community that current funds are being hoarded in anticipation of significant budget cuts in the future. As a result, representatives at one U.S.-based democracy organization lamented funding for their programs “running on fumes,” necessitating painful cuts to local staff and undermining programs due to delays in releasing new funding.

The FY17 Omnibus Appropriations Act renews legislative language that first appeared in FY16, which allows economic aid earmarked for Morocco to be spent in Western Sahara. Accompanying report language from the House of Representatives says it “expects funds to support democratic reforms and economic development,” while encouraging the administration to support private sector investment in the territory and redouble diplomatic efforts to resolve the dispute.

This requirement is currently being fulfilled by $1 million in civil society, decentralization, and local governance programming administered by MEPI. One democracy organization interviewed for this report said that both Moroccan and Sahrawi officials have been positive about the programs. But, clearly the Moroccan government is satisfied that such work helps legitimate its role in controlling the territory.

During the first six months of the Trump presidency, Morocco does not appear to have been a priority, and the bilateral relationship has received less attention than the United States’ other traditional allies in the Middle East. Nonetheless, the U.S.-Morocco relationship is likely to remain strong, although it will be interesting to see how Congress responds to the requested cuts in bilateral aid. The administration should pay close attention to the ongoing protests in the country, and it should encourage the government to genuinely address the legitimate local grievances of Moroccan citizens at the heart of the unrest.

HIGHLIGHTS

• The number of Syrians displaced by war is greater than ever, yet in FY18 the Trump administration proposes to significantly reduce humanitarian accounts – including International Disaster Assistance (IDA) and Migration and Refugee Assistance (MRA) – which provide critical resources for addressing Syria’s humanitarian needs.

• Democracy and governance programming has lagged in adapting to new realities as new territories are liberated from ISIS, due to rigid management structures and a disconnect with policy.
Since the start of the war in Syria in 2011, more than 470,000 Syrians have reportedly been killed. Over the past year, periodic attempts to negotiate and establish ceasefires in the country have quickly unraveled, with violence escalating among all major parties to the conflict. Intense airstrike campaigns by Russian and Assad warplanes led to the fall of Aleppo, while Coalition-backed campaigns focused on reclaiming territory from ISIS. President Trump and Secretary Tillerson met with their Russian counterparts on the sidelines of the G20 summit in July 2017, after which Secretary Tillerson was widely criticized for suggesting that U.S.-Russia objectives are “exactly the same” and that “maybe they’ve got the right approach and we’ve got the wrong approach,” especially in regards to Syria.

After more than six years, the crisis in Syria has triggered the largest refugee crisis since the end of WWII, placed enormous strains on neighboring countries, exacerbated regional tensions, and provided a vacuum for violent extremist groups to operate. As the largest single donor to the humanitarian response to the crisis, the United States has provided more than $6.5 billion in humanitarian assistance since 2012. Through accounts such as International Disaster Assistance (IDA) and Migration and Refugee Assistance (MRA), the United States provides emergency food assistance, shelter, urgent medical care, and other urgent relief to 13.5 million people suffering inside Syria, as well as the more than five million Syrian refugees in the region. The FY18 budget request includes a proposal for broad new transfer authority between the IDA and MRA accounts, precisely for situations like the Syrian crisis where humanitarian needs can increase suddenly and dramatically. However, the FY18 budget request also proposes significant reductions to both of these humanitarian accounts – for more detail on these cuts, please see the section beginning on page 14.

The FY18 budget request proposes $191.5 million in assistance specifically designated for Syria, which represents a 20 percent decrease from the FY17 request. Of the $191.5 million requested in FY18, $150 million is designated for ESDF and $41.5 million for NADR. Requested NADR funds will support removal of explosive remnants of war (ERW) and unexploded ordnance (UXO) from areas cleared of ISIS control inside Syria, including the training and equipping of Syrian teams to do this work. The FY18 request would also eliminate Peacekeeping Operations funding for Syria, which had been requested at $50 million in FY17 for the “provision of non-lethal support to vetted, moderate units of the armed opposition in Syria,” including to help those units “protect their communities from attacks by the Assad regime or extremists” as well as to “reinforce and maintain a ceasefire in Syria.” That said, the FY17 Omnibus Appropriations Act included $1.6 billion in counter-ISIL funds, consolidating train and equip funds for Iraq and Syria and expanding the countries eligible to receive assistance from this fund (for more details on this fund, and expanded NDAA authorities to define what this funding can be used for, please see the section on FMF loans beginning on page 17). Administration officials interviewed for this report note that a large portion of that $1.6 billion in counter-ISIL funds allocated for FY17 will be carried over and programmed in FY18.

The $150 million requested in ESDF assistance is planned to help stabilize areas after liberation from ISIS and provide support in some opposition-controlled areas of the country. Of this $150 million, $80 million is designated for conflict mitigation and reconciliation, which will

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147 Ibid
support reconciliation and accountability efforts by NGOs, and reinforce ongoing diplomatic negotiations to resolve the crisis. Sixty-two million dollars of this $150 million is designated for democracy and governance funding, which would represent a 50 percent decrease from the level requested in FY17. This funding would prioritize early recovery activities in liberated areas such as the restoration of essential services and strengthening local governance and service delivery.

Some observers have argued that the Trump administration’s shift in military tactics in Syria, including airstrikes on a Syrian government airfield and increased support to Kurdish militias in the country, could have a dramatic impact on the ground. As territories are liberated from ISIS and pro-regime forces, this will create new demands for humanitarian assistance as well as reinvigorate political transition discussions. However, one representative from a U.S.-based democracy organization suggested that the U.S. government aid mechanisms for Syria were slow to respond to changing dynamics on the ground, and that audits of Syria programming would impede efforts to take advantage of new opportunities.

Other observers echoed these concerns of rigidity. For example, of the two large funding agreements to strengthen local councils and build civil society in Syria were conceived and launched two years ago, but not modified much since that time. Despite attempts to update the scope of programs in line with changing realities on the ground, approvals from U.S. government donors have not caught up. For example, the number of local councils to work with in liberated areas was set at approximately 50-60 several years ago, while the total number of local councils now available for such partnerships has reached approximately 400—only 10 to 15 percent of local councils that could be trained are currently being trained.

Representatives of pro-democracy organizations express concerns that there is no clear center of decision-making on Syria policy and its relations to programming, so decisions are made at a “glacial” pace. For example, although the NEA/AC office has initially approved some changes to programming, the Syrian Transition Assistance and Response Team (START) mechanism is not perceived to have facilitated those discussions effectively. In comparison, funding provided through other donor countries such as the UK is viewed as having a greater impact precisely because it is more flexible and is programmed more quickly and efficiently. When the START mechanism was created in 2013 under the leadership of Mark Ward, the administration’s goal was to create a central coordinating mechanism to capture and direct a raft of Syria assistance programs funded through different accounts and mechanisms. START did succeed in bringing all of these programs under its control (the START platform includes approximately 40 staff from across bureaus and offices at the State Department and USAID), but especially since Ward’s departure, many of those programs have been on auto-pilot with no strategic direction or clear link to policy. In addition, some representatives of democracy organizations criticized the failure of the Ankara-based START to coordinate effectively with the Amman-based Southern Syria Assistance Platform (SSAP).

USAID’s Office of Transition Initiatives (OTI) also administers regional programs for Syria through staff based in Turkey. OTI implements rapid-impact activities to enable the early recovery of areas liberated from ISIS, strengthen communities’ ability to resist...
extremist groups, and maintain and increase the influence of strategic moderate actors. OTI has also provided more than $31 million in assistance to Syrian civil defense teams that function as emergency responders and have saved more than 91,000 lives. In interviews, administration officials explain the general division of labor as OTI addressing emergency humanitarian needs, NEA/AC administering support to local councils and independent media, and DRL supporting embattled NGOs, digital security, transitional justice, and gender programs in refugee communities. As a signal of Congressional support for DRL’s work with NGOs in Syria, Congress included an earmark in the FY17 Omnibus Appropriations Act directing DRL to continue its program implementation.

The political sensitivities with both the Jordanian and Turkish governments have hindered the ability of United States to do programming in some areas of Syria liberated from ISIS. In addition, Turkish sensitivities have limited the ability of U.S. assistance for local councils in Syria to primarily Arab councils (i.e., not Kurdish).

The administration has also directed assistance from Syria’s country account to the Syria Recovery Trust Fund (SRTF), a multi-donor project financing mechanism to meet the priority needs of the Syrian people. The United States, Germany, and the United Arab Emirates launched the SRTF in 2013, and it has received nearly $200 million from 12 donor countries, including $40 million from the United States. Based in Turkey, SRTF administers projects that focus on essential services in sectors such as “water, health, electricity, education, food security, solid waste removal, as well as other sectors including rule of law, agriculture, transportation, telecommunication, public enterprise, and housing.” Last year’s version of this report noted that without additional investments, the SRTF would likely be depleted by the end of 2016. Due to additional commitments from the United States and other donors, the Fund has replenished its resources; administration officials also note that an additional amount of FY17 funding will be contributed to the SRTF from Syria’s ESF, though the precise amount has not yet been determined.

While this section has focused primarily on assistance requested under the country account for Syria, addressing the humanitarian toll on the Syrian people after six brutal years of war most heavily relies on multi-country humanitarian accounts such as IDA and MRA. As noted above, the FY18 budget request proposes drastic cuts in funding for these lifesaving accounts in a year that Syria’s humanitarian needs are greater than ever (please see the section on these accounts beginning on page 14 for additional details). In FY17, Congress exceeded the administration’s requests for these accounts, recognizing the dire need to keep this funding in place. In order to maintain resources at adequate levels to respond to the Syrian crisis, Congress will need to again rise to the occasion in FY18 and reject the administration’s proposed deep cuts both to the Syria-specific aid allocation as well as to humanitarian aid accounts.

HIGHLIGHTS

- In FY17, Congress appropriated a new high of $165.4 million in bilateral assistance for Tunisia.
- The administration’s FY18 budget request proposes a 67 percent reduction to Tunisia’s bilateral assistance, which would represent the deepest, most dramatic cut to bilateral assistance for any country in the entire MENA region in FY18.
- Tunisia enjoys growing support in Congress, though it remains to be seen if that will translate to renewed assistance levels in an uncertain FY18 budget environment.
Tunisia has continued the difficult up-and-down path of democratization over the past year, with some steps of progress and other worrying developments. Amid increasing concerns about security threats and a weak economy in 2016, the government of Prime Minister Habib Essid stepped down after losing a vote of confidence in the parliament. He was replaced by Youssef Chahed, who formed a new national unity government and took office in August 2016. Since that time, the parliament has passed a new investment law to attract foreign direct investment and reduce state interference in economic activity, as well as a new law on good governance and anti-corruption. In May 2017, the Tunisian government launched a “war on corruption,” beginning with the arrests of eight high-profile businessmen accused of corruption-related crimes. Tunisia has made significant progress in countering terrorism in the country as its security services have become more capable. Long-promised municipal elections have been repeatedly delayed, and are currently scheduled for December 2017, but the unexpected resignation of the head of Tunisia’s highly regarded independent electoral commission has raised the prospect of yet another delay. The Tunisian government has also recently presented recommendations to civil society to amend the country’s NGO law, spurring concern among Tunisia’s vibrant civil society sector that organizations may face restrictions on their activities and funding.

During the first six months of the Trump administration, Tunisia’s democratic transition has not been a top priority, as the President has focused on countering ISIS and engaging with the autocratic rulers of the Gulf, Egypt, and Turkey. Prime Minister Youssef Chahed made an official visit to Washington in July 2017 to strengthen ties with the Trump administration and Congress, meeting with Vice President Pence, Defense Secretary Mattis, Treasury Secretary Mnuchin, Commerce Secretary Ross, and several members of Congress. Vice President Pence “applauded the Prime Minister’s recent efforts to combat corruption, and encouraged the Prime Minister to continue making sustainable reforms that will attract investment and create jobs for Tunisians.” Secretary Mnuchin congratulated PM Chahed on Tunisia’s political transition, and emphasized U.S. “support for Tunisia’s efforts to counter terrorism, including terrorist financing.”

The United States has increased funding and assistance considerably during Tunisia’s democratic transition, providing more than $750 million in assistance and underwriting nearly $1.5 billion in loan guarantees since 2011. In addition, the Millennium Challenge Corporation (MCC) announced the selection of Tunisia for a new compact in December 2016. The MCC compact is still in early stages of development, as both countries work to harmonize financing mechanisms and undertake a constraints analysis to identify impediments to economic growth.

Despite the impressive political progress in the country since 2011, the Tunisian economy has struggled, with just 1.5 percent economic growth in 2016 and public debt exceeding...
60 percent of GDP. In June 2016, the IMF approved a four-year, $2.9 billion loan to Tunisia to help the country cope with these fiscal pressures as the Tunisian government enacts a tough austerity program and works to implement macroeconomic reforms. So far, the IMF has released two tranches of this loan, totaling approximately $684 million, upon the implementation of economic and regional development reforms. The second tranche was held up for several months "because of lack of progress in reforms, including public sector wage bill, the public finances and state banks." Following the implementation of these reforms, the IMF released the second tranche ($364 million), and the World Bank also announced that it would grant Tunisia an additional credit of $500 million to support its budget. Tunisia also held an international investment conference in November 2016, which attracted pledges of an estimated $15.5 billion in investments.

In 2017, Congress took the important step of increasing Tunisia’s bilateral assistance package to a new high of $165.4 million, an increase of more than 16 percent over the FY16 enacted level. In the FY17 budget request, the administration included $140.4 million in bilateral assistance for Tunisia, a slight decrease from the FY16-enacted level of $141.9 million. During a May 2016 hearing, Rep. Ileana Ros-Lehtinen, chair of the House Foreign Affairs Subcommittee on the Middle East and North Africa, criticized this level:

“I was disappointed to see the administration request almost $20 million less in FMF funds for Tunisia this year – funds for which there are a clear need and would go a long way toward helping Tunisia remain stable. Similarly, I was disappointed to see only a modest request for ESF funds...Tunisia is a country whose democratic, economic, and security success is vital to our own interests, and despite the many challenges, it is overflowing with opportunity in an increasingly troubled region of the world. We cannot afford to be turning away, diverting our attention, or scaling back our engagement, and I encourage this administration to make Tunisia the priority that it warrants.”

Similar to FY16, Congressional appropriators took different approaches to Tunisia in their draft versions of the appropriations bill; the draft House bill included $160.4 million in total bilateral assistance to Tunisia while the draft Senate bill included $145.4 million. When the final FY17 Omnibus Appropriations Act was passed in May 2017, Congress included an overall figure of $165.4 million in bilateral assistance to Tunisia. To arrive at this level, Congress adopted the higher level of ESF ($79 million) from the FY17 Senate bill and the higher level of FMF ($65 million) from the FY17 House bill. In addition, the FY17 Omnibus Appropriations Act includes additional bilateral funding in three smaller accounts (INCLE, NADR, and IMET, totaling an additional $21.4 million).

In the FY18 budget request, the administration includes only $54.6 million in bilateral assistance to Tunisia, which would represent a dramatic
67 percent reduction from the FY17 level. [If enacted, this 67 percent cut to Tunisia in FY18 would represent the deepest, most dramatic cut to bilateral assistance to any country in the entire MENA region.] The request zeroes out Tunisia’s FMF grant, instead proposing to shift Tunisia’s military assistance to a loan basis. (For further detail on the FY18 proposal to convert FMF grants to loans, please see the section beginning on page 17.) In addition to eliminating $65 million in FMF, the FY18 budget request also reduces Tunisia’s ESDF by nearly half from the FY17-enacted level, to just $40 million.

Of the $54.6 million requested in bilateral aid for FY18, approximately 22 percent is designated for Peace and Security, 44 percent for democracy and governance (GJD), and 35 percent for economic growth programs. Those funds will support economic and governance-related reforms, including reforms to improve the business enabling environment, to improve service delivery at the local and national level, and to increase government transparency and accountability. Part of the reason for the $39 million ESDF reduction in the FY18 budget request is that the fifth and final $20 million tranche of funding to the Tunisian American Enterprise Fund (TAEF) was allocated in FY17, fully capitalizing the fund at $100 million.165 As of the end of April 2017, the TAEF had approved $33.8 million of this $100 million for disbursement to Tunisian small- and medium-sized enterprises (SMEs).166

In addition to supporting SMEs, current U.S. aid programming in Tunisia is focused on supporting job creation, decentralization, and anti-corruption. Economic growth programs administered by USAID in Tunisia also support customs and tax reforms, which reinforce the broader IMF reform agenda on budget and expenditures in Tunisia. In FY16, $30 million of Tunisia’s ESF was also used to underwrite a $500 loan guarantee for Tunisia in June 2016, the third U.S.-backed loan guarantee provided to Tunisia since 2012.167

U.S. officials interviewed for this report described their views on assistance opportunities in Tunisia as “bullish” due to a high degree of government receptiveness, increased on-the-ground capacity, and strong cooperation with European donors. Although there is not a full USAID mission in the country, USAID has increased its presence to four American staff on the ground in Tunis, along with a larger number of local Tunisian staff. Also, while versions of this report in previous years criticized the unaccompanied status168 of the U.S. Embassy in Tunisia for limiting the ability to attract senior personnel to key postings, U.S. officials confirm that Tunis is no longer an unaccompanied post and American staff are now living in Tunis with their families. Administration officials also praised the robust dialogue and strong coordination the United States enjoys with other G7 donor countries in Tunisia, calling their coordination a “model” for international assistance.

Also included in this year’s budget request for Tunisia is approximately $24 million in GJD funding, which represents a 10 percent decrease from the FY17 request. In addition to Tunisia’s bilateral funding, the State Department’s DRL

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166  Ibid.


168  Meaning that U.S. nationals working at the Embassy cannot be accompanied by family members, normally due to security concerns.
Bureau is also administering approximately $9 million in assistance for Tunisia from its multi-country Democracy Fund allocation. This funding supports programs to incorporate civil society into national anti-corruption efforts, address sexual and gender based violence, and combat torture.

On the security assistance side, the proposal to eliminate Tunisia’s FMF grants runs counter to a steady trend of increased security cooperation with – and assistance from – the United States. The United States declared Tunisia a Major Non-NATO Ally in May 2015, signed a Memorandum of Understanding (MOU) in May 2015 to increase military cooperation and underscore the value of FMF, and signed a Bilateral Country Action Plan (BCAP) to boost military and security cooperation in May 2017. Those investments have paid off, as Tunisia has made notable progress in its ability to counter terrorist threats, as demonstrated in incidents such as the strong response to the attack on Ben Guerdane in March 2016.

According to a readout of PM Chahed’s meeting with Secretary Mattis in July 2017, “the two leaders discussed the importance of the U.S.-Tunisian defense partnership, Tunisia’s security situation and counterterrorism assistance… Both leaders noted the progress and significance of military training, intelligence sharing and defense cooperation.” Mattis then “affirmed the strong U.S. commitment for continued support to Tunisia.”

The FY18 budget request also eliminates all funding for the Security Governance Initiative (SGI), describing it as a three-year pilot program that “duplicates existing activities.” SGI is a multi-country initiative that has provided assistance to six African countries to help address issues of governance within the security sector. Administration officials described SGI’s focus in Tunisia on border management, and that continued funding for this priority could be provided from other accounts if SGI funding is indeed zeroed out in line with the FY18 budget request. For example, DRL administered $3 million in funding from the counter-ISIL assistance provided in FY17 to support SGI’s work and may continue to receive these kinds of transfers in the future.

The State Department’s Bureau of International Narcotics and Law Enforcement (INL) is also administering a significant number of INCLE-funded programs in Tunisia. Officials interviewed for this report note that INL is now moving away from broad capacity-building work with Tunisian police to a more specialized approach in the country. For example, INL has provided support on crowd control training, multiple threat training, and police academy modernization in the past. After making progress in those areas, INL intends to use the $10 million in INCLE funding requested in FY18 to shift to more specialized areas, including criminal forensics training, security sector reform, anti-corruption, and recovery of Ben Ali family assets. The State Department also negotiated a Joint Country Action Plan (JCAP) in September 2016, which focuses on “enhancing border management; police policies, procedures, and community engagement; and promoting integrity and addressing radicalization in the criminal justice system,” with buy-in and cooperation from the Tunisian Ministry of Interior and Ministry of Justice.

In Congress, there has been steadily increasing support for Tunisia. To welcome PM Chahed to Washington in July 2017, 12 Senators cosponsored a resolution to reaffirm “the commitment of the United States Government to the Tunisian Republic, including a commitment to provide appropriate levels of assistance, in support of the ongoing transition of the Tunisian Republic to an inclusive, prosperous, and secure democracy.” In addition, during the visit, Chairman of the House Foreign Affairs Committee Ed Royce (R-CA) said, “It is in the U.S.’s national security interests to continue helping Tunisia combat these returning terrorists by maintaining foreign assistance levels.” Senator John McCain (R-AZ) also called the FY18 proposal to slash U.S. assistance to Tunisia “misguided and dangerous” and predicted “at the end of the day, we are not going to see these cuts [to Tunisia] take place.”

The Trump administration should reinvigorate some of these neglected bilateral mechanisms with Tunisia. For example, Secretary Tillerson should work to hold the next session of the U.S.-Tunisia Strategic Dialogue in Washington later this year. He should also schedule the next session of the U.S. Tunisian Joint Economic Commission, last held in May 2016. The administration’s new U.S. Trade Representative Bob Lighthizer should prioritize TIFA talks with Tunisia, and declare the administration’s intent to negotiate a bilateral Free Trade Agreement (FTA). President Trump has declared a clear preference for bilateral over multi-country trade deals, and Tunisia is an ideal candidate: the small size of Tunisia’s economy and the trade balance play to the United States’ favor, and opening free trade with Tunisia will help develop the country’s economy and create jobs.

Slashing economic and military assistance to Tunisia as proposed in the FY18 budget request would be shortsighted and dangerous, amounting to a withdrawal of support from a Major Non-NATO Ally of the United States that is showing strong returns while continuing to consolidate its historic transition to democracy. Congress should reject proposals by the administration to cut assistance to Tunisia in FY18, and instead renew bilateral assistance at the FY17 level of $165.4 million. There is no other Arab state that shares both the democratic values and strategic interests of the United States, and relatively small amounts of assistance invested can have an important return and a major impact. As Senator McCain stated, if the Trump administration’s top priority is countering terrorism in the region, “there is no better response to the endless cycle of violence and radicalization than Tunisia’s continued democratization.”

171 The resolution was led by Senators Cardin (D-MD) and Rubio (R-FL), and had ten original cosponsors, including Senators Tammy Baldwin (D-WI), Cory Booker (D-NJ), Chris Coons (D-DE), Tom Cotton (R-AR), Tim Kaine (D-VA), Ed Markey (D-MA), John McCain (R-AZ), Bob Menendez (D-NJ), Chris Murphy (D-CT), and David Perdue (R-GA).
174 Ibid.
HIGHLIGHTS

• While potential peace negotiations dominate the policy debates, stalled political processes within the West Bank and Gaza deserve U.S. attention.

• The budget request proposes significant cuts to U.S. economic assistance to the West Bank and Gaza, far below recent annual averages.

• Congress continues to place stringent conditions on U.S. bilateral assistance to the West Bank and Gaza, and individual Members also frequently holds portions of the aid.
The repression of human rights and the state of political reform within the West Bank and Gaza are often overshadowed by the broader Israeli-Palestine conflict, but trends are troubling. In 2016, Human Rights Watch documented cases in both territories of authorities intimidating or arresting government critics, including activists, musicians, and journalists. Meanwhile, the political scene remains paralyzed. Palestinian Authority (PA) President Mahmoud Abbas is now in his twelfth year of what was supposed to be a four-year term. Disagreements between Hamas and Fatah over election parameters ultimately left Gaza’s citizens unable to participate in May 2017 municipal elections, despite strong interest by Gazans. Economically, modest growth has failed to create jobs in the territories, with unemployment reaching 28 percent by late 2016 and expected to increase further this year.

As has often been the case early in the term of a new U.S. president, talks of renewing the peace negotiations between Israel and the Palestinian Authority have resurfaced under the Trump administration. President Trump met President Abbas at the White House in May 2017, pledging to “do whatever is necessary to facilitate [a peace] agreement [...] We will get this done.” In his public remarks he also noted “the positive ongoing partnership between the United States and the Palestinians on a range of issues – private sector development and job creation, regional security, counterterrorism, and the rule of law – all of which are essential to moving forward toward peace.” All of the areas he mentioned are specifically identified as objectives for United States assistance to the Palestinian territories.

The FY18 budget request seeks $251 million in total bilateral assistance, a reduction of $112.2 million (31 percent) as compared with the FY17 budget request. This FY18 figure includes $215 million in economic assistance and $36 million in security aid. Economic assistance to the West Bank and Gaza has averaged nearly $400 million annually since 2008.

Of the economic assistance, $28 million (13 percent) is proposed for democracy and governance programming: $23 million for good governance, $3.5 million for rule of law and human rights; and $1.5 million for civil society. An additional $14.7 million in GJD funding is requested under the INCLE account to work with law enforcement, judicial, and prosecutorial institutions. This represents a 32 percent increase over the FY17 GJD request of $32.3 million.

Representatives of U.S.-based democracy organizations interviewed for this report suggested that the anticipated uptick in GJD funding resources that has in the past often accompanied the renewal of the peace process has not yet materialized. They also noted growing difficulties in carrying out programming in the Palestinian territories, as local tax and banking regulations have grown more restrictive, and registration requirements limit where and with whom they can work.

For Peace and Security programming, the FY18 request includes $35 million in INCLE and $1 million in NADR funding, levels that match the FY17 request. Since FY11, INCLE support levels to the West Bank and Gaza have fallen dramatically from $150 million in FY11, $70 million in FY13, and to current request levels of $35 million. Part of this decline in funding can be attributed to a shift by the United States from...
a resource-intensive training role to an “advise and assist” role for Palestinian security forces. INCLE funds have trained thousands of security personnel, as well as supported programming to improve the criminal justice system.\textsuperscript{180}

Initial reports on President Trump’s 2018 budget suggested that it proposed a modest bump in economic aid to the West Bank and Gaza, which is true on the surface when comparing the FY18 budget request with the reported FY16 actual spending numbers. The FY16 actual numbers raise a number of additional questions as well. The Obama administration originally requested $442 million for FY16 bilateral aid to the West Bank and Gaza, but FY16 figures released in May 2017 show only $261 million (60 percent) having been spent.

Most of the FY16 funding gap comes from underspent economic aid, with $370 million requested and only $205 million spent thus far. Administration officials confirmed an additional $28.5 million spent on the economic growth objective in FY16 that was reprogrammed from previous-year funds to supplement the bilateral aid package, bringing the total economic aid spent in FY16 to at least $234 million. But that still leaves a $136 million difference between the FY16 request and actual numbers. Much of this gap may be the result of congressional holds on aid to the Palestinians that regularly delay aid disbursement. Consequently, it would not be surprising if the FY16 numbers were to be revised upwards further at a later date.

In any case, the administration is proposing a significant cut to the level of assistance for the Palestinian territories, regardless of whether the reduction is ultimately reflected in the final FY16 numbers, or in subsequent years.

U.S. assistance to the West Bank and Gaza is governed by a number of complex conditions legislated by Congress. These include ensuring funds are not used to recognize or honor individuals who have committed acts of terrorism, suspending aid if the PA initiates International Criminal Court investigations against Israeli nationals, and preventing money from assisting Hamas or any entity controlled by Hamas, among others. Additionally, legislative language in place since FY15 requires the reduction of economic aid “by an amount the Secretary determines is equivalent to the amount expended by the Palestinian Authority as payments for acts of terrorism by individuals who are imprisoned after being fairly tried and convicted for acts of terrorism and by individuals who died committing acts of terrorism during the previous calendar year.” The amount of this annual reduction is reported to Congress, but it remains classified.\textsuperscript{181}

The House and Senate are also currently considering the Taylor Force Act, a bill that would further condition economic assistance contingent upon the PA “taking credible steps” to end violence against U.S. and Israeli citizens by individuals under its “jurisdictional control,” publicly condemning such acts, and ending payments to perpetrators.\textsuperscript{182} “You can’t be a partner in peace when you are paying people to commit terrorist acts,” said co-sponsor of

\textsuperscript{180} Ibid.
\textsuperscript{181} Ibid.
the bill, Sen. Lindsey Graham (R-SC). At a June 2017 budget hearing, Secretary Tillerson testified that it was his understanding that the PA had "changed its policy" and that "their intent is to cease the payments." Sen. Bob Corker (R-TN) added that it was his hope that a "Taylor Force-like piece of legislation" would pass out of the Senate Foreign Relations Committee prior to the August 2017 congressional recess.

In the waning days of the Obama presidency, the administration notified Congress that it intended to release $221 million in FY15 and FY16 assistance for the Palestinian territories, despite existing informal congressional holds on the aid. Reps. Ed Royce (R-CA) and Kay Granger (R-TX) had placed the holds due to Palestinian efforts to acquire membership in international organizations. Granger called the move "inappropriate," adding, "While none of these funds will go to the Palestinian Authority because of [existing] conditions, they will go to programs in the Palestinian territories that were still under review by Congress.”

Regarding the payments, White House Press Secretary Sean Spicer said in January 2017 that the administration would review "how U.S. taxpayer money is spent in general," though State Department Spokesman Mark Toner said in March 2017 that it was his understanding "that the money has been released." Administration officials interviewed for this report confirmed that, when working to release the money, they had consulted with concerned Members of Congress to assuage their concerns. These officials also reported that they expected an additional $70 million in economic aid currently held by members of Congress to move forward soon.

Palestinians in the West Bank and Gaza, as well as refugees in Jordan, Lebanon, and Syria, receive additional support and services from the U.N. Relief and Works Agency (UNRWA). The United States is the largest state donor to UNRWA, but the Trump administration's proposed cuts to foreign affairs spending and strong rhetorical support for Israel has raised questions about the fate of this funding, which predominantly comes from the Migration and Refugee Assistance (MRA) account. The FY18 request proposes an 18 percent cut to MRA, seeking $2.75 billion in FY18 compared to the $3.1 billion appropriated in FY17. It is unclear what impact such a reduction might have on UNRWA, but one diplomat told Foreign Policy magazine that the U.S. contribution to UNRWA's budget "might be spared because it relieves Israel of the obligation to care for some Palestinians and because Israel sees the program as ultimately promoting stability.” For additional detail on the potential impact of MRA cuts, refer to the section beginning on page 14.

It is unclear to what degree the low request in bilateral aid reflects the administration’s specific policy toward Palestinian issues and the peace process, as opposed to being driven primarily by broader cuts to foreign assistance globally. But as the administration aims to re-open peace process negotiations, it should not overlook the work to improve governance and build democratic institutions that had been a focus of U.S. assistance to the Palestinian territories for years.

HIGHLIGHTS

- The Trump administration has doubled down on Obama-era support for the Saudi-led coalition with additional arms sales and increased tactical and logistical support.
- The United States has given more than half a billion dollars in humanitarian aid.
- The administration’s prioritization of support for military action over political negotiations could come at great cost to the Yemeni people and squander additional U.S. resources.

TOTAL BILATERAL ASSISTANCE BREAKDOWN, FY09-18

TOTAL FY18 REQUEST

GJD FUNDING, FY09-18

- Civil Society
- Political Competition, Consensus Building
- Good Governance
- Rule of Law & Human Rights
As the Yemeni civil war drags on into its third year, the situation has grown only more bleak. The government-in-exile led by President Abd Rabbuh Mansour Hadi, based in Aden and currently in control of territory in the south and east of the country, remains in place largely due to the support of a coalition led by Saudi Arabia. On the other side, the alliance between the Houthis and former President Ali Abdullah Saleh continues to control territory in the north and west of the country, including the capital Sana’a. But, as a May 2017 POMED report states: “After more than two years of fighting, the warring parties have achieved no lasting territorial gains or any clear political advantage.” 190 Meanwhile, the growing strength of the Southern separatist movement threatens the unity of the country 191 and a resurgent al-Qaeda in the Arabian Peninsula continues to ingratiate itself with the local population and government security forces. 192 Meanwhile, at least 10,000 civilians have been killed, nearly 18 million face extreme hunger, more than 7 million remain on the brink of famine, and cholera cases have topped 320,000. 193

The Trump administration has doubled down on Obama-era support for the Saudi-led coalition, having announced more than $100 billion in additional arms sales for Saudi Arabia in May 2017 alongside increased logistical and tactical military support. The United States has already conducted more than 80 drone strikes in 2017 alone, more than double the number conducted in all of 2016. 194 During a visit to the region in April 2017, Secretary of Defense Mattis stated that the administration’s main objective regarding the conflict in Yemen “is to reach negotiations sponsored by the United Nations to find a political solution as soon as possible.” 195 But, as of now, military support for the Saudi-led coalition appears to be a higher priority for the administration than progress toward a political solution.

The FY18 budget request for Yemen totals just $35 million, including $28.5 million in economic aid and $6.5 million in military assistance. Of the economic aid, $14.7 million (52 percent) is designated for GJD programming, including $6.1 million for good governance, $1.6 million for political competition, and $7 million for civil society. The remaining economic assistance request consists of $6 million for education, $4.3 million for agriculture programming, and $3.5 million for Global Health programs to administer vaccines, treat childhood illnesses, and deliver maternal and child health services. Given this environment, it is extremely difficult for the United States to carry out assistance

programs in the country. Nonetheless, the State Department’s DRL Bureau is currently carrying out approximately $3 million in programming to support documentation of human rights abuses as well as combatting the use of child soldiers. MEPI also has limited programs to support civil society and job matching programs in the country. One representative of a U.S.-based democracy NGO interviewed for this report stressed how challenging it is to carry out in-country programs in the current environment and acknowledged that available U.S. government funding seems to be sufficient – not necessarily to meet Yemen’s needs, but to support the limited programming that can be carried out against the backdrop of the civil war.

The only security component of the bilateral aid request is $6.5 million for NADR programs. This funding will be used in part “to build and train a civilian law enforcement force” to apprehend, investigate, and prosecute terrorism suspects. Ongoing security sector programs include State Department INL Bureau projects to work with law enforcement on potential ceasefire implementation, as well as efforts to link the formal and informal security sectors.

The overwhelming majority of U.S. assistance to Yemen comes through humanitarian aid to help nearly 21 million Yemenis. USAID estimates that the United States has delivered nearly $526 million in total humanitarian aid since FY16, including more than $275 million already in FY17. In the FY17 Omnibus Appropriations Act, passed in May 2017, Congress approved $990 million in additional International Disaster Assistance (IDA) funding to help avert famines in Yemen, along with South Sudan, Nigeria, and Somalia. Most of the humanitarian assistance provided in Yemen comes from the IDA account along with the Migration and Refugee Assistance (MRA) account.

$639 million of this funding was released in a July 8 announcement, though it is unclear how much of this will go to Yemen. The United States has also given Yemen at least $320 million from the Food for Peace account from FY13-16, and another $144 million of in-kind contributions so far in FY17. Most of the humanitarian assistance provided in Yemen comes from the IDA account along with the Migration and Refugee Assistance (MRA) account.

“AVAILABLE U.S. GOVERNMENT FUNDING [FOR PROGRAMS THAT SUPPORT CIVIL SOCIETY AND JOB MATCHING] SEEMS TO BE SUFFICIENT – NOT NECESSARILY TO MEET YEMEN’S NEEDS, BUT TO SUPPORT THE LIMITED PROGRAMMING THAT CAN BE CARRIED OUT AGAINST THE BACKDROP OF THE CIVIL WAR.”

The FY18 budget request allocates $1.2 billion in MRA funds for the MENA region, to be divided between Yemen, Iraq, and several countries hosting Syrian and Palestinian refugees. At least an additional $111 million in humanitarian aid for Yemen has come from the IDA account in FY16 and FY17. Proposed cuts to the MRA and IDA accounts (18 percent and 26 percent compared to the FY17 request, respectively) in FY18 may reduce the United States’ ability

to respond to Yemen’s growing crisis. The budget request justifies the cuts to the IDA account by suggesting the U.S. government will “urge other donors, including non-traditional donors, to increase funding for humanitarian assistance and lessen the burden on the United States to respond,” while challenging “international and non-governmental relief organizations to become more efficient and effective in order to maximize the benefit to recipients of assistance.” Refer to the section on these two humanitarian accounts on page 14 for additional detail.

As of April 2017, the United Nations reported that only half of the $2.1 billion needed to provide life-saving humanitarian aid to millions of Yemenis had been pledged. Humanitarian relief organizations complain that the United States and other governments contributing badly needed funds for humanitarian relief are at the same time supporting military action and providing weapons to fuel the conflict, resulting in large numbers of civilian deaths, destruction of vital civilian infrastructure, and a worsening humanitarian crisis.

The delivery of humanitarian aid to Yemen has become increasingly difficult due to the situation at the Houthi-controlled al-Hodeidah port. During his June 2017 testimony on the FY18 budget before the Senate Foreign Relations Committee, Secretary Tillerson said the United States is “actively working” to ensure aid delivered through the port is not stolen by Houthi forces, which he asserted is “happening now.” Tillerson expressed hope that the port could be controlled by a third party, like the UN, to help ease the humanitarian crisis. To complicate matters, the port’s cranes were destroyed by Saudi-led coalition airstrikes early in the conflict; restoring them could “double or triple” the port’s capacity to deliver aid. The United States has purchased replacement cranes (at a cost of $4 million in USAID funds), but they are currently languishing in a UN storage facility awaiting coalition approval for installation. Rumors of a coalition effort to take the port by force provoked widespread concern that such an offensive would dramatically worsen the already dire crisis.

Numerous members of Congress have urged action to help the humanitarian situation and worked to stall some U.S. weapons sales to the coalition, particularly to Saudi Arabia. A June 2017 Senate resolution to disapprove the sale of precision-guided munitions to Saudi Arabia was ultimately defeated in a 53-47 vote, but it sent an important bipartisan signal of waning patience with Saudi conduct in the war. Four Republicans voted in favor of the resolution, including Senators Rand Paul (R-KY), Todd Young (R-IN), Dean Heller (R-NV), and Mike Lee (R-UT). Senator Young stated that he supported the bill due to “the persistent and
misguided refusal of the Saudi government to take specific steps [he has] requested to alleviate some of the humanitarian suffering in Yemen.\textsuperscript{206} Additionally, Senator Chris Murphy (D-CT) expressed concern to Secretary Tillerson during a June 2017 budget hearing that this administration had little interest in a political solution, and instead is trying to “escalate the military conflict as a means to trying to bring the Houthis to the table under circumstances in which they are weaker.”\textsuperscript{207}

Tillerson insisted the administration was indeed engaged, having had “two or three” meetings about “a way forward” with the UAE, Saudi Arabia, Oman, and the UN. He added that past political mediation efforts “may have failed because there was not a recognition of all of the equities that were involved inside of Yemen.” When Senator Murphy asked why Iran was not included in the initial talks, Tillerson said that Iran “[has] not earned a seat at the table.”\textsuperscript{208} Tillerson has also failed to engage the Houthis directly; his predecessor John Kerry was able to secure Houthi support for a ceasefire that was later rejected by Saudi Arabia and President Hadi in late 2016.\textsuperscript{209}

If unchanged, the administration’s approach of prioritizing support for military action over political negotiations could come at great cost to the Yemeni people and squander additional U.S. resources. Credible reports of UAE-sanctioned torture (and possible U.S. complicity),\textsuperscript{210} mounting civilian casualties and destruction at the hands of Saudi airstrikes, and a reinvigorated al-Qaeda in the Arabian Peninsula should compel the Trump administration to reconsider this approach and take action to match administration rhetoric about the importance of UN-backed peace negotiations.


\textsuperscript{208} Ibid.


# Near East Total FY09-FY18

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## TABLE 1: Total Assistance by Strategic Objective, FY09-FY18 (in millions of dollars)

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### TABLE 3 - BILATERAL FOREIGN ASSISTANCE BY COUNTRY AND BY STRATEGIC OBJECTIVE, FY09-FY18 (MILLIONS USD)

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* Congress appropriated a total of $1.419 billion in bilateral aid for Egypt in FY17, with the reduction in the ESF account (the breakdown by objective has not yet been determined).

Congress appropriated a total of $1.280 billion in bilateral aid for Jordan in FY17, with the breakdown by objective of the additional $280 million not yet determined.
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(MILLIONS USD)

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* Congress appropriated a total of $38.5 million in bilateral aid for Morocco in FY17, with the additional $5 million allocated for Peace and Security through the FMF account.
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(MILLIONS USD)

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