

# U.S. ASSISTANCE TO THE PALESTINIANS

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## HEARING BEFORE THE SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA OF THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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WEDNESDAY, MAY 23, 2007

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND SOUTH ASIA,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:18 p.m. in room 2172, Rayburn House Office Building, Hon. Gary L. Ackerman (chairman of the subcommittee) presiding.

Mr. ACKERMAN. The committee is in order.

Where do United States interests lie in the current chaos afflicting the Palestinians? This is a difficult question. Each answer comes with political dilemmas and moral hazards. Although we are not responsible for the choices made by others, there is no avoiding the fact that a good deal of responsibility for the status quo lies at our feet.

The emergence of a new Palestinian leadership committed to peace in January, 2005, provoked little response from the United States beyond rhetoric alone. We did not perceive the fragility and significance of the moment, and within a year it was lost.

By January, 2006, the inability of the Palestinian Authority to deliver political goods from Israel, the inability of the PA to tackle internal corruption or to produce economic recovery or personal security left Palestinians angry and ready to make changes. And thanks to the Bush administration, which chose to ignore both good sense and the specific terms of the Oslo agreements, when Palestinians went to the polls Hamas was on the ballot, providing a ready outlet for the frustrations of the Palestinian people.

When the Palestinian people chose to empower Hamas they implicitly and perhaps unknowingly sent a number of messages to the rest of the world, messages about the acceptability of terrorists and terrorism, about the durability of past commitments, and about their relationship with the world.

Most Palestinians had more narrow objectives in their votes, but elections have consequences, no less for Palestinians than for ourselves in the United States. A legitimate election doesn't absolve candidates of their crimes, and there is more to democracy than a fair counting of ballots. Elected terrorists are still terrorists.

The consequences of the Palestinian elections have been dire. Israel stopped transferring tax revenues, and the movement of goods in and out of Palestinians areas has slowed to a stagnant crawl. The United States acted to prevent bank transfers on the Hamas-led PA, and Congress has required that U.S. assistance be

given only through nongovernmental organizations or to the office of President Mahmoud Abbas.

To provide humanitarian assistance to the Palestinian people, together with our Quartet partners, we have established a temporary international mechanism to deliver aid. The TIM initially established in June, 2006, allowed approximately \$900 million in emergency assistance to be spent in the West Bank and Gaza by the end of last year. By comparison, in 2005, total PA revenue from taxes, transferred customs duties and foreign aid amounted to \$1.3 billion, with another \$700 million coming from commercial loans and proceeds from the Palestinian Investment Fund.

So today, instead of an economy, the Palestinians have a TIM cup. Instead of a unity government, they have warlords and clan leaders. They have replaced negotiations with Israel with fighting among themselves. Palestinians who once rightfully boasted of their high levels of education and cultural sophistication are now commonly compared to the hapless residents of Afghanistan and Somalia. Instead of being schooled in co-existence and peace, Palestinian children now get instruction in genocide and the joy of suicide bombing from Mickey Mouse's evil cousin Farfur, the Hamas TV terror mouse, creating another lost generation.

For the ordinary Palestinian, nothing is better and almost everything is worse. Yet who do they blame? The United States, Bush, Olmert, Abu Mazen, the PA, the Quartet, the weather, the New York Yankees. Anyone and everyone except Hamas.

And how is Hamas responding to the crisis? The same way they always do. Hamas may have emerged as a political actor, but they still have only one strategy. It is: "Just don't stand there. Kill some Jews."

Not surprisingly, scarcely a day has gone by during the so-called "cease-fire" when the 40,000 Israelis living in Sderot have had to flee Palestinian rocket fire from Gaza. Instead of baiting the IDF to invade, Hamas only cleared the way for the IDF to resume targeted killings, richly deserved, probably necessary, but ultimately sterile.

Into this maelstrom of chaos and bloodletting the Bush administration has proposed a set of benchmarks to facilitate greater Palestinian freedom of movement. The plan is heavy on administrative details and light on political reality. Various described as "informal," "flexible" and "iterative," the benchmarks overwhelmingly focus on specific and often risky action items for Israel and on fuzzy, notional aspirations for the forces under the control of President Abbas. Yet again I am afraid we have slaughtered more trees to print papers that will fill the graveyard of stillborn American security plans.

To be clear, I am not opposed to benchmarks or security plans; and I certainly agree that both Israelis and Palestinians have to take responsibility for improving their shared misfortune. Reciprocity is the only way out of this mire. If the past year has shown nothing else, it has demonstrated clearly the perils of unilateralism. Given the level of the PA's disfunctionality, unilateralism was an experiment worth trying, but the results are now clear, and they are overwhelmingly negative.

Politically, diplomatically and militarily, unilateralism has strengthened radicals, weakened moderates, undercut Israeli deterrence and contributed little to Israeli security. Getting out of Gaza was worth doing, but in the long term I see little prospect for Israel to achieve durable improvements in security without the cooperation of an effective Palestinian partner. And here we come to the heart of the matter. This is no such effective Palestinian partner.

By virtue of the decisions and the missed chances of the past—American, Israeli, Arab and Palestinian—the Palestinian Authority is in danger of complete collapse. It may be just a shell today, but even that shell is now in danger of disintegration. It is this fact more than any other that gives an air of unreality to the so-called access and movement benchmarks. In the totality, whether they are informal, inflexible or iterative, they are built on a flawed premise, they confuse symptoms with causes. The lack of access and movement is a problem, but it is not the problem. The problem is a Palestinian Authority without a singular and exclusive authority. The problem is a political void that is being relentlessly expanded and filled by Hamas.

And unless we can propose a plan that will address the problem, I fear our wastepaper graveyard is going to keep pace with the real ones.

I would like now to turn to my very distinguished and good friend from Indiana, the ranking member of the committee, Mr. Pence, for whatever comments he may wish to make.

Mr. PENCE. Thank you, Mr. Chairman.

Allow me to apologize for my tardiness to you and to this extraordinarily distinguished panel. I don't want the members of the panel to feel any excessive confidence because they outnumber the Members of Congress. I found that the presence of the chairman is a quorum.

Today's situation in Gaza is troubling. Violence is unfolding as we speak at this very hour. The bloody factional crosscurrents have turned into a "situation of total anarchy," as our witness General Dayton describes it. I cannot think of better words.

Hamas has waged war on Israel and rival Palestinian factions simultaneously in just the last few weeks. The only "good news," such as it is, is that it did not have the rapid success it might have expected and desired. Thankfully, Hamas was stopped at the Karni crossing as the forces of President Mahmoud Abbas's Presidential Guard prevailed, as General Dayton will testify shortly.

The larger challenge before us it seems to me today is how to continue to isolate Hamas without punishing the Palestinian people. Our efforts to financially cut off Hamas have borne some fruit. At the same time, overall aid to the Palestinians has increased. It is troubling that Hamas, however, appears to have a deep supply of weaponry and equipment; and I look forward to asking our panel about that.

Our witnesses correctly cite the necessity of basic security being in place before a dire economic situation can be addressed. This vexing condition has plagued the Palestinians for some time now. Some of their leaders would rather wage war on each other and Israel than have a society where basic rights and freedoms are protected. Somewhere between autocracy and Islamism certainly there

must be a renewed Arab civilization waiting to emerge. I believe it with all my heart.

Mr. Chairman, all our witnesses make reference to the President's vision of two states living side by side in peace and security; and yet there is a mismatch when one party rejects the other party's right to exist. Edmund Burke famously said, "The only necessary for the triumph of evil is for good men to do nothing." I would also parenthetically add the only thing necessary for the triumph of evil is when evil men do everything.

I am not suggesting that President Mahmoud Abbas has done nothing, but his response to the forces of evil have been sometimes tepid and sporadic. His governance has left a lot to be desired. He has been unable to get his government to agree to the Quartet's basic preconditions for the resumption of aid. He must take steps to reform his own ranks and strengthen his own forces in curbing terrorism; and he should denounce anti-American, anti-Jewish incitement recently voiced by the Speaker of the Parliament on Palestinian Authority television, just to name one example.

I exhort the responsible and civilized elements of the Palestinian leadership to step forward and assert themselves. But it is not enough to be a critic. Our witnesses today, I suspect, will help us find a way to advance shared goals. I hope we can discuss how to strengthen the forces of reform, how we can grow the ranks of Palestinian moderates that Ambassador Welch refers to.

Mr. Chairman, I thank all of our witnesses for their service, but permit me to especially single out General Dayton. He is rightfully respected by both sides in this Congress as an honest broker and, in the best sense of the word, a man who has advanced our national security. He follows in the footsteps of General Zinni, George Tenet, Philip Habib and others who have fulfilled a critical role in democracy while preserving U.S. interests.

Look forward to our witnesses' testimony.

Mr. ACKERMAN. Thank you very much, Mr. Pence.

I am now pleased to turn to our very distinguished and extremely patient witnesses, some of whom were here only a few weeks ago to discuss the situation in Lebanon.

I want to begin by thanking Ambassador Welch, who in between hearings actually went to Lebanon, spoke out very forcefully and effectively on behalf of the government.

Since March 2005, Ambassador David Welch has served as Assistant Secretary of State for Near Eastern Affairs. Previously, Ambassador Welch served as Assistant Secretary of State for International Organizations and as United States Ambassador to Egypt. Ambassador Welch also served for 2 years as *chargés d'affaires* in Saudi Arabia, senior staff positions in the State Department and at the National Security Council and in a number of diplomatic posts in the Middle East. It is a pleasure to welcome him back to the subcommittee.

Lieutenant General Keith Dayton is the United States Security Coordinator for Israel and the Palestinian Authority. General Dayton began his service in field artillery, rising to become Commander of Division Artillery for the Third Infantry Division. In addition to his command experience, General Dayton has served in a number of senior staff positions in the Pentagon and in the Defense



Intelligence Agency, including service as United States defense attaché in Russia. Before undertaking his current post, General Dayton served as the director of the Iraq Survey Group during Operation Iraqi Freedom. He is a graduate of the College of William & Mary and holds a master's degree from Cambridge University and the University of Southern California.

We will also hear from Mr. Mark Ward, Senior Deputy Assistant Administrator for USAID's Bureau for Asia and the Near East. Mr. Ward chairs USAID's Lebanon Reconstruction Task Force, having previously led USAID's task force efforts in 2005 to respond to the Southeast Asian tsunami and the south Asian earthquake. Mr. Ward is a career minister in the Senior Foreign Service and has served in Pakistan, Egypt, Philippines and Russia.

Without objection, each of your full statements will be placed in the record; and I would ask you to summarize your remarks. Welcome to each and all of you.

We will begin with Secretary Welch.

**STATEMENT OF THE HONORABLE C. DAVID WELCH, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE**

Ambassador WELCH. Thank you, Mr. Chairman, Congressman Pence.

My full statement having been submitted for the record, I would like to make a few summary remarks.

I am here today to address our strategic diplomatic and program efforts with respect to the Israeli-Palestinian conflict and to put into that context our assistance to the Palestinian people and to certain Palestinian institutions that are outside the control of the Hamas-led Palestinian Authority Government.

First, a few words about the diplomacy with respect to the Israeli-Palestinian conflict.

There are three tracks that we have before us: A bilateral Israeli-Palestinian track, a regional Arab-Israeli track, and an international component led by the United States and the Quartet. Secretary Rice's personal engagement has re-energized the bilateral track and preserved it through stresses and challenges both, most recently by the agreement for a national unity government amongst the Palestinians, by the formation of that government, and by turbulence in the Palestinian and Israeli domestic political environments.

Knowing that it is not without its risks and with an uncertain promise, Israel has agreed to work on this bilateral track with the President of the Palestinians, President Abbas. Secretary Rice, in her most recent trip to the region, obtained agreement by President Abbas and Prime Minister Olmert to a regular series of summit meetings and to expand the content and substance of those meetings from an initial focus that they had agreed on, practical issues, to also add in elements of a political horizon for Palestinian statehood. Bilateral dialog in our judgment is vital and irreplaceable to build confidence and lay a foundation for a meaningful negotiation eventually between the parties.

The reaffirmation of the 2002 Arab Peace Initiative provides a regional political horizon for Israel that can complement efforts to

advance the bilateral track, while not replacing it. It also offers the prospect of a comprehensive end to the conflict.

Following up on that Arab Peace Initiative, there have been meetings now between the Egyptian and Jordanian foreign ministers and the foreign minister of Israel in Egypt recently, and I expect that we will see further such meetings in the coming weeks and months. It is our judgment that there is an opportunity here, and we would like to see it explored and utilized.

On the international track—and thank you for recognizing in your opening remarks that there have been some accomplishments in that area to buttress our diplomacy—we are working to build momentum on the regional and bilateral tracks, while maintaining the pressure on the PA Government to fully commit in all its parts to the Quartet principles. We believe that a commitment to those principles has to remain the standard for international support for any Palestinian Authority Government.

President Abbas, to his credit, has personally and politically committed to these principles. We support his efforts to restore law and order and to build a partnership with Israel in pursuit of peace, and I would like to thank this committee for lending its voice in support of the practical work that is necessary for America to advance its interests in that respect and particularly by the extraordinary security assistance we are providing through our security coordinator.

Since the election victory by Hamas in January 2006, we had to undertake a full scope redirection of our assistance programs to the Palestinian people so that they would not benefit in any way by a government that was led by Hamas or in which Hamas had the sort of representation it does today. Our programs focus on humanitarian aid, promoting democracy and civil society, and supporting business and economic development.

We are also proceeding, as General Dayton will shortly lay out, with nonlethal security assistance to the Presidential Guard and the Office of National Security, as well as certain financing for physical security and infrastructure upgrades at certain crossing points between Gaza and Israel.

Deteriorating economic and security conditions in the Palestinian territories have left Palestinians with little hope that their daily lives can show improvement. The gross domestic product in the West Bank and Gaza has dropped sharply in the last few years. Over 60 percent of Palestinian households live below the standard there for measuring poverty, and nearly half of the Palestinians rely on some form of food assistance to feed their families.

To help in this, we selected the UNRWA agency as our most significant channel to support humanitarian needs; and it is responsive to those needs among over a million and a half Palestinian refugees in the West Bank and in Gaza. Health education and social services are essential in support of over 90,000 of the poorest and most vulnerable families.

The Europeans, the World Bank continue to provide some significant assistance by this temporary international mechanism. We don't provide our assistance to that, as you all recognize. We do it directly or through UNRWA. But the TIM is a substantial enterprise. It has provided more than 250 million Euros in direct assist-

ance to a wide range of Palestinians in the last calendar year, and it does have considerable oversight and accountability and coordinates its mechanisms and payments with the Office of the President in an effort to see that the political credit accrues to that side of the Palestinian Government.

There are a number of programs that AID and our Middle East partnership have that focus on building organization skills and structures among moderate Palestinian organizations, help support grassroots political activism and help to support reform within Fatah and within other moderate political parties.

Economic and political progress, however, can't take place without security; and security, as we continue to see even as recently as this week, is very problematic, especially in Gaza. There have been over 200 Palestinians killed in factional violence, that is, among themselves, since January. Given the size of the Palestinian community there, that is a very considerable loss of life. More than 500 others have been injured, and there have been dozens of Israelis killed—excuse me, injured and one fatality in the most recent violence which has spilled over into Israel.

When the national unity government was created in March, the overwhelming majority of the Palestinian people supported its establishment because they thought it might bring an end to such bloodshed among themselves. But, unfortunately, as they are now learning, it hasn't put a stop to violence between Hamas and Fatah.

We are early in the contracting phase of our security assistance programs, but we have tried to be responsive to congressional concern about the appropriate vetting and oversight, and we would be happy to answer questions in that regard during this hearing. I believe, however, that the most recent violence in Gaza and the injuries and loss of life on all sides highlight the importance of this program. We will likely seek your approval in the future for the use of the remaining moneys in available fiscal year '06 carryover funds. This is about \$27 million. We haven't decided on exactly our options here, we haven't made those recommendations to our leadership yet, but we are in the course of doing that, and we will come back to consult with Congress on those uses.

The purpose here we feel is a valid one. Law and order is at the core of our political efforts, and our political efforts can't succeed without security, so we need to contribute to a better environment, conducive to making progress on the political horizon.

Thank you for the opportunity to make these introductory remarks.

[The prepared statement of Ambassador Welch follows:]

PREPARED STATEMENT OF THE HONORABLE C. DAVID WELCH, ASSISTANT SECRETARY,  
BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

Chairman Ackerman, Representative Pence and members of the sub-committee, thank you for giving me the opportunity to appear before you today to address our strategic, diplomatic, and programmatic efforts with respect to the Israeli Palestinian conflict, and in that context our assistance to the Palestinian people and certain Palestinian institutions outside of the control of the Hamas-led Palestinian Authority Government. While my colleagues will elaborate on our assistance efforts, I would like to focus on our diplomatic efforts and our strategy for moving the parties closer to the President's vision of two states, living side by side in peace and

security. It is within this framework that our assistance is planned and administered.

We see three tracks before us: a bilateral Israeli-Palestinian track; a regional Arab-Israeli track; and an international track led by the United States and the Quartet. Through Secretary Rice's personal commitment and regular diplomatic engagement we have re-energized the bilateral track, preserving it despite the challenges posed by the Mecca Agreement, the formation of a Palestinian unity government, and the turbulent Israeli and Palestinian domestic political environments. During the Secretary's most recent trip to Israel and the Palestinian territories in March, she obtained agreement by President Abbas and Prime Minister Olmert to meet regularly, and to expand the substance of their meetings from an initial focus on practical issues like security and movement and access, to include elements of the political horizon for Palestinian statehood, such as economic relations between Israel and a future Palestinian state, and the institutions of governance for such a state. The bilateral dialogue is vital to build confidence between the parties and to lay the foundation for meaningful negotiations, with regional and international support, on the establishment of a peaceful, democratic, and viable Palestinian state, consistent with the Roadmap.

We have also seen new impetus on the regional track with the re-affirmation of the 2002 Arab Peace Initiative at the Riyadh Summit in March. The Arab Peace Initiative provides a regional political horizon for Israel that complements efforts to advance the bilateral Israeli-Palestinian track, and offers the prospect of a comprehensive end to the conflict. We have welcomed its reaffirmation, and believe it can be a basis for engagement by the Arab states with Israel. From our discussions with members of the Arab League Follow-Up Committee charged with outreach on the initiative, we understand that it is not meant to be a "take it or leave it" proposal, but rather a basis for discussions. The Israeli response has been positive. Foreign Minister Livni met with her Egyptian and Jordanian counterparts in Cairo recently, and we anticipate additional meetings in the coming weeks and months. We believe there is a real opportunity here, and we are working with the Arab states, our Quartet partners, and the Israelis and Palestinians to make the most of it.

On the international track, we are working with our Quartet partners and others to build on the bilateral and regional tracks and to establish a political process between the parties. At the same time, we are working to maintain international pressure on the PA government which has yet to commit itself to the Quartet's foundational principles of peace: renunciation of violence, recognition of Israel, and acceptance of previous agreements and obligations. Through the Quartet, we have sustained a unified international position that these principles, which must be embraced by the Palestinians if there is to be progress towards Palestinian statehood, and must be the measure of support any PA government receives. President Abbas, in contrast to the Hamas-led PA government, has shown his personal commitment to the Quartet principles and to partnership with Israel and the international community in pursuit of peace, and realization of the President's two-state vision. We continue to strongly support President Abbas in his efforts to restore law and order in the Palestinian territories, and to build a partnership with Israel in seeking peace through pursuit of a PA government prepared to clearly and credibly embody these principles.

As we seek to advance each of these three tracks, we must take into account the political realities on the ground in Israel and the Palestinian territories, and the deteriorating security situation in Gaza. But we remain confident that our approach is the right one. We must continue our efforts with the Prime Minister of Israel, Palestinian Authority President Abbas, and others committed to peace in order to build a meaningful political process between the parties and achieve progress towards the realization of President Bush's vision of two states living side-by-side in peace and security.

Our assistance programs are designed to support and complement these diplomatic efforts. Since Hamas was elected in January 2006, we redirected our efforts to focus on providing vital assistance to the Palestinian people without benefiting the Hamas-led PA government. Our programs currently focus on humanitarian aid, promoting democracy and civil society, and supporting business and economic development in the Palestinian territories. We continue to work with our international and regional partners, including the United Nations, to advance these objectives. We are also proceeding with non-lethal security assistance to the Presidential Guard and the Office of National Security, as well as financing for physical security and infrastructure upgrades at the Karni commercial crossing between Gaza and Israel, the economic lifeline of Gaza. Through this comprehensive assistance strategy, our goal is to help create conditions conducive to advancing Israeli-Palestinian peace via the Roadmap—that means supporting security, stability and prosperity in the Pales-

stinian territories, and empowering Palestinian moderates as a counterbalance to radical and rejectionist groups like Hamas. We do this through our support for economic development, our efforts to address the basic needs of the Palestinian people, our advocacy of political, economic and security sector reform, and our commitment to building a political process between the Israelis and Palestinians that can provide hope to the Palestinian people that their aspirations of freedom and statehood can be realized.

Advancing Israeli-Palestinian peace requires not only the commitment of the respective leaders, but more importantly, the support and buy-in of the people. The majority of Israelis and Palestinians seek peace and security, but deteriorating economic and security conditions in the Palestinian territories, including extensive restrictions on freedom of movement within the West Bank, are leaving Palestinians with little hope that their daily lives will improve. These conditions threaten to radicalize the Palestinians and undermine the economic foundation necessary for the establishment of a Palestinian state that will serve as a source of security and stability for Israel and the region. According to the UN, the GDP in the West Bank and Gaza has dropped 40 percent in the past seven years, over 60% of Palestinian households live below the poverty line, meaning they survive on less than \$2.40 per day, and 50 percent of Palestinians rely on food assistance to feed their families.

Our humanitarian assistance is vital to help meet the basic needs of the Palestinian people, and to show that the U.S. and the international community continue to support and stand by the Palestinian people, even as we maintain diplomatic pressure on the Hamas-led PA government to change its behavior and commit itself to peace and a two-state solution. UNRWA, the UN Relief and Works Agency for Palestine Refugees in the Near East, is our largest channel to support the humanitarian needs of the 1.7 million Palestinian refugees in the West Bank and Gaza. UNRWA's core activities—health, education, and social services—provide essential basic services and relief services to almost 90,000 of the poorest and most vulnerable refugee families. UNRWA's emergency activities have created 58,000 short-term jobs and provide food assistance benefiting one million Palestinian refugees.

Similarly, our economic and business development assistance seeks to improve economic and humanitarian conditions in a sustainable way by building the Palestinian economy, creating jobs, and improving the standard of living. The Europeans and the World Bank continue to provide significant assistance as well, including through the Temporary International Mechanism, which has been an effective vehicle for channeling assistance to the Palestinian people. The TIM provided more than 260 million Euros in the form of allowances to frontline healthcare workers, certain PA employees whose annual income fell below a certain level, as well as pensioners, social hardship cases, and others. The EU did an excellent job ensuring a broad swathe of Palestinians were included in the TIM, coordinating payments with the Office of President Abbas in an effort to accrue political credit to Abbas, and ensuring adequate oversight through direct deposit payments and superb on the ground management. The great challenge in this, as in much of our assistance, is ensuring that it is provided in a way that benefits President Abbas, and not the Hamas-led PA government. We continue to work with the EU to improve the coordination of all support with President Abbas, and to provide assistance in ways that provide a political boost to Palestinian moderates.

At the same time, we are working to advance political and economic reforms and to strengthen Palestinian moderates in support of our diplomatic efforts for peace. We have a number of programs through both USAID and the Middle East Partnership Initiative, working with local, U.S., and international implementers, focused on developing important organizational skills and structures of moderate Palestinian organizations, to generate grassroots political activism, and to support reform both within Fatah and other moderate political parties, as well as within certain elements of the PA government, including security forces under the authority of President Abbas. These efforts are vital to improve the image and organizational effectiveness of these moderate organizations, broaden their grassroots support, and instill core principals of transparency and oversight that will be key to the success of a future Palestinian state.

But economic and political progress is difficult if there is no security. Over 200 Palestinians have been killed in factional violence since January, and more than 500 others injured, with dozens of Israelis injured and one killed as the most recent violence spilled over into Southern Israel in an apparent attempt to draw Israel into the factional violence in Gaza. When the National unity government was created in March, ninety percent of Palestinians supported its establishment in order to put an end to such bloodshed, but as we have witnessed recently, violence between Fatah and Hamas continues. In terms of our security assistance program, we are in the early stages of the contracting phase, but have established solid protocols for

vetting and oversight. General Dayton will discuss this in detail, but let me just say that the recent violence in Gaza, and the resulting Palestinian and Israeli casualties, has highlighted the importance of this program, and we will likely seek your approval for the use of available FY2006 carryover funds, previously set aside for these critical security needs, to further support President Abbas as he works to enforce law and order and create an environment conducive to progress on the political horizon.

Let me stop there and turn it over to General Dayton to speak to the current security situation and the status of our programs, and then to Mark Ward to speak to the current and planned USAID programming. Thank you for your attention and your continued support. I look forward to answering any questions you may have.

Mr. ACKERMAN. General Dayton.

**STATEMENT OF LIEUTENANT GENERAL KEITH W. DAYTON,  
UNITED STATES SECURITY COORDINATOR**

General DAYTON. Well, thank you, Mr. Chairman, Congressman Pence.

As with Secretary Welch, obviously, my comments are part of the record. Let me just summarize a few things I think are important.

We are all aware of the deterioration of the security and economic situation in the territories, especially in Gaza, over the last several months. As a military man, I believe there is a point where inaction, a wait-and-see attitude is no longer an option. The security assistance package that we have proposed and that was recently approved by the Congress is action, and I intend to make the most of it. Let me provide a few comments first, though, on the security situation; and then I will address the status of our programs.

As I have been telling many Members of the Congress over the last 6 months, the situation has gotten to be quite dire in Gaza. We have a situation of lawlessness and outright chaos. There is very clear Hamas aggression against the legal security forces of President Abbas. We have seen a proliferation of small-armed bands. Any group of 10 people that has weapons can call themselves an army or a brigade, and they are really under no one's effective control. And more worrisome still is the emergence of powerful clan-based militias in parts of Gaza that are clearly a threat to any law and order of any of the Palestinian security forces and to the Palestinian people.

This chaotic situation is the reason why the USSC is focused on the legal, legitimate security forces in our attempts to reestablish law and order, which I would remark in all polling of the Palestinian people, is their number one issue. They want to live their lives in peace and security. They are fed up with this kind of chaos and violence, and the table is set for an intelligent effort to try to reestablish that.

I would say the past 2 weeks, I just want to point out, there are a few straws in the wind that we ought to take a look at. The situation remains dire, but a couple of interesting things happened. As Congressman Pence referred to, when Hamas attacked the Karni crossing, they ran into a force of the Presidential Guard that had actually received some training, training that was overseen by the USSC but sponsored, paid for by the Dutch. It was training on how you run security of a border crossing, but it was, nevertheless, how you work together in a coordinated fashion.

They were reinforced by the national security forces, which many people feel were totally useless. Not at all. They looked very good.

The Hamas attack at Karni was repulsed, and the Presidential Guard is fully in control of the crossing again. As a matter of fact, the crossing was open today for commercial traffic.

At Rafa, 500 soldiers, many of you have heard about, came back from training in Egypt for the national security forces; and they happened to arrive in the Rafa vicinity at the same time that Hamas staged an attack on the Rafa crossing. These 500 young people, fresh out of basic training, were organized. They knew how to work in a coordinated fashion. Training does pay off. And the Hamas attack in the area was, likewise, repulsed; and the Rafa crossing is totally under the control of the Palestinian Presidential Guard today.

Mr. Chairman, in your comments I note you talk about Hamas being continually on the rise. I would suggest that my view—and I live there day in and day out, as you know—is that may not be the case any more. I just want you to think of a few more things.

First of all, their attacks this time were particularly brutal. This brutality really backfired. The executive force of Hamas, again, in public opinion polling is extremely unpopular among the people in Gaza.

There have been numerous reports about the Friday prayer services that occurred across Gaza and how the Hamas-affiliated imams tried to stir up the Palestinian people against Fatah and were greeted with people who walked out of the sermons or, in a few cases, actually chased the imams out of the mosque.

There are some hopeful signs. There are things we should be looking at that we may want to try to encourage, but I must emphasize yet again the legal security forces of the Palestinian President still lack the opportunity to achieve what they need to achieve, which is law and order. My point is, though, this was not a replay of January where Hamas swept across Gaza in great successes. This time they didn't succeed very well at all.

You know, the United States is, frankly, in a very interesting position as far as I am concerned, because we are leading through the actions of this Congress the international effort to positively affect this worrisome situation. The security assistance plan that you have authorized me to just begin to implement is pointing the way forward for all international and regional allies. The programs I am going to discuss here in a minute are truly important to advance America's national interests, to deliver security to the Palestinians and in the process preserve and protect the interests of the State of Israel. We are providing—if I can crib a term from Secretary Welch, we are providing a security horizon that, frankly, has never existed before.

I am focusing on three areas. You know these well. One of them is improving the security of the Gaza crossings, particularly at Karni.

The Congress has authorized me to expend \$16 million in assistance for security infrastructure improvements to be implemented by USAID. I would report that the temporary security zone is almost complete. That has been supported by the United Kingdom, Canada, the Dutch and the Norwegians. The master plan for the final project will be finished in midsummer, and construction will begin shortly thereafter.

The United States \$16 million, I guarantee you, is attracting other donations; and within a year you will see at Karni a crossing that meets international standards and one that will protect the security not only of the Palestinians but the Israelis who share that border crossing.

The Presidential Guard is ready now for its infusion of nonlethal equipment and training, and this is a very important point. We will focus on protection to the office of the President and VIPs, focus on critical logistic and administration functions, management of security at the border crossing points, and crisis response. Training venues have been selected, the curriculum is well advanced, the curriculum development, equipment lists are being finalized, and in this, Mr. Chairman, I assure you we are keeping the Israelis informed of our progress as we go along and do this.

The vetting protocols are set. Vetting has actually begun for both the Leahy requirements and for the foreign terrorist organization requirements, both of which are being overseen in this case by the State Department's INL. As I said, I have kept the Israelis aware, coordination continues, and our funds should start making a difference on the ground by midsummer.

For the Office of National Security, which was another \$3 million, this very important, this small entity in the Office of the President will become the brains of Palestinian security sector transformation. It will be the area where we can go to for a partner in the security sense that will guide the activities of the legal security forces throughout the Palestinian territories.

Mr. Chairman, I know you well. I enjoy talking with you. I just have to tell you that you caught my attention when you used the phrase "the graveyard of stillborn American security plans." I would suggest to you maybe not this time. This Congress has enabled me to begin implementing the first significant Palestinian security initiative since Oslo. That is a major, in my mind, historic development. The Palestinians have assumed ownership of this through a group called the Technical Team for Reform, which I have discussed with you on your visits to the region. These are professional, intelligent, dedicated Palestinians; and we are making tremendous progress on rightsizing, downsizing, and professionalizing the legal Palestinian security forces.

In all of this, you have the United States in the lead, ably assisted by the Canadians and British members of my team. As you know, Mr. Chairman, we live there; and I firmly believe that you make changes in this world the way the Romans did, by being on the ground, by getting your feet dirty in the mud, and working with the people on the scene.

This committee and this Congress have put us on the right track. My team, with your leadership, has created a security horizon I think for the Palestinian people; and I think this is a really fundamentally new development and one we have to watch.

I couldn't help seeing your analogy to the Yankees. I love baseball analogies, and I would use one back at you. I would say that we are kind of late in the ball game here, and we are behind, there's two out, but we have our best clutch hitter at the plate, and the pitcher is beginning to tire on the opposing team.



Thank you, Mr. Chairman. I want to thank members of the committee for the support you have given us. I think we may be on the right track for sure. Thank you.

[The prepared statement of General Dayton follows:]

PREPARED STATEMENT OF LIEUTENANT GENERAL KEITH W. DAYTON, UNITED STATES  
SECURITY COORDINATOR

Mr. Chairman, Representative Pence, and Members of the subcommittee, thank you for inviting me to testify today. We are all well aware of the deterioration of the security and economic situation in the territories—especially in Gaza—over the last few months. There is a point where inaction—a wait and see attitude—is not an option. The security assistance package that we have proposed, and that was recently approved by Congress, is action and I intend to make the most of it.

First, let me provide a few comments on the current security situation, and then I will address the status of our programs. The violence of the past ten days has clearly demonstrated that the Palestinian security situation, especially in Gaza, has deteriorated significantly since the last time I met with this committee. An atmosphere of lawlessness exists in Gaza, with simple disputes often devolving into gunfights. The Palestinian Minister of Interior, tasked with bringing security to the streets, resigned earlier this month. The HAMAS Prime Minister has assumed his responsibilities while his own party's militias are engaged in a fierce battle with the legitimate Palestinian security forces. The legally constituted Palestinian security forces in the territories—the Presidential Guard, the National Security Forces (NSF), and the Civil Police—are engaged in a battle for law and order like never before. In addition to outright aggression by HAMAS militias, other smaller factions, some also backed by Iran, have conducted attacks throughout the Gaza Strip against the security forces under the authority of President Abbas, creating a situation of total anarchy and highlighting factional divisions between Fatah and Hamas, and probably within Hamas itself. The conflict has also spilled across the border into Israel, with hundreds of Qassams fired at Sderot and nearby communities by rejectionist groups, a reminder that while HAMAS's intermediate target may be the Fatah-loyal forces of law and order in the Gaza Strip, the paramount goal for the rejectionists remains and will continue to be the destruction of Israel. Israel has now launched airstrikes and a limited ground incursion into the Gaza Strip in response to the more recent and damaging Qassam fire this week.

The goal of U.S. security assistance is to help create the conditions necessary to advance Israeli-Palestinian peace via the Roadmap. Through the programs we are just beginning with the Presidential Guard, and at the Karni crossing, we are working with President Abbas to create an environment of security, stability and prosperity in the Palestinian territories. This assistance is a good beginning, but it can only do so much to affect the factional violence and lawlessness pervasive in Gaza at this time. Through the provision of training and non-lethal equipment, the United States is providing the Palestinian Presidential Guard, a force tasked with the protection of the President, VIPs and critical installations, as well as key crossings with Israel, a "security horizon," an assurance that they have support and have a future. The NSF and civil police, the forces tasked with the day-to-day responsibility for ensuring law and order, do not have that assurance. These forces face a daunting challenge not only by HAMAS's Executive Force but also its military force, Izz al Din al Qassam Brigades, both of whom continue to receive support from Iran and Syria. We continue to evaluate the situation and consider ways in which we can take a more proactive role in affecting the dangerous conditions and support President Abbas in his efforts to bring the lawlessness in Gaza under control.

The recent violence in Gaza may in fact be the beginning of a sustained effort by the HAMAS military wing to reassert the dominance of the most extreme elements in the Palestinian political community, and to eliminate altogether Abbas's legitimate security forces in Gaza, creating an extremist statelet on the border of Israel, a major concern that is the subject of frequent discussions I have with my Israeli counterparts. I note that the Presidential Guard unit at the Karni crossing with Israel, who has already received training coordinated by the USSC mission and funded by European donors, successfully stood its ground last week and fought off a determined HAMAS attack. The NSF battalion there also acquitted itself well, despite its dire need of material and financial support and the death of its battalion commander. I fear HAMAS is in this fight for keeps. For this hearing, let me say that the worrisome scenario in Gaza that I have been warning about for the past several months is coming to a head. We are entering a rough patch, but all is not lost and our regional partners share that sentiment. However, it is critical that

those who support the legitimate authority and forces represented by President Abbas receive the critical assistance they need.

The United States is leading the international effort to positively affect this worrisome situation, and the security assistance plan we have just begun to implement is pointing out the way forward for all international and regional allies. The programs I will discuss briefly are truly important to advance our national interests, deliver security to Palestinians, and preserve and protect the interests of the State of Israel. I thank you for your support.

The U.S. Security Coordinator Mission, working in close coordination with the U.S. Embassy in Tel Aviv and the Consulate General in Jerusalem, is focused on three priorities, which are vital to the realization of the President's vision of two independent states living side-by-side in peace and security:

1. Improving the security at the Gaza crossings, particularly at the Karni crossing, to advance the goals of the Agreement on Movement and Access and boost Palestinian economic development while addressing Israeli security concerns;
2. Improving the capabilities of the Abbas-controlled Presidential Guard to help them protect the President and VIPs, manage security at the crossings, and respond to urgent security situations;
3. Working with the Office of the President to establish a capacity for security service oversight, reform, and strategic planning.

The \$16 million assistance package for infrastructure improvements on the Palestinian side of the Karni crossing will result in a major security enhancement at this vital commercial link between Gaza and Israel. This work will be implemented by USAID, and they have already issued a solicitation of interest from Gazan construction firms. This is vital for the recovery of the Gaza economy and to address legitimate Israeli security concerns at the crossing. This project has the enthusiastic support of the State of Israel. We have a temporary security zone almost complete on the Palestinian side, financed largely by the Dutch, British, Norwegians and Canadians, and this has resulted in a further 15% daily increase in Palestinian exports in April over the months before. The master plan for the construction project will be complete this summer and final construction will begin before September. The Palestinians, Government of Israel, and members of the international community are investing time and money in this project, complementing our own efforts. We still have our work cut out for us to achieve the AMA goals, but the US \$16 million will go a long way towards achieving them.

The Presidential Guard is primed to receive the equipment and training envisioned in its \$40 million assistance package. We will focus on close protection to the Office of the President and VIPs, critical logistical and administrative functions, management of security at crossing points, and crisis response. The State Department Bureau of International Narcotics and Law Enforcement (INL) is partnering with the State Department's Office of Anti-Terrorism (ATA) to provide critical training to the PG. Our planning is well advanced on the training curriculum, and the equipment lists, 100 percent non-lethal, have been finalized. We are proceeding cautiously and expeditiously with our program, and ensuring that the appropriate protocols for vetting and oversight are in place—both in the field and in Washington. I am happy to provide greater details on our vetting process which includes checks for both terrorist affiliation and gross human rights violations. These mechanisms have been coordinated with INL and are already being put in place. Our efforts have been closely coordinated with my Israeli colleagues; there will be no surprises. The practical effect of our preparations is that U.S. funds should begin to make a difference by mid-summer.

The \$3 million assistance package to the Office of National Security (ONS) ensures that the USSC has a strong and capable Palestinian partner as we proceed with Palestinian security sector transformation and our focus on a smaller, but more capable Palestinian Security Force, operating under the rule of law and with respect for human rights.

In summary, I am committed personally and professionally to putting the \$59 million authorized to me by the Congress to the uses you intended with the Presidential Guard, the Karni Crossing, and the Office of National Security under President Abbas. We must remain mindful of the dangerous challenges facing Abbas's security forces, and continue to encourage our European and Arab partners to complement our efforts with their own assistance. I and my team are in place to help coordinate these efforts in support of U.S. and International commitment to a peaceful resolution of the Israeli-Palestinian conflict and the realization of the two-state vision.

Thank you.

Mr. ACKERMAN. Thank you, General.

Mr. Ward.

**STATEMENT OF MR. MARK WARD, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. WARD. Mr. Chairman, Congressman Pence, thanks so much for inviting me back to appear before you today.

I, too, appreciate the opportunity to testify on the political, economic and security situation in the West Bank and Gaza. Much has taken place since USAID last had the opportunity to brief the subcommittee a year ago, and I will try to describe and answer questions about how our assistance program is serving overall U.S. Government policy objectives and explain the vetting and antiterrorist measures that we have put in place to safeguard the funds that the Congress appropriates.

We will not work with Hamas or any other foreign terrorist organization, but we should continue to support, as you said, moderate institutions and elements of Palestinian society, whether in the private sector, moderate municipalities, civil society, or independent media, to counterbalance extremist views and positions.

Our assistance remains focused on two key objectives: Averting a humanitarian disaster and laying the foundation for the creation of a viable, democratic Palestinian state. In July of last year, Secretary Rice announced a Palestinian humanitarian assistance strategy, as Ambassador Welch said, to support basic human needs, secure and expand democracy, and promote private sector development. Let me say a few words about what we are doing in each of those areas.

On basic human needs, as everybody knows, economic declines and insecurity have resulted in significant humanitarian concerns, particularly in Gaza. The Palestinian Ministry of Health faces severe shortages of drugs and medical supplies, most significantly for cancer and dialysis treatment. The U.N. reports that 49 percent of the population is now food insecure, up from 36 percent in 2005. Over 1 million people, including approximately 200,000 children under the age of 5, lack access to enough safe drinking water.

Proper sewage treatment and disposal is nearly nonexistent outside of the urban centers. In fact, just 6 weeks ago a huge sewage pond collapsed and flooded a village in Gaza, damaging 150 homes and killing five people.

In this challenging environment, the United States gives priority to the daily health care and nutrition needs of the most vulnerable Palestinians, mothers and children under age 5, through the private health care system. We have undertaken small-scale emergency repair of water, sanitation, solid waste services and provided nearly 350,000 people, almost 10 percent of the population, with water, sanitation, education, hygiene, and health assistance.

When that sewage pond collapsed, I am proud to say we responded immediately with survival kits for every affected family and organized local residents into a volunteer cleanup campaign.

The United States is the single largest contributor to the World Food Program, providing over \$35 million of food assistance in

2006. With our help, WFP distributed 47,000 metric tons of essential food commodities to 300,000 Palestinians in just a 10-month period.

On the democracy front, it is critical that we remain engaged with and support Palestinians who reject Hamas and other extremists. We are working with Palestinian leaders, particularly those elected to municipal councils, to provide much-needed assistance to their communities. Currently, we are working with 20 communities to help municipal leaders assess and meet the needs of their communities.

We are also providing flexible and rapid in-kind grants to strengthen civil society organizations and community groups. Examples include support for community centers, youth clubs, small community-built infrastructure, and public safety improvements. In the Gaza, for example, three communities elected to use funding provided by USAID to pave roads, knowing that this would generate needed employment opportunities for local youth and provide a safer route for their children to get to school.

We are also strengthening independent media which is under the threat of a growing number of radio and TV stations that are owned and funded by various political factions. We are helping independent station owners develop business plans and raise revenues that will allow them to maintain their editorial independence. Nearly 100 media professionals have been trained this year alone.

Another important tactic in the war of ideas is to continue providing scholarships for future Palestinian leaders who share our goals for the future. Experience has shown time and again the scholarship recipients who study in the United States gain a positive view of our country that sticks with them throughout their professional careers, and all scholarship recipients studying in the U.S. have been thoroughly vetted to make sure they have no ties to terrorism.

On the private sector side, as the General has said, creating a more stable business environment and better security will improve the Palestinians' economic future. To that end, we are proud to be working with General Dayton to develop plans for the necessary infrastructure and security upgrades on the Palestinian side of the Karni crossing. This work, as he said, which will begin very soon, includes constructing large roads and primary and secondary inspection areas as well as other components.

The work on the Palestinian side of the Karni border crossing complements our work on the Israeli side of the border where there is a cargo scanner that USAID provided to the Israelis. They have extended the operating hours at Karni, which has increased the number of vehicle crossings, and trade means jobs, and jobs bring hope.

Now how do we tell our story? I know this a subject of particular interest to the chairman. USAID in the West Bank and Gaza publicizes its projects through press releases, media campaigns, branding and press tours. Following a recent media campaign that included TV, radio, billboard and newspaper ads, polling data showed increased public awareness of the contributions of the American people. Of the Palestinians who saw our outreach campaign, 50 percent said these projects are important for their well-being; and

almost 60 percent said that they believe the United States is sincere about helping the Palestinian people.

Finally, how do we safeguard the funds that you provide to us? As guardians of the taxpayers' money, we take very seriously our responsibility to ensure the appropriate and secure use of foreign assistance funds. Since 2001, we have vetted the recipients of United States assistance in the West Bank and Gaza. Our office in Tel Aviv utilizes the most comprehensive screening and vetting process at work in any USAID program around the world. With good input from the GAO and our own inspector general, it is getting better all the time. The vetting process itself involves searches of databases maintained by U.S. intelligence agencies and other U.S. Government sources, including the lists maintained by the Office of Foreign Assets Control at Treasury.

Before issuing grants, we require all organizations to sign an antiterrorism certification that they do not provide material support or our resources for terrorism. Once a grant has been made, all NGOs are required to submit quarterly financial reports on how their funds are spent; and larger grantees and contractors local costs are audited annually by our inspector general's office in Cairo.

Clearly, Mr. Chairman, the situation in West Bank and Gaza remains tense, particularly in Gaza. We salute the fine Foreign Service nationals and employees of our contractors and grantees who remain dedicated to improving the lives of their fellow Palestinians. With these brave Palestinians we remain committed to a more prosperous and hopeful future.

Thank you.

[The prepared statement of Mr. Ward follows:]

PREPARED STATEMENT OF MR. MARK WARD, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and other distinguished members of the committee, thank you for inviting me to appear before you today. I appreciate the opportunity to testify on this critically important issue: *[The Political, Economic and Security Situation in the West Bank and Gaza]*. Much has taken place since Acting Deputy Administrator Kunder had the opportunity to brief the committee a year ago. I will describe how our assistance program is serving USG policy objectives and explain the vetting and anti-terrorist safeguards in place, which protect against U.S. funds being diverted to terrorist-controlled organizations.

USAID's strategy in the West Bank and Gaza remains consistent with the President's vision of supporting the development of a future democratic Palestinian state living side by side in peace and security with Israel. The majority of Palestinian and Israeli people are committed to the two-state solution, and it is in the United States' interest to help them realize this objective.

We will not work with Hamas or any other foreign terrorist organization, but we can and should continue to support moderate institutions and elements of Palestinian society—the private sector, moderate municipalities, independent institutions and those under President Abbas' control, civil society, and independent media—which counterbalance and confront extremist views and positions.

US assistance remains focused on two key objectives—meeting the needs of the Palestinian people and laying the foundation for the creation of a viable, democratic, and prosperous Palestinian state. In July 2006, Secretary Rice announced a Palestinian assistance strategy to: 1) support basic human needs; 2) secure and expand democracy and civil society; and 3) promote private sector development. The Administration and Congress agreed to a FY 2007 \$50 million budget level in order to further the Secretary's assistance objectives.

### *Support for Basic Human Needs*

Despite an increase in donor assistance in 2006 over 2005, economic decline and insecurity have resulted in significant health and humanitarian concerns, particularly in Gaza. Factional violence, kidnapping and terrorism increasingly threaten lives and impede the distribution of humanitarian assistance.

The Palestinian Ministry of Health faces shortages of drugs and medical supplies, most significantly for cancer and dialysis treatment. Up to 20% of essential drugs may be out of stock. The UN reports that nearly 50% of the population is now food insecure, up from 36% in 2005. Many families lack the financial resources and resiliency to provide basic necessities such as food, water, health care, and medicines. It is estimated that 37% of Palestinians do not have enough food to meet daily nutritional needs, and one in four children under five is anemic. Nearly 1.2 million people in the West Bank and Gaza, including approximately 200,000 children under the age of five, lack access to sufficient quantities of safe drinking water.

Proper sewage treatment and disposal is nearly non-existent outside of the urban centers. Just six weeks ago a huge sewage pond collapsed and flooded a Bedouin village in Gaza, damaging 150 houses and killing five people. Such ponds are a poor but necessary substitute for proper treatment facilities. I am proud to say that USAID, as well as other USG-funded organizations such as UNRWA, responded immediately through our emergency and quick response mechanisms. USAID provided survival kits to every affected family and organized local residents into a volunteer clean-up program.

In this challenging environment, the USG gives priority to the daily health care and nutrition needs of the most vulnerable Palestinians—mothers and children under age five—through the private health care system. USAID's grantees will train 180 health care providers in advanced, obstetrical life support and neonatal resuscitation. 450 emergency medical kits will be distributed to local providers who have received medical services training. Direct assistance is provided to the Holy Family Hospital in Bethlehem for maternal and child health care. USAID also has implemented small-scale emergency repair of water, sanitation, and solid waste services, and provided nearly 350,000 people with water, sanitation, education, hygiene, and health assistance.

The United States is the single largest contributor to the World Food Program (WFP) providing \$35.41 million of food assistance in 2006, thus enabling WFP and associated NGOs to distribute 47,000 metric tons of essential food commodities to 300,000 Palestinians, not registered as refugees with UNRWA, over a ten month period. We also provided supplies for NGO medical facilities, including life-saving dialysis pharmaceuticals, and other life-saving medical equipment for eight non-governmental hospitals, including fetal monitors, an incubator, and nebulizers. To overcome the constraint of not working with the Palestinian Authority government, USAID has identified new nongovernmental partners to deliver assistance quickly.

### *Secure and Expand Democracy*

It is critical that we remain engaged with moderates and cultivate allies among those in Palestinian society who reject Hamas and other extremists. Moderate Palestinian leaders, including many close to President Abbas, have welcomed US assistance and used their partnership with the United States to respond to their constituents' priorities. USAID is working with these leaders as well as moderate municipal councils to provide much-needed assistance to Palestinian communities.

USAID provides flexible, rapidly available in-kind grants to strengthen civil society organizations and community groups. Our discrete, targeted support for moderate, progressive local officials and leaders increases their visibility and credibility in their communities—examples include support for community centers, youth clubs, small community-held infrastructure and public safety improvements. There is clear demand among moderate Palestinian leaders for this assistance, working in partnership with the US.

The Local Democratic Reform (LDR) program assists Palestinian local authorities that are headed by moderates committed to democratic governance. We currently work in 20 communities to help municipal leaders meet the needs of their constituents more effectively and responsibly. Leaders work directly with their constituents to identify local priorities and develop plans to meet those priorities. A grant component supports community projects that enable reform-minded leaders to deliver at the community level, and to help new democratic leaders build grassroots constituencies.

In the Gaza strip, moderate mayors are facing serious challenges due to increased poverty and lack of available resources. Three communities elected to use funding provided by USAID to pave internal roads, noting that this would generate needed employment opportunities for local youth as well as provide a safe route for children

to get to school. In discussing this program, one mayor noted that his radical political opponent is receiving assistance from other sources to support his community. With USAID assistance, the mayor said he “is able to meet with citizens and tell them that their friends the Americans did not give up on them.”

The USG is also working to strengthen independent media. Independent media is under threat by a growing number of radio and TV stations that are owned and well-funded by various political factions. USAID is assisting independent station owners to develop business plans and to raise revenue that will allow them to maintain editorial independence. The program is addressing incitement against Israel in the Palestinian media by assisting the Syndicate of Private TV and Radio. The Syndicate is lobbying for implementation of a media law that will require licenses and monitor programming and professionalism. The program also combats incitement by training media professionals about appropriate standards in unbiased reporting. Nearly 100 media professionals have been trained since January.

As an important tactic in fighting the Global War on Terror and winning the war of ideas, USAID believes it is important to support scholarship activities at institutions of higher education in the Middle East, and particularly in the West Bank and Gaza, as a way to support moderate influences. USAID currently has two higher education activities, which involve sending Palestinian students and faculty to the US for Masters/PHD programs. All scholarship students/faculty currently studying in the US have been vetted through US sources to ensure they have no ties to terrorism. Experience worldwide has shown us that such programs providing exposure to the US have a very positive impact in our efforts to win the war of ideas. Students come back to their communities with a better appreciation of the US and the American people. Given the nature of the threat we face today, retreating from such activities would directly undermine our national security—our continued engagement is vital.

#### *Private Sector Development*

International aid to the Palestinians has actually increased over the past year in the form of food and humanitarian assistance. Many donors have redirected their traditional cash transfers away from the PA towards the European Union and World Bank's Temporary International Mechanism (TIM), which was designed to provide direct assistance to the Palestinian people. This loss of financial flows to the PA has exposed its dependence on donor assistance. One-third of its workers have gone without wages. The World Bank estimates that unemployment is over 25% and the United Nations (UN) estimates that 65.8% of the Palestinian population lives in poverty. Finally, exports through Gaza's Karni crossing average just 55 trucks per day, while the World Bank estimated that at least 150 export trucks per day are needed to sustain Gaza's economy. The lack of trade represents an absolute constriction of the entire Gazan economy.

Creating a more stable trading environment and better security will improve Palestinians' economic livelihoods. It is a fundamental pre-condition for realizing sustainable Palestinian economic growth and addressing Israeli security concerns. USAID is working very closely with the U.S. Security Coordinator on vital infrastructure and security upgrades on the Palestinian-side of the Karni/al-Mintar cargo crossing. This work, which we expect to begin very soon, includes constructing large roads, primary and secondary inspection areas, underground utilities including water, drainage, wastewater collection and treatment, and electrical and security conduits. The activities will improve physical security at the Karni crossing, while addressing Israeli security concerns and boosting cargo throughput to target levels in the Agreement on Movement and Access.

This work on the Palestinian side of the Karni border complements USAID's work on the Israeli side of the border. With the support of a cargo scanner provided by USAID, the Israelis have recently extended the operating hours at Karni. This has improved the volume of imported truckloads by 17% over the previous month to 279 trucks a day. It increased export truckloads to an average 55 a day, a 42% increase.

USAID supports small business and agricultural development to help strengthen the Palestinian economy through loan programs and technical assistance. In the beginning of 2007, the Palestinian Enterprise Development project formed a partnership with Palestinian industries to increase exports, enable investment, offer training, generate employment, and improve quality standards. These industries include: food, wood and furniture, stone and marble, pharmaceuticals, IT, and construction.

Since 2006, 10,000 Palestinian agribusinesses, farmers, and fishermen have received assistance and training through the Palestinian Agribusiness Partnership Activity (PAPA). A drip irrigation project has enabled 250 households in the Jordan Valley to become self-reliant by producing vegetables for home consumption and supplemental family income.

*Capitalizing on USG Assistance*

Current USG assistance bolsters moderate voices by letting the Palestinian people know we have not abandoned them. The USG publicizes USAID projects through press releases, media campaigns, branding, and press tours. After a press tour on March 29, 2007, at least two independent media outlets and the AP positively reported in Arabic on the many humanitarian projects the US is implementing on behalf of the Palestinian people. Following a recent media campaign that included TV, radio, billboards and newspaper ads, polling data demonstrated that USAID's outreach campaign led to an increase in public awareness of the contributions of the American people to the Palestinian people. Of the Palestinian population who saw the USAID outreach campaign, 50 percent regard USAID projects as important for their well-being and 58 percent believe that USAID is sincere about assisting the Palestinian people.

*Vetting and other Anti-Terror Safeguards*

Given the political and operational realities, managing the U.S. assistance program in the West Bank and Gaza has many challenges. As guardians of U.S. taxpayers' money, USAID takes seriously our responsibility to ensure the appropriate and secure use of foreign assistance funds. In order to minimize the risk that U.S. government resources fall into terrorist hands, USAID has developed an extensive system of safeguards, monitoring, and evaluation to make sure the aid program in the West Bank and Gaza is completely transparent and accountable.

Since 2001, USAID has vetted recipients of U.S. assistance. The USAID Mission utilizes a comprehensive partner screening and vetting process. USAID has invested considerable resources to develop a more sophisticated database to collect information on foreign persons and organizations for vetting purposes. Under new procedures, USAID will require its contractors and grantees (as well as sub-contractors and sub-grantees) to provide an affirmative certification as to the accuracy of the information these entities provide for the purpose of vetting. The vetting process itself involves searches of databases maintained by U.S. intelligence and other U.S. sources. Among other things, this review also includes checking the list of parties excluded from federal procurement and non-procurement programs (suspended/debarred list) and checking the Office of Foreign Assets Control (OFAC) specially designated nationals and blocked persons lists. Before issuing assistance instruments, USAID also requires all U.S. and non-U.S. organizations to sign an "Anti-Terrorism Certification" stating that they do not provide material support or resources for terrorism.

Once an award has been made, USAID has established procedures to safeguard U.S. assistance and ensure its transparency and integrity. All NGOs are required to submit quarterly financial reports to USAID on how funds are spent. All significant grantees and contractors' local costs are audited annually by USAID's Inspector General, and access to this financial information by the US Comptroller General is also guaranteed.

Clearly, Mr. Chairman, the situation in West Bank and Gaza remains tense, particularly in Gaza where there has been a recent escalation in violence between rivals Fatah and Hamas. We salute the brave Foreign Service Nationals who remain dedicated to improving the lives of the Palestinians despite the great adversity they face. It is with these brave individuals that we remain committed to a more prosperous and hopeful future.

Mr. Chairman, thank you for allowing me this opportunity to share information about USAID's role in supporting US foreign policy goals with respect to the West Bank and Gaza. I look forward to your questions.

Mr. ACKERMAN. I thank the panel for their testimony.

Let me start by saying to General Dayton my criticism, if it was, certainly was not of you. You are a major league player. You are our Babe Ruth out there. The problem is you are the coach.

My exact quote, if you would recall, was that the problem is that the Palestinian Authority does not have a singular exclusive authority. We don't know who the captain of their team is. We don't know who's pitching. Seems to me you have a pitchers duel, and the pitchers that are dueling are both on the same team, the Palestinians' team, and the pitching staff is pretty thin. The bench is nonexistent. The farm teams are a lot of people who are unknown. We don't know what is going to happen there.



Fault doesn't lie with the coach. They have to get their act together. And the concern and the frustration that I have expressed is not any lack of confidence in the effort of that of our American coaching system under your leadership and guidance, which I think is one of the most encouraging things that I have seen in all of my years of watching this thing go into constant spirals. I am greatly encouraged by what you are trying to do, and glimmers of hope are certainly there.

But this whole new element of having a Palestinian side that stands against itself is the thing that I am scratching my head about and can't figure out how they are going to pull this together when the team isn't the team, it is basically on one team, half the players trying to sabotage the others, and we don't know who is going to win that.

Maybe you want to respond to that. By the way, I am a Met fan.

General DAYTON. I learned something, which is not to trade sports analogies with you. I obviously won't win.

I think that, yes, we are indeed coaching. My point is that the farm team—I better not do that.

My point is that there are hopeful signs. When you train these people and you actually invest in them, they take pride in what they do. The Presidential Guard at Karni and its behavior in the last 2 weeks to me is one of the most encouraging things I have seen. But, remember, they have been trained in the United States. It is well-known throughout Gaza that the United States has said, you guys are probably winners, and we are going to put money behind you, and we are going to turn you into a force for good and law and order for the Palestinian people. The only people who don't like this are Hamas and the terror elements.

Okay. My point really was—I am going to do it again. The Mets from '69, from last place to first place, it can happen with the correct guidance and the correct coaching.

Mr. ACKERMAN. I missed that 7th game because I was in Israel at the time and my wife had my seat. Reminds me all the time.

General DAYTON. Thank you, Mr. Chairman. I know exactly where you are coming from on this.

Mr. ACKERMAN. Let me, before I turn to my partner, Mr. Pence, turn to the financing, which has raised some concerns and bears some scrutiny. This temporary international mechanism, Ambassador Welch, who does it provide assistance to? Is it the Palestinian Authority, is it to the NGOs, individual Palestinians? Who gets the money in this mechanism?

Ambassador WELCH. Originally, Mr. Chairman, when this mechanism was instituted it was called temporary because the international community was looking for a solution to enable assistance to Palestinians without allowing it to spill over to helping the government, which was, at the time the so-called TIM was formulated, was fully in the hands of Hamas.

As I recall, while we participated in formulating the sort of normative rules of the TIM, we don't use it for any of our assistance.

It has several components. One part has been to provide certain allowances to needy Palestinians on a needs basis. Another part has been to satisfy utility bills that are run up by the Palestinians, because they get some of their essential services from Israeli pro-

viders and don't have the means to pay for it. Without those essential services, water and electricity, there would be even more humanitarian consequences.

It is the basic structure of the TIM. It has been used for a considerable amount of European assistance but not all of it.

Like the United States, there are some members of the European Union and some other European countries who have chosen to make direct contributions to NGOs or to other humanitarian purposes within the Palestinian territories. For example, Russia last year made a contribution to pay certain hospital bills. This didn't go directly to the Palestinian Authority either. More or less consistent behavior, in other words.

We believe that having the TIM has been highly useful, because it has helped to address these humanitarian concerns and, on the other hand, has provided a legitimate channel by which humanitarian assistance might be afforded.

Mr. ACKERMAN. Who does the monitoring of the end use of the money? Is it us, is it the Quartet, the Palestinians themselves? The question is, how do we know that money going through this temporary mechanism that we have now evidently made clear to our European partners and others that they can use without subjecting themselves to United States sanctions, how does—the concern is that it doesn't in the end fall into the hands of the wrong people. How do we know that?

Ambassador WELCH. Well, I think it is divided into two parts. One part is the World Bank manages, and so they do the auditing all the checks. Another part, the utility payments, is fairly transparent how those are done.

Just as a reminder, Mr. Chairman, the European Union treats Hamas like we do. It is an illegal organization, and they cannot provide assistance directly to Hamas. So I think they have the same standard and interest in avoiding any aid going to them.

Mr. ACKERMAN. Let me turn to Mr. Pence.

Mr. PENCE. Thank you, Chairman.

This panel never disappoints, and I am grateful for the candor and the hope that I am going to be forced to leave this hearing with because of the respect that I have for the extraordinary careers of those that have offered testimony.

Ambassador Welch, your statement made three references, your informal remarks, as well, to Palestinian moderates. Are there Palestinian moderates, given the conduct of the Palestinian leadership and even some of its public at large over the last 18 months? I just ask that blunt question first.

And, secondly, what do we do to promote and encourage the ascendancy of precisely the kind of Palestinians that Mr. Ward just rightly celebrated, people that are interested in civilization, people that are interested in the well-being of their neighbors and in their family and in security?

Let me just ask that very broad question, are there Palestinian moderates? And if there are some, how do we get more of them?

Ambassador WELCH. Thank you for asking. It is, I believe, a critically important question. Because when we look at what is happening day to day I think there is an easy and facile tendency for people to get very discouraged and to believe that basically

there is no—there are no good intentions on the part of either those who are involved in politics among the Palestinians or Palestinian people themselves sometimes. And it is easy to get discouraged by some of the images we see, both the violent ones but also the messages conveyed, as the chairman mentioned, through certain of the partisan media organizations.

But, sir, let's take the Palestinian legislative election as an example of where public sympathies might lie. Hamas won a majority in the PLC, but it did so with 43 percent of the vote. That means that there is another 47 percent out there that didn't vote for them—57 percent. I don't know whether those are moderates, all of them, or maybe some of them have a different political sympathy, but it is clear to me that not every single Palestinian subscribes to the extremist ideology of Hamas. It would be wrong to conclude that is the case because they got a legislative majority.

President Abbas, who subscribes to all the principles for peace that the international community has endorsed, was elected with over 60 percent of the vote. So, plainly, the Palestinian people are willing to follow that vision of moderation. I think our challenge is to provide both by our direct encouragement, as Mr. Ward will remark on here in a moment, but also by creating the right political context so that people will see that they have a chance, that this sort of vision can succeed.

Mr. PENCE. If I may, Ambassador—forgive me. You look at not only the violence in recent weeks but those public images, the broadcast airways, the printed media and the polling data suggests, and I ask, rhetorically, of course, are there any? Your sense is that there is a significant part of the Palestinian population that is not hard over into extremism.

Ambassador WELCH. Yes, sir, absolutely.

Mr. PENCE. The categorical rejection of the Quartet principles.

Mr. WELCH. I think, unless we are siding with them, both in practical ways to give them a stronger voice but also in creating the right political context so that their hopes for peace and security would be realized, that we would be abandoning them; and that would, I think, add to the threat facing that society and the threat, frankly, facing Israel. Because it would hand a victory to those people who mean to do harm to both.

Mr. PENCE. I thank you.

Let me—in the interest of time and other members who are here, let me shift some questions to General Dayton, if I can.

I appreciated you expanding on the Karni crossing success. You did not expand on the fact that was part of the Dayton plan. I appreciate your humility in not making reference to the fact that part of your strategy was to train the Presidential Guard and improve the operation at the Karni crossing. We are, on this side of the bench, pretty accustomed to taking credit whether it is deserved or not. I would like to extend that credit to you, General, and thank you for that.

The thing I want to know about the Karni crossing success, was that a personnel success story, as I thought I caught in some of your testimony, or was it that some hardening at the crossing, or is the hardening that has been authorized, I think you talked about \$16 million that Congress has approved, is that yet to come? Be-

cause it seems to me if it was about infrastructure and hardening, that is one thing; if it was about people, that is a much more hopeful note.

General.

General DAYTON. Well, the initial attack was on the Palestinian training camp of the Presidential Guard, which is outside the temporary strengthening of the border area. So it was people. They then took refuge behind the wall.

The other thing I would indicate here is that the commander of the Presidential Guard was not even in Gaza at the time. This was a local initiative by local commanders who had been trained and then called for help from Gaza City; and the Presidential Guard came to reinforce them from Gaza City, knocking over Hamas roadblocks all the way down. So it is in some ways a more encouraging scene for the Presidential Guard and their capabilities that appear to be developing now with a little bit of training than even I had expected. So I am encouraged with this.

Mr. PENCE. Well, I think that is significant; and I appreciate you amplifying that point.

Let me ask you, General, and I might also ask for a response from the Ambassador on this, as I said in my statement, the challenge here is how do we support those Palestinian moderates like Mahmoud Abbas and his government without supporting Hamas. There was testimony today about the nonlethal aid and Presidential Guard.

I will be honest with you. As someone who feels that this country since 1948 has had an historical and moral obligation to see to the security of the State of Israel, having been—she was wasn't our idea, but we were her birth mother this time around in many ways, or at least a midwife. And I must tell you, General, and I think the chairman and I are very of much in concert of mind about this, I worry about this issue and the subject of this hearing more than any other issue; and I really would invite you, General, and the Ambassador, can you speak to that? Can you give us your level of confidence that we are not inadvertently arming those who will in some reasonably foreseeable point in the future take arm against that ally that we so cherish?

General DAYTON. Well, look, Congressman, I agree with you perhaps more than you can ever imagine; and whenever I talk to groups in the area where I live, I make this case very clear, that nothing we do to strengthen the Palestinian security capability will be targeted against the State of Israel. That's simple.

There are very practical measures that this Congress has insisted upon that will be executed to the letter of the law to assure that the people we provide assistance to are vetted carefully for either membership or affiliation with terrorist organizations or for human rights abuses.

Having said that, again, we don't just throw money at this problem. First of all, the Americans are going to spend the money through American channels only. We are not giving any money to Palestinians. Secondly, I am not going away, and my team is not going away, and we watch this every single day.

So I can give you a pretty good assurance that you picked the right area, the Presidential Guard, to start. I think it is a great

start. And it is the right size, it has the right mission, that we can do this in a very effective manner. I give you that assurance. That is something that will work, and the Presidential Guard will not become a threat to Israel.

I would just point out that the Israelis are, my experience with them, they have come to rely on the Presidential Guard's capabilities at the border crossings. They encourage it. The Presidential Guard is something that they feel very comfortable with, and I think that is significant.

Mr. PENCE. Ambassador, you may or may not wish to respond.

Ambassador WELCH. Just a brief further reflection. It is a feature of every arrangement that Israel has entered into with the Palestinians that there is some recognition of the need for security from the Palestinian side. Oslo, for example, contemplates that there will be certain security organizations on the Palestinian side. As I think we have all learned in the period since, there is some risk attendant to that, too. That is why they had to negotiate on it and still having to negotiate on it.

Israel does accept a certain amount of that risk, and we work with them to manage it. I think we all recognize that this is the kind of world, however, where it can't be eliminated entirely; and we will do the best we can certainly with the U.S. assistance monies to make sure that we do a good job on this. But I don't see that there are other alternatives that are better that would help to do this. Certainly the Israeli Government hasn't communicated with us on those things.

I worry a little bit, Congressman, about the scope of General Dayton's program. I mean, this is an ambitious effort. We are loading a lot on to this. And the Presidential Guard is not—you know, it is not an army, and it is not a very large entity, and it is being called upon to do a lot of responsibilities. When you all visit the occupied territories, for example, you are protected when you go to see the Palestinians by some elements in the Presidential Guard. That is another mission we put upon them to do, and I think we have to recognize that that is a difficulty on their side. We are putting a lot of stress on these organizations, and there is a lot of internal stress among the Palestinians themselves, too.

Mr. PENCE. Well, let me just conclude by, again, thanking this panel and leaving you with a challenging thought. I did not question Mr. Ward, but I am so greatly moved by the work that USAID is doing on the ground there.

The former chairman of this committee, Henry Hyde, wrote a provocative piece that I have not been able to get out of my mind for several years, asking the rhetorical question of whether or not it is possible to plant democracy where there is not a fundamental respect for human life present, and I would just encourage each of you, in your various roles, to continue to water that, the plan of fundamental values and the institutions that support values—religious, cultural and otherwise—because it ultimately seems to me that our hope here—while the Dayton plan may buy us time, our hope here, ultimately, has to be grounded in the emergence of a growing class of moderate Palestinians who simply decide, for the sake of their children and for their grandchildren, to live in peace

and freedom and have a fundamental respect for their neighbors that has not been present for generations in that region.

I thank the panel, and I thank the chairman for calling this important hearing.

Mr. ACKERMAN. Thank you.

Before I turn to Mr. Costa, let me just make a comment, if I could. Forgive us, if we press very hard in the area of delving into where the money is going and things like that. It is not because of any lack of confidence in what any of you or our Government is doing, because we are fundamentally believers. Some of us may be fundamentalist believers. Others may believe in fundamentals, but we believe we are on the same wavelength, and we believe in the basic goodness of people, and that is why, collectively, over the years, even before us—this Congress and previous Congresses—have spent tons and tons and tons of, billions of dollars in trying to make the situation better for people in this part of the world, all people in this part of the world, billions to aid the Palestinians, from us and from others, and when we look around to try to see where it has gone, we do not see it, and to hear something discouraging, that the Palestinians have to have the money to pay their electric bills to individual Israeli electric companies because they do not make their own electricity—I mean electricity is not like oil where it is either under your soil or not. The Israelis make their own electricity. Why aren't the Palestinians? Where did all this money go if they do not have an electrical plant? Where does all the money go if—they do not even have their own currency. They have to use other peoples' change. They do not have a Palestinian dollar. They did not create a banking system. They did not create an infrastructure.

I woke up one morning a couple of years ago to find out a bowling alley on Long Island, near where I live is, in part, financed by an Arafat investment company, money that, I guess, was, in part, United States taxpayer money that went to help Palestinian people that he stole. We do not see the goodness of our giving. You know, we do not want anybody to come and pat us on the back. That really is not what this is all about, but we would like to see people living better because it improves the neighborhood, if nothing else, and we will benefit from that, for sure.

So our questioning about the money and the system is not because of anything that we are currently doing, but because of an historic fact that we have not done our job in the oversight, in insisting that the people who were there through all have of these layers of several generations were not really on the stick at the time that they needed to be and to try to come up as best we can with some kind of guarantees. That is what we are doing now, and we do not want this well to dry up. We are not saying we are stopping the flow of money and the help and the aid. We do not want to turn off anybody's faucet or take food off of anybody's table. We want to help with that, but in the end, we want to see it become better.

Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman, for holding this important subcommittee hearing this afternoon.

I share with both you, and Congressman Pence, the deep concern that we try to do everything we can to bring the Palestinians and the Israelis together to a long-term peace agreement that will recognize each other's rights, and of course, we know of the problems that have been developed in keeping that from happening.

To continue your theme, when you look at the elections that you referenced, Ambassador Welch, and the success of Hamas over President Abbas' party and what he inherited, it is my sense that a lot of that success was due to corruption and to the level of the economy within Palestine and the Palestinian people, who were simply looking for some other kind of an alternative.

I guess, to make reference to an earlier comment here with regard to the New York Mets and the chairman of that 1969 season, I remember quite well that part of that great success for that team was a young right-hander by the name of Tommy "Terrific" Seaver, who went on to win over 300 games—a fellow from Fresno, from my hometown. I am wondering where is Tom Seaver? Because we look for President Abbas to fill this void in what he inherited, and we know that he inherited, I would say, at best, a mess, and at worst, a cesspool of corruption.

If we are going to win over the hearts and minds of the Palestinians, it just seems to me that there has to be some hope among the people that Hamas is not going to improve their lives at the end of the day because, I think, winning the hearts and minds of the Palestinians has to lead to how you bring the fundamentals in to improve the economy and the lives of these people to exist. As the chairman said, they do not have a banking system. They do not have any of the fundamental elements of a governmental structure.

So my question to you, Ambassador Welch is—and you might want to try it, Mr. Ward—where is the hope that you believe Hamas is trying to make the necessary—because corruption, I think—and whether we are talking about Palestine or Iraq or other parts—in that part of the world, it just seems to me to be an endemic way of life, and I have said that repeatedly.

Mr. Welch.

Ambassador WELCH. Thank you, Congressman.

Well, let me take a couple points out of that and ask Mr. Ward also to contribute something on how our programs are directed to address some of the issues you identified.

First, you are quite right, sir, and as the chairman mentioned, President Abbas inherited a system that was full of all kinds of problems, holes and vulnerabilities. Let us take the Palestine investment fund as an example.

This is an entity through which a lot of Palestinian money, sources unknown, was invested. When Salam Fayyad was finance minister under the Fahtah-led government, he participated in a complete reorganization of the Palestinian investment fund.

Mr. COSTA. He supposedly had some initial success.

Ambassador WELCH. He did. To this day, I believe it is managed significantly more responsibly.

Second, you quite rightly say that there are institutional deficiencies on the side of the Palestinian authority. It is not a state, and it therefore does not have the elements of statehood, and this is a significant gap that needs to be filled. Part of the reason we

have this third track, which I called the “international track,” sir, in my opening remarks, is that I think this is a lot of work the international community and members of the international community, like ourselves, can do to help build more responsible and accountable institutions of governance. That is what General Dayton is doing on the security side. That gets a lot of attention. That does not mean it is not occurring in some other areas as well.

When we restructurized the assistance program last year after the Hamas government came in, we segregated an ability to continue funds flowing to independent organizations—the election commission, for example, the monetary authority—so that we could try to continue to build those institutions.

Finally, the Palestinian people recognized not merely that the party who had the government before did some bad things and was held to be corrupt and held accountable at the polls but that the current Hamas party’s having failed when it had the government fully in its control was also held accountable. I think there is some public polling evidence to suggest that that is the case, but of course, there has not been another election yet to test that proposition.

Perhaps if I could ask Mr. Ward to make a couple of comments on how our assistance programs are directed in these areas.

Mr. COSTA. Is President Abbas capable of a strong season, to use the Seaver analogy?

Mr. WARD. Well, you and I should be talking about the San Francisco Giants, but—

Mr. COSTA. We are hopeful.

Mr. WARD. Yes, we are ever hopeful.

Let me bring it down to the community level.

What if there is a Tom Seaver who is the mayor of the municipality that is not Hamas? Our assistance program has found him or her and is providing direct assistance to that community so that he can demonstrate to his community that he is listening to them and setting priorities for that community, and he is helping to deliver the priorities of that community as identified.

We are not just helping him. We are also teaching that community something about accountability because they are involved in the decision-making process. They know what they need. They know what they have been promised, and they know that we are keeping track of the funds to pay for the goods and services. There is a community next to that community that is not run by a moderate Fattah member. It is run by the other guys. One of the hopes of our program—and I very much appreciate that we are talking so much about hope today—is that the people in that community, if everybody talks to each other, are going to see what is going on in the community next-door that is receiving help from the United States or maybe from the TIM, and they are going to see that their community was involved in how decisions are made and that their community leaders are accountable because everything is public and that the community strengthened and the community leaders are strengthened and that, at the end of the day when there is the next election Ambassador Welch refers to, we might see a different result.



Mr. COSTA. Well, Mr. Ward, you are describing what I thought, sometimes out loud, that may be a selective mini marshal plan that was done with cause and effect and that the proper sort of resource was to reward success and failure, and it seems to me that, if that is done in a very regimented fashion, maybe we can, in fact, win over the hearts and minds of the Palestinians in a way that makes sense.

Two quick questions if you would not mind, Mr. Chairman.

One—and it gets back to earlier comments that were made—do you expect the Europeans to hold firm on the financial boycott on this Hamas-Fattah unity government unless it meets the three criteria set by the quartet?

Ambassador WELCH. Congressman, this is a very important consideration for us and a key target in our diplomacy.

We, just a few days ago, concluded an exchange of letters with the European Union and the European Commission, which clarifies that assistance should only flow to certain accounts. Otherwise, it could be implicated by U.S. law and regulation. We were asked that question by European representatives in order that they could understand what would be permissible for them to do with their assistance. Whether they will avail themselves of this track or not, I do not know since most of them tend to use either direct assistance or assistance through the TIM.

My belief is that other governments, including Arab governments, will use these accounts for their contributions to the Palestinian people. If that is the case, then it is our belief that those will be managed in such a manner so as not to benefit the Hamas part of the government.

Mr. COSTA. My last question, if you do not mind, Mr. Chairman: As to the rocket attacks that have been taking place recently in Israel from the Gaza strip, it seems to me unlikely that Israel is going to continue to move forward with the proposed benchmarks on access and movement if they continue.

I am wondering, in your opinion, why doesn't Hamas pay a political price among Palestinians for choosing these types of terrorism attacks that clearly has repercussions and may be the cause and effect—General, you may want to respond to this—which takes longer to make itself visible? It just seems to me that, when you are talking about winning the hearts and minds, politically, there seems to ultimately be a price to pay.

General DAYTON. Congressman, I will take kind of a security answer to this, and then, perhaps, Ambassador Welch would like to add to it.

I am convinced that one reason why the rocket attacks continue by Hamas and others who are sympathetic to the Hamas agenda is simple fear on the part of the people who could stop them, okay? They go in people's yards. They shoot these things from people's fields, from their yards, from their backyards, and because there are no effective forces for law and order in those areas because, frankly, they have been allowed to deteriorate so badly, people are simply afraid to stop it. So Hamas does pay a price eventually.

I am one of those who believes that one thing we are trying to do in delivering law and order and security is we are enabling Abbas to win and his forces to win the next election, because I

think the way you get rid of Hamas is the same way Hamas got in, which is through the ballot box. Palestinians actually believe in voting. They think this is very important.

So I would tell you that—you know, you have heard talk from Ambassador Welch about the political horizon. I think that is very important to take away the appeal of the opposition, the rejectionism, but at the same time, you have to have effective law and order on the ground so that the people, themselves, can stop this. It is like being in a community where there are no police.

Mr. COSTA. This is where law and order does not exist.

General DAYTON. It does not exist, but that is one of the things that this particular committee and this Congress is helping us to reestablish, I believe, by starting with the Presidential Guard and then moving on from there.

Mr. COSTA. Thank you, Mr. Chairman.

Mr. ACKERMAN. Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman.

Obviously, I have come way late in the hearing, so I do not have the benefit of your earlier testimony, but perhaps if I could ask you to give your assessment and update of any new contributions, new initiatives among the Pan Arab world, among the responsible members of regional governments in the neighborhood to the Palestinian-Israeli questions that are outstanding.

Ambassador WELCH. Several weeks ago, the Arab League met at the summit level in Saudi Arabia and confirmed again what they call the Arab Peace Initiative, a proposal they put on the table and voted on in early 2002 the first time. They essentially reconfirmed it—not changing it—at this meeting in Riyadh. They agreed subsequently that they would go explain it at several different levels to Israel and to the international community.

They put this proposition directly to the Israelis through the Jordanian and Egyptian foreign ministers at a meeting in Egypt just a couple weeks ago. The foreign minister of Italy went over to Egypt. My understanding from the Egyptians and Jordanians is they intend to follow that up by a visit of their own to Israel. I believe they are timing that to have some ability to have that visit come in the best political atmosphere, and given developments in Israel, they are waiting a bit.

Second, a delegation from the Arab League met with the quartet membership in Sharm-el-Shake, Egypt, on the margins of the conference of Iraq, to explain the Arab initiative to those of us in the quartet. Secretary Rice was present at that meeting. Subsequent to that, just last Monday, another delegation went from the Arab League to Brussels to explain it all to all of the European Union foreign ministers. So they seem to have a pretty organized campaign to explain what they are doing with the Arab initiative.

We see some promise, sir, in this regional track that it might provide some support to the bilateral track. It cannot replace it because, after all, at the end of the day, peace can only be built between Israel and those countries Lebanon and Syria with which it does not have peace arrangements and, most importantly of all, with the Palestinians, but we do think it is an important complement to it, and it is encouraging to us that there seems to be some interest on the Arab side in moving that forward, and there

is some receptivity to Israel's hearing about it and commenting upon it. That does not mean that Israel has to agree with all parts of it, and frankly, the United States does not necessarily agree with all parts of it, but the idea that there is an offer out there for peace is, I think, an important one, and it perhaps adds to our opportunities available right now to try and advance this cause.

Mr. FORTENBERRY. Thank you.

Mr. ACKERMAN. Thank you.

There have been some reports in the press that the administration, in an exchange of letters with the Europeans that hopefully the committee might be able to get a look at, has agreed to allow the Europeans to participate and to assist the PLO through some special separate account setup that would be controlled by the Palestinian Authority finance minister, Salam Fayyad, who I know and who I have a lot of confidence in. He seems to be a great guy.

What is the purpose of this account? Who is going to control it—he exclusively? Who is going to audit it? If we are not participating in providing money to those accounts, are these letters just to guarantee through the other participants in the account that they would not be subject to U.S. sanctions by doing that?

Why is this account needed? How do we guarantee that these monies do not fall into the wrong hands? What does it do that the TIM does not?

Ambassador WELCH. Mr. Chairman, there is an exchange of letters, we have concluded, with the European Union and Commission, and I am happy to make a copy available to you and to the other members of the committee.

When Hamas came into power and controlled all of the government after the election last year, we reconfirmed some restrictions we had on any assistance going to the Hamas government. Under U.S. law, U.S. persons or entities can not provide any material support to a terrorist organization, and this means that banks, that U.S. entities are not willing to participate in such transfers.

When the National Unity Government was formed, we faced the question of do we change these regulations in any way, and our policy decision was, no, we would not. We would keep them in effect. Well, what that meant is that people did not know exactly what the implications might be for the controls, and we were asked to clarify that, which is what we did in this exchange of letters.

My guess is that the European Union is unlikely to use this PLO account very much. Others in Europe may use it. I think Norwegian contributions may go there. Accounts existed before. It is under the authority of President Abbas, and it will be audited.

Mr. ACKERMAN. By?

Ambassador WELCH. I think the Palestinians have selected a renowned international firm, Ernst & Young, to do that auditing function so that they can ensure the proper accountability of funds going there.

Our policy view is that people want to assist Palestinians. I mean we think that is a worthy objective. The question is how to do it, and what is the right way to do it, and we think this provides the appropriate mechanism with the right controls.

Mr. ACKERMAN. Various players in the Arab world or Arab banks can transfer money through that system?

Ambassador WELCH. Well, sir, I am prepared to speak more with you and with any other interested members of the committee in a different setting in that regard.

Again, I think we want to meet this impulse that there is to provide assistance to Palestinians with a responsible and effective way for that to be done. I do not want to embarrass any particular governments by speaking out about how they do their assistance.

Mr. ACKERMAN. I have no compunction about doing that. Shame on them if they are doing the wrong thing.

Is this arrangement specific to this finance minister if Mr. Fayyad resigns yet again and is replaced by somebody? Does that person automatically have the authority to control those accounts or does this disappear with him?

Ambassador WELCH. As I mentioned, this is an account that, in the end, is under the control of the President. We would, I think, take a very careful evaluation if the personalities were to change on that side. It is a system that has been used before in which we have some confidence. Again, if the personalities were to change, we would have another look at it just as we had another look at it when the National Unity Government came into being.

Mr. ACKERMAN. I think it speaks volumes that we have to revise our policy with a change in players because there is no system in this entity that we have confidence in where have to reevaluate everything we do every time there is a change in personnel. It does not make any more sense than one league's having a designated hitter and the other league is not.

We will take up your invitation, and the committee will be anxious to meet with you under different circumstances to explore this further and to determine at that point if there is further need to have a public hearing after that.

Would you like to say a word about Lebanon? I understand that there has been some type of bombing there today.

Ambassador WELCH. Yes, Mr. Chairman.

At the outset of the hearing, I got a message on this evil device that I have to carry with me all the time that there has been another bombing in Lebanon this evening, Lebanon time. This is the third such event in just slightly over that number of days. I believe this is in a majority area of the country. So now, in succession, whoever is doing these things seems to have targeted every confessional community there. This is deplorable that this is happening, and yet another example of the grave concern that we have about those when want to disturb this peace and security in Lebanon who try and work against the interests of the majority of the Lebanese people.

We are supporting the Government of Lebanon in trying to bring those who are responsible for these things to account, and we warn those who are perpetrating them, whether they are inside or outside of Lebanon, that they will be held to account.

Mr. ACKERMAN. Thank you for that.

With the gratitude of the committee, this very distinguished panel is thanked for their service to our country. You are great Americans, and thank you for participating in our hearing.

The committee stands adjourned.

[Whereupon, at 3:54 p.m., the subcommittee was adjourned.]

## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE SHEILA JACKSON LEE, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman, for convening this important hearing. Unfortunately, decades of attempts to achieve peace in the Middle East have yet to be successful, and the ongoing strife in Israel and the Palestinian territories requires our ongoing attention and concern. May I also thank the Ranking Member, and welcome our three distinguished witnesses: The Honorable C. David Welch, Assistant Secretary of the Bureau of Near Eastern Affairs from the U.S. Department of State; Lieutenant General Keith W. Dayton, United States Security Coordinator; and Mr. Mark Ward, Senior Deputy Assistant Administrator of the Bureau for Asia and the Near East from the U.S. Agency for International Development. I very much look forward to your testimony.

With yet another eruption of violence in Gaza in recent days, we are reminded of the tenuous security situation, as well as the need for urgent action. Having traveled extensively in the region, and I have witnessed first-hand the promise of the Holy Land, as well as the destitution of long-term strife, and I remain committed to working toward peace in the Middle East.

By any measure, the Palestinian refugee situation is truly tragic. Dating from the 1948 Arab-Israeli war, when hundreds of thousands of Palestinian Arabs fled or were forced from their homes, it has been labeled by the United Nations the most protracted refugee situation of our day. Most international assistance to Palestinian refugees falls under the UN Relief and Works Agency in the Near East (UNRWA). This agency, originally intended to be only a short-term solution, has repeatedly seen its mandate extended, most recently to June 2008.

The United States has a substantial role to play in both the alleviation of suffering and attempts to solve the problem itself. Our government currently provides substantial aid to Palestinian refugees, most of which is distributed through the U.S. Agency for International Development's (USAID) West Bank and Gaza program. Additionally, the United States contributes to the United Nations Relief Works Agency (UNRWA), which provides humanitarian relief and basic services to Palestinian refugees living in the West Bank, Gaza Strip, Jordan, Syria, and Lebanon.

Following the election of Mahmoud Abbas as President of the Palestinian Authority in early 2005, the United States has increased both diplomatic efforts and humanitarian aid. Most recently, \$50 million has been appropriated for FY2007 for USAID's West Bank and Gaza program. In the past, our nation has also provided funds to train Palestinian security forces; most recently, in March 2007, the State Department announced their intention to seek \$59 million in security assistance to Abbas for the upcoming appropriations season.

Congress has made significant efforts to ensure that aid given to the Palestinians is not going to fund terrorism. Under the FY2006 Foreign Operations Appropriations Act, up to \$1 million of Economic Support Funds may be used for audits and inspections of USAID's West Bank and Gaza Program. I strongly support the continuation and expansion of monitoring and oversight mechanisms. We must ensure that the aid we send is actually reaching suffering refugee populations, and is not being used to support terrorist organizations.

According to annual foreign operations legislation, congressionally approved funds for the West Bank and Gaza Strip cannot be given directly to the PA unless the President submits a waiver to Congress stating that doing so is in the interest of national security. As a result, the United States has, to date, provided direct assistance to the PA on four occasions. Most recently, following Palestinian Authority

President Abbas's May 2005 visit to the White House, President Bush transferred an additional \$50 million from unobligated Economic Support Funds (ESF) funds to the PA, but that transfer was ultimately rescinded after the formation of the Hamas-led government in March 2006.

Mr. Chairman, I believe we must do all we can to alleviate this shocking and long-standing humanitarian crisis, while also ensuring that the funds and assistance are not going to corrupt or terrorist purposes. This is proving increasingly difficult; in April 2006, the Department of the Treasury declared that Hamas, a Foreign Terrorist Organization, had a property interest in the transactions of the Palestinian Authority. As a result, U.S. persons are now prohibited from engaging in unauthorized transactions with the Palestinian Authority, though in theory they may still conduct transactions in Gaza and the West Bank. However, protective measures taken by the world's financial institutions have made even this difficult in practice.

Lieutenant General Dayton, one of our witnesses here today, is responsible for developing the so-called "Dayton Plan," which included provisions aimed at reforming the flow of people and goods across Israel's borders. Lt. Gen. Dayton, I hope you will discuss the status of this plan, how it has played out in practice, and what more needs to be done to curb the violence.

Also, I hope we will discuss the Temporary International Mechanism (TIM) established by the European Union. This program allows contributions to go directly to Palestinian public sector workers and needy families, completely bypassing the Hamas-led government. Though we do not currently send funds to this program, the United States has been supportive of the plan, and I would be very interested to know the status of this program. Has it, in practice, proven capable of providing aid to those who desperately need it, while keeping funds away from terrorist groups?

I continue to be very concerned about the humanitarian plight of Palestinian refugees, and for the tenuous security situation in the entire region. I look forward to today's hearing, and I hope that the testimony of our witnesses can offer some important insights on this issue, and recommendations for the future of U.S. aid programs.

Thank you, Mr. Chairman, and I yield back the balance of my time.

