Appropriations for FY2005: Foreign Operations, Export Financing, and Related Programs

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Summary

The annual Foreign Operations appropriations bill is the primary legislative vehicle through which Congress reviews the U.S. foreign aid budget and influences executive branch foreign policy making generally. It contains the largest share—about two-thirds—of total U.S. international affairs spending.

Funding for Foreign Operations programs have been rising for five consecutive years, although amounts approved in FY2003 and FY2004 have reached unprecedented levels over the past 40 years. Substantial supplementals in both years for assistance to the front line states in the war on terrorism and Afghanistan and Iraq reconstruction, have pushed spending upward. The regular Foreign Operations bill, signed by the President on January 23, 2004, combined with an earlier Iraq supplemental approved in November 2003 (P.L. 108-106), bring current year appropriations to $39.4 billion (constant FY2005 dollars), the highest level, in real terms, since the early 1960s.

For FY2005 President Bush asked Congress to appropriate $21.32 billion. The budget proposal was $2.05 billion, or 10.6% higher than Foreign Operations appropriations for FY2004, excluding funds approved for Iraq reconstruction. Despite the large overall increase for Foreign Operations, much of the added funding was concentrated in a few areas. The FY2005 budget blueprint continued to highlight foreign aid in support of the war on terrorism as the highest priority. Two recently launched foreign aid initiatives—the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR)—were slated for significant funding increases. The MCC would have grown from $994 million in FY2004 to $2.5 billion for FY2005. PEPFAR would have risen from $1.6 billion in FY2004 to $2.2 billion in the FY2005 request. (Additional PEPFAR funds were proposed in the Labor/HHS appropriation measure, bringing the total FY2005 PEPFAR request to $2.82 billion.) The FY2005 request further included substantial increases for the Peace Corps and for debt reduction.

The FY2005 Foreign Operations debate included a discussion of several major policy issues, including foreign aid as a tool in the global war on terrorism, the Millennium Challenge Account, programs to combat HIV/AIDS, international family planning programs, and Afghan reconstruction. Although no additional funds were sought for Iraq reconstruction, attention also focused on implementation efforts for the roughly $23.8 billion appropriated in FY2003/ 2004.

On November 18, Congress approved the Foreign Operations conference report (Division D of H.R. 4818; P.L. 108-447). As passed, the measure provides $19.64 billion after adjusting for a required 0.8% across-the-board rescission. Although this is $1.68 billion, or nearly 8% below the request, Congress increased amounts passed earlier by the House and Senate, adding additional funds for the Millennium Challenge Account and emergency appropriations for the Darfur region in Sudan.

This report will be updated to reflect congressional action on the legislation.

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Most Recent Developments

On December 8, 2004, the President signed into law P.L. 108-447 (H.R. 4818), the FY2005 Consolidated Appropriations Act, within which Foreign Operations is included as Division D. As enacted, the measure provides $19.64 billion for Foreign Operations after adjusting for a required 0.8% across-the-board rescission. Although this is $1.68 billion, or nearly 8% below the President's request, Congress increased amounts passed earlier by the House ($19.39 billion) and the Senate ($19.61 billion). The conference agreement is about $2.3 billion (+13%) more than the "regular" FY2004 Foreign Operations level, but far less than the $38.78 billion total appropriation in FY2004 that included $21.2 billion for Iraq reconstruction and other supplemental needs.

For the "core" development and child survival accounts, including the Global AIDS Initiative, P.L. 108-447 provides $4.36 billion (after adjusting for the 0.8% across-the-board rescission), about $675 million higher than FY2004 and $160 million more than the request. Within these totals, H.R. 4818 provides $2.28 billion for the President's Emergency Plan for AIDS Relief (PEPFAR) (after applying the rescission), roughly $80 million higher than the request and the House-passed level, but $139 million less than passed by the Senate. (Funding for international HIV/AIDS included in other appropriation bills brings the total to $2.92 billion, $100 million more than the request.)

On family planning and reproductive heath matters, the conference on H.R. 4818 sets bilateral assistance at $441 million, between House and Senate-passed amounts. The bill includes $34 million for the U.N. Population Fund (UNFPA), subject to the "Kemp-Kasten" conditions, but drops the Senate language amending Kemp-Kasten that may have narrowed the grounds on which the Administration could deny funding to the organization. Conferees also deleted the Senate-proposed revision to the President's so-called "Mexico City" conditions on bilateral family planning assistance in a way that may have reversed the policy restrictions.

For specific countries, P.L. 108-447 provides $404 million for relief and peace and security activities in Sudan, $85 million for Haiti, and $980 million for Afghanistan. The Sudan amount is in addition to $95 million emergency funding for the Darfur region approved by P.L. 108-287, the FY2005 Defense appropriation bill.

The largest reduction in the enacted appropriation falls on the Millennium Challenge Account—reduced by $1 billion from the President's $2.5 billion request. The final level, however is $250 million and $380 million than amounts recommended earlier by the House and Senate, respectively, coming only after strong pressure from the White House. The measure further reduces funding for the Export-Import Bank, debt reduction, the Peace Corps, and multilateral development bank contributions, among other accounts.

Introduction

The annual Foreign Operations appropriations bill is the primary legislative vehicle through which Congress reviews and votes on the U.S. foreign assistance budget and influences major aspects of executive branch foreign policy making generally.[1] It contains the largest share—about two-thirds—of total international affairs spending by the United States.

The legislation funds all U.S. bilateral development assistance programs, managed mostly by the U.S. Agency for International Development (USAID), together with several smaller independent foreign aid agencies, such as the Peace Corps and the Inter-American and African Development Foundations. Foreign Operations also includes resources for the two newest Administration initiatives: the Millennium Challenge Corporation (MCC) and the Global AIDS Initiative managed by the State Department's HIV/AIDS Coordinator. Most humanitarian aid activities are funded within Foreign Operations, including USAID's disaster/famine program and the State Department's refugee relief support. Foreign Operations includes separate accounts for aid programs in the former Soviet Union (also referred to as the Independent States account) and Central/Eastern Europe, activities that are jointly managed by USAID and the State Department.

Security assistance (economic and military aid) for Israel and Egypt is also part of the Foreign Operations spending measure, as are other security aid programs administered largely by the State Department, in conjunction with USAID and the Pentagon. Most recently, Foreign Operations has funded reconstruction programs in both Afghanistan and Iraq. U.S. contributions to the World Bank and other regional multilateral development banks, managed by the Treasury Department, and voluntary payments to international organizations, handled by the State Department, are also funded in the Foreign Operations bill. Finally, the legislation includes appropriations for three export promotion agencies: the Overseas Private Investment Corporation (OPIC), the Export-Import Bank, and the Trade and Development Agency.

For two decades, the Foreign Operations appropriations bill has been the principal legislative vehicle for congressional oversight of foreign affairs and for congressional involvement in foreign policy making. Congress has not enacted a comprehensive foreign aid authorization bill since 1985, leaving most foreign assistance programs without regular authorizations originating from the legislative oversight committees. As a result, Foreign Operations spending measures developed by the appropriations committees increasingly have expanded their scope beyond spending issues and played a major role in shaping, authorizing, and guiding both executive and congressional foreign aid and broader foreign policy initiatives. It has been largely through Foreign Operations appropriations that the United States has modified aid policy and resource allocation priorities since the end of the Cold War. The legislation has also been the channel through which the President has utilized foreign aid as a tool in the global war on terrorism since the attacks of September 11, 2001, and launched Afghan and Iraqi reconstruction operations.

The appropriations measure has also been a key instrument used by Congress to apply restrictions and conditions on Administration management of foreign assistance, actions that have frequently resulted in executive-legislative clashes over presidential prerogatives in foreign policy making.

[1] Although the Foreign Operations appropriations bill is often characterized as the "foreign aid" spending measure, it does not include funding for all foreign aid programs. Food aid, an international humanitarian aid program administered under the P.L. 480 program, is appropriated in the Agriculture appropriations bill. Foreign Operations also include funds for the Export-Import Bank, an activity that is regarded as a trade promotion program, rather than "foreign aid." In recent years, funding for food aid and the Eximbank have been about the same, so that Foreign Operations and the official "foreign aid" budget are nearly identical. Throughout this report, the terms Foreign Operations and foreign aid are used interchangeably.

Status

Table 1. Status of Foreign Operations Appropriations, FY2005

(H.R. 4818 and S. 2812)

Subcomm. Markup		House Report	House Passage	Senate Report	Senate Passage	Conf. Report	Conf. Report Approval		Public Law
House	Senate						House	Senate	
6/23	09/09	7/13 H.Rept. 108-599	7/15 365-41	9/16 S.Rept. 108-346	9/23 voice	11/19 H.Rept. 108-792	11/20 344-51	11/20 65-30	12/08 P.L. 108-447

President Bush submitted his FY2005 federal budget request to Congress on February 2, 2004, including funding proposals for Foreign Operations Appropriations programs. House and Senate Appropriations Committees held several hearings on the FY2005 request. The House Foreign Operations Subcommittee marked up its draft legislation on June 23, followed by full Committee approval on July 9. H.R. 4818 passed the House, amended, on July 15. The Senate Appropriations Committee reported its bill, S. 2812, on September 16, which was debated and amended on September 23. The Senate passed H.R. 4818, after substituting the text of S. 2812, as amended. Conferees reached agreement November 19 on the Foreign Operations measure, together with eight other pending appropriation bills for FY2005. H.R. 4818, originally the Foreign Operations measure, became the vehicle for the omnibus Consolidated Appropriations Act, 2005. Foreign Operations is included as Division D of the act. The President signed the measure on December 8.

Foreign Operations Policy Trends and Goals

Arguably, from the end of World War II until the early 1990s, the underlying rationale for providing foreign aid was the same as that for all U.S. foreign policy—the defeat of communism. U.S. aid programs were designed to promote economic development and policy reforms, in large part to create stability and reduce the attraction to communist ideology and to block Soviet diplomatic links and military advances. Other security assistance activities provided defense equipment and training to American allies and friendly states, some of which faced Soviet or Soviet-proxy threats. Aid programs also were used to help the U.S. gain access to military bases around the world in order to forward deploy American forces.

Foreign aid programs also supported a number of secondary U.S. policy goals, such as reducing high rates of population growth, promoting wider access to health care, expanding the availability of basic education in the developing world, advancing U.S. trade interests, and protecting the environment. If these secondary goals were also achieved, U.S. aid programs could be promoted as delivering "more bang for the buck."

With the end of the Cold War, the United States launched expansive aid programs in Russia and many eastern-bloc states that were previously those that U.S. assistance tried to combat. While these and other new elements of American foreign aid emerged, no broad consensus developed over what should be the new overarching rationale for U.S. aid programs. Throughout the 1990s, policymakers and Congress explored a number of alternative strategic frameworks around which to construct a revised foreign assistance policy rationale. Not only did a policy consensus fail to emerge, but efforts to overhaul the largely Cold War-based foreign aid legislation also did not succeed.

During this period, the Clinton Administration emphasized the promotion of "sustainable development" as the new, post-Cold War main strategy of those parts of the foreign aid program under the aegis of the U.S. Agency for International Development (USAID). Economic assistance supported six inter-related goals: achievement of broad-based, economic growth; development of democratic systems; stabilization of world population and protection of human health; sustainable management of the environment; building human capacity through education and training; and meeting humanitarian needs.

Early in the Bush Administration these goals were modified around three "strategic pillars" of 1) economic growth, agriculture, and trade; 2) global health; and 3) democracy, conflict prevention, and humanitarian assistance. More recently, a USAID White Paper on American foreign aid identified five "core" operational goals of U.S. foreign assistance:

- Promoting transformational development, especially in the areas of governance, institutional capacity, and economic restructuring;
- Strengthening fragile states;
- Providing humanitarian assistance;
- Supporting U.S. geostrategic interests, particularly in countries such as Iraq, Afghanistan, Pakistan, Jordan, Egypt, and Israel; and
- Mitigating global and international ills, including HIV/AIDS.[2]

Perhaps the most defining change in U.S. foreign aid policy came following the September 11, 2001, terrorist attacks in the United States when American foreign assistance has taken on a more strategic sense of importance and has been cast frequently in terms of contributing to the global war on terrorism. In September 2002, President Bush released his Administration's National Security Strategy that established global development, for the first time, as the third "pillar" of U.S. national security, along with defense and diplomacy. Also in 2002, executive branch foreign assistance budget justifications began to underscore the war on terrorism as the top foreign aid priority, highlighting amounts of U.S. assistance to about 30 "front-line" states in the terrorism war—countries that cooperated with the United States in the war on terrorism or faced terrorist threats themselves. The substantial reconstruction programs in Afghanistan and Iraq—which total more in FY2004 than the combined budgets of all other aid programs—are also part of the emphasis on using foreign aid to combat terrorism.

At roughly the same time that fighting terrorism became the leading concern of American foreign aid, the Bush Administration announced other significant initiatives that have defined and strengthened two additional key foreign assistance goals: promoting economic growth and reducing poverty, and combating the global HIV/AIDS pandemic. The Millennium Challenge Corporation (MCC) is a new aid delivery concept, authorized by Congress and established in early 2004, that is intended to concentrate significantly higher amounts of U.S. resources in a few low- and low-middle income countries that have demonstrated a strong commitment to political, economic, and social reforms. If fully funded, $5 billion will be available by FY2006 to support

[2] U.S. Agency for International Development. *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century*. January 2004.

these "best development performers" in order to accelerate economic growth and lower the number of people living in absolute poverty.

Addressing global health problems has further become a core U.S. aid objective in recent years. Congress created a separate appropriation account for Child Survival and Health activities in the mid-1990s and increased funding for international HIV/AIDS and other infectious disease programs. President Bush's announcement at his 2003 State of the Union message of a five-year, $15 billion effort to combat AIDS, malaria, and tuberculosis has added greater emphasis to this primary foreign assistance objective.

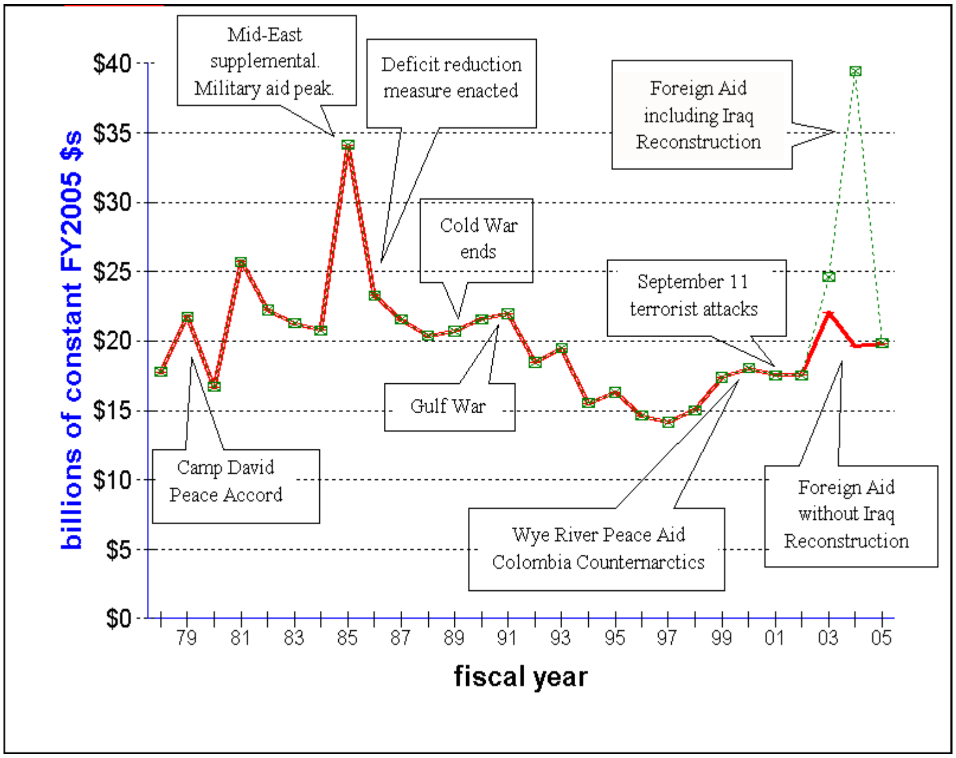
Beyond these recently emerging foreign aid goals, other prominent objectives that have continued since the early 1990s have included supporting peace in the Middle East through assistance to Israel, Egypt, Jordan, and the Palestinians; fostering democratization and stability for countries in crisis, such as Bosnia, Haiti, Rwanda, Kosovo, and Liberia; facilitating democratization and free market economies in Central Europe and the former Soviet Union; suppressing international narcotics production and trafficking through assistance to Colombia and other Andean drug-producing countries; and alleviating famine and mitigating refugee situations in places throughout the world.

Foreign Operations Funding Trends

As shown in the Figure 1, Foreign Operations funding levels, expressed in real terms taking into account the effects of inflation, have fluctuated widely over the past 29 years.[3] After peaking at over $34 billion in FY1985 (constant FY2005 dollars), Foreign Operations appropriations began a period of decline to a low-point of $14.1 billion in FY1997, with only a brief period of higher amounts in the early 1990s due to special supplementals for Panama and Nicaragua (1990), countries affected by the Gulf War (1991), and the former Soviet states (1993).

[3] Some of these swings in budget levels shown in the figure are not the result of policy decisions, but are due to technical budget accounting changes involving how Congress "scores" various programs. For example, the large increase in FY1981 did not represent higher funding levels, but rather the fact that export credit programs began to be counted as appropriations rather than as "off-budget" items. Part of the substantial rise in spending in FY1985 came as a result of the requirement to appropriate the full amount of military aid loans rather than only the partial appropriation required in the past. Beginning in FY1992, Congress changed how all Federal credit programs are "scored" in appropriation bills which further altered the scoring of foreign aid loans funded in Foreign Operations. All of these factors make it very difficult to present a precise and consistent data trend line in Foreign Operations funding levels. Nevertheless, the data shown here can be regarded as illustrative of general trends in Congressional decisions regarding Foreign Operations appropriations over the past 29 years.

Figure 1. Foreign Operations Funding Trends



Arguing that declining international affairs resources seriously undermined U.S. foreign policy interests and limited the ability of American officials to influence overseas events, Clinton Administration officials and other outside groups vigorously campaigned to reverse the decade-long decline in the foreign policy budget. Foreign aid spending increased slightly in FY1998, but beginning the following year and continuing to the present, Foreign Operations appropriations have trended upward due in large part to the approval of resources for special, and in some cases unanticipated foreign policy contingencies and new initiatives.

While funding for regular, continuing foreign aid programs also rose modestly during this period, supplemental spending for special activities, such as Central American hurricane relief (FY1999), Kosovo emergency assistance (FY1999), Wye River/Middle East peace accord support (FY2000), a counternarcotics initiative in Colombia and the Andean region (FY2000 and FY2002-FY2004), aid to the front line states in the war on terrorism and Iraq-war related assistance (FY2003-FY2004), was chiefly responsible for the growth in foreign aid appropriations.

While Foreign Operations appropriations had been rising for five consecutive years, amounts approved in FY2003 and FY2004 reached unprecedented levels over the past 40 years. Regular appropriations approved in these two years were roughly on par with amounts of the previous few years. But substantial supplementals of $7.5 billion and $21.2 billion, respectively, for assistance to the front line states in the war on terrorism and Afghanistan and Iraq reconstruction, have pushed spending upward. The regular Foreign Operations bill, signed by the President on January 23, 2004, combined with an earlier Iraq supplemental approved in November 2003 (P.L. 108-106) and subsequent emergency relief for Darfur, Sudan (P.L. 108-287), brought FY2004 appropriations to $39.4 billion (constant FY2005 dollars), the highest level, in real terms, since the early 1960s.

The enacted level for FY2005 of $19.74 billion, while less than the previous two years, is the largest Foreign Operations appropriation, in real terms, than all other years in over a decade. Moreover, the FY2005 total is likely to grow when Congress considers supplemental funding for tsunami disaster relief and possibly additional Iraq reconstruction needs.

Supplemental resources for Foreign Operations programs, which in FY2004 exceeded regular Foreign Operations funding, have become a significant channel of funding for U.S. international activities. Due to the nature of rapidly changing overseas events and the emergence of unanticipated contingencies to which it is in the U.S. national interest to respond, it is not surprising that foreign aid and defense resources from time to time are the major reason for considering and approving supplemental spending outside the regular appropriation cycle. Supplementals have provided resources for such major foreign policy events as the Camp David accords (FY1979), Central America conflicts (FY1983), Africa famine and a Middle East economic downturn (FY1985), Panama and Nicaragua government transitions (FY1990), the Gulf War (FY1991), and Bosnia relief and reconstruction (FY1996).

Table 2. Foreign Operations Appropriations, FY1996 to FY2005

(discretionary budget authority in billions of current and constant dollars)

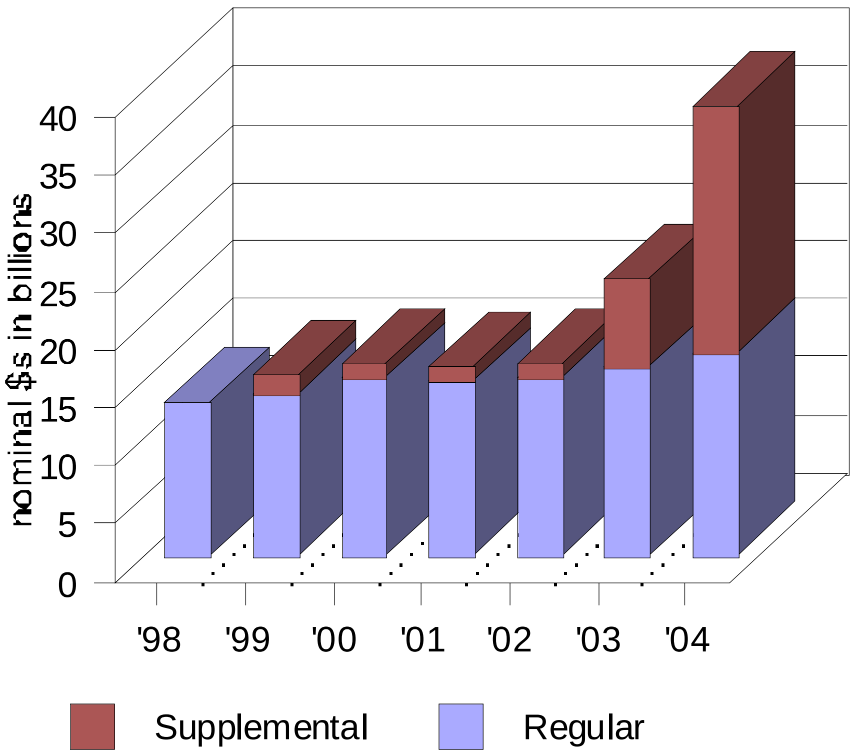
	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
nominal $s	12.46	12.27	13.15	15.44	16.41	16.31	16.54	23.67	38.78	19.74
constant FY05 $s	14.64	14.15	15.02	17.39	18.04	17.53	17.52	24.60	39.44	19.74

Note: FY1999 excludes $17.861 billion for the IMF. FY2003 includes $2.475 billion and FY2004 includes $19.42 billion in supplemental appropriations for Iraq reconstruction. FY2005 is the enacted level and includes $100 million for Caribbean hurricane relief provided in P.L. 108-324, the Military Construction appropriation bill for FY2005.

But after a period of only one significant foreign aid supplemental in eight years, beginning in FY1999 Congress has approved Foreign Operations supplemental appropriations exceeding $1 billion in each of the past six years. Relief for Central American victims of Hurricane Mitch, Kosovo refugees, and victims of the embassy bombings in Kenya and Tanzania in FY1999 totaled $1.6 billion, and was followed in FY2000 by a $1.1 billion supplemental, largely to fund the President's new counternarcotics initiative in Colombia. As part of a $40 billion emergency supplemental to fight terrorism enacted in September 2001, President Bush and Congress allocated $1.4 billion for foreign aid activities in FY2001 and FY2002. Another $1.15 billion supplemental cleared Congress in FY2002 to augment Afghan reconstruction efforts and assist other "front-line" states in the war on terrorism.

Until FY2003, these additional resources accounted for between 7% and 11% of total Foreign Operations spending. The $7.5 billion Iraq War supplemental for FY2003, however, went well beyond these standards, representing nearly one-third of the FY2003 Foreign Operations budget, and was surpassed, as noted above, only by FY2004 supplemental appropriations, which more than doubled the Foreign Operations budget for the year.

Figure 2. Supplemental Funding for Foreign Operations



Data Notes

Unless otherwise indicated, this report expresses dollar amounts in terms of *discretionary budget authority*. The Foreign Operations Appropriations bill includes one *mandatory* program that is not included in figures and tables—USAID's Foreign Service retirement fund. The retirement fund is scheduled to receive $43.9 million for FY2004.

In addition, funding levels and trends discussed in this report exclude U.S. contributions to the International Monetary Fund (IMF), proposals that are enacted periodically (about every five years) in Foreign Operations bills. Congress approved $17.9 billion for the IMF in FY1999, the first appropriation since FY1993. Including these large, infrequent, and uniquely "scored" IMF appropriations tends to distort a general analysis of Foreign Operations funding trends. Although Congress provides new budget authority through appropriations for the full amount of U.S. participation, the transaction is considered an exchange of assets between the United States and the IMF, and results in no outlays from the U.S. treasury. In short, the appropriations are off-set by the creation of a U.S. counterpart claim on the IMF that is liquid and interest bearing

Foreign Operations, the FY2005 Budget Resolution, and Sec. 302(b) Allocations

Usually, Appropriations Committees begin markups of their spending bills only after Congress has adopted a budget resolution and funds have been distributed to the Appropriations panels under what is referred to as the Section 302(a) allocation process, a reference to the pertinent authority in the Congressional Budget Act. Following this, House and Senate Appropriations Committees separately decide how to allot the total amount available among their 13 subcommittees, staying within the functional guidelines set in the budget resolution. This second step is referred to as the Section 302(b) allocation. Foreign Operations funds fall within the International Affairs budget function (Function 150), representing in most years about 65% of the function total. Smaller amounts of Function 150 are included in four other appropriation bills.

How much International Affairs money to allocate to each of the four subcommittees with jurisdiction over the International Affairs programs, and how to distribute the funds among the numerous programs are decisions exclusively reserved for the Appropriations Committees. Nevertheless, overall ceilings set in the budget resolution can have significant implications for the budget limitations within which the House and Senate Foreign Operations subcommittees will operate when they meet to mark up their annual appropriation bills.

On May 19, 2004, House and Senate conferees agreed to a budget framework for FY2005 (S.Con.Res. 95) that included $821 billion in discretionary budget authority. The discretionary budget authority target for the International Affairs function, out of which Foreign Operations programs receive their funding, was $29.28 billion, $2.2 billion or 7% less than the President's request. If the conference recommendations were followed during the appropriation process, it was likely that the Administration's proposal for Foreign Operations could not be fully met.

The House and Senate Appropriations Committees, however, can choose to allocate the $29.28 billion among the four subcommittees proportionally different than what the President proposed or to alter the overall amount for foreign policy activities. Depending on other competing priorities, the final allocations can diverge significantly from those assumed in the budget resolution.

Complicating decisions related to the 302(b) allocation process was the lack of a final vote on the FY2005 budget resolution's conference agreement. The House passed the measure on May 19 (216-213) and "deemed" the $821 billion discretionary budget authority cap included in the budget resolution as guidance for the Appropriations Committee. The resolution, however, remained pending in the Senate where disagreements focused on the size of the deficit, budget enforcement mechanisms, and extending existing tax cuts, matters unrelated to international affairs funding issues. While Congress can, and did proceed with consideration of appropriation bills without finalizing the budget resolution, the lack of broad consensus on overall spending levels can make it more difficult to pass each of the 13 appropriation measures.

On June 2, the House Appropriations Committee released its 302(b) allocations, providing $19.39 billion for Foreign Operations. The amount is $1.93 billion, or 9.1% less than the President's request. The Senate Appropriations Committee announced its subcommittee allocations on September 8, making available the identical amount for Foreign Operations as approved by the House panel. The reduction for Foreign Operations in both houses was the largest for any of the 13 subcommittees when compared to the Administration's recommendation.[4]

[4] In issuing the subcommittee allocations, House and Senate Committees also compared FY2005 levels with amounts enacted for FY2004. In the case of Foreign Operations, the Committees compared their $19.39 billion recommendation for FY2005 with the $17.48 billion total approved in the *regular* Foreign Operations appropriation bill (enacted in http://www.congress.gov/cgi-lis/bdquery/R?d108:FLD002:@1(108+199)). Using this point of measurement, the FY2005 allocation was $1.9 billion, or 10.9% higher than FY2004 levels. However, because Congress approved a large Foreign Operations supplemental prior to enactment of the *regular*, various baselines for FY2004 could be used in drawing comparisons between the two years. Since the FY2004 supplemental included some amounts that had been previously earmarked in House- and Senate-passed *regular*—Pakistan and Afghanistan aid, for example—one method would be to include those levels in the FY2004 *regular* baseline.

As approved in H.R. 4818, the omnibus Consolidated Appropriation Act, 2005, the final total amount for Foreign Operations exceeds the level previously allocated for the bill. This is largely the result of a White House-congressional agreement to add funds for the Millennium Challenge Account and to include $93 million in "emergency" funding—an amount that does not count against the allocation cap—for relief and peacekeeping activities in the Darfur region of Sudan. The final regular Foreign Operations measure provides $19.64 billion. This compares with the $19.39 billion allocated under the earlier 302(b) allocations for Foreign Operations.

Foreign Operations Appropriations Request for FY2005 and Congressional Consideration

Request Overview

On February 2, 2004, President Bush asked Congress to appropriate $21.32 billion for FY2005 Foreign Operations. The budget proposal was $2.05 billion, or 10.6% higher than Foreign Operations appropriations for FY2004, excluding funds approved for Iraq reconstruction. (Including Iraq reconstruction funds, the FY2005 request is significantly smaller than the FY2004 total of $38.7 billion.) Foreign Operations, together with requests for Defense and Homeland Security, were areas proposed for the largest growth in spending under the FY2005 appropriation request.

Despite the large overall increase for Foreign Operations, much of the added funding was concentrated in a few areas. The FY2005 budget continued to highlight foreign aid in support of the war on terrorism as the highest priority, with a one-third increase for anti-terrorism programs. In addition, two recently launched foreign aid initiatives—the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR)—were slated for significant funding increases. The MCC would grow from $994 million in FY2004—its first year of operation—to $2.5 billion for FY2005. PEPFAR, also in its first year, would rise from $1.6 billion in FY2004 to $2.2 billion in the FY2005 request. (Additional PEPFAR funds were proposed in the Labor/HHS appropriation measure, bringing the total FY2005 PEPFAR request to $2.82 billion.) After failing to win congressional approval the past two years for a new Complex Foreign Crises contingency fund, the White House again proposed $100 million. The FY2005 request further included substantial increases for the Peace Corps and for debt reduction, primarily for the Democratic Republic of the Congo.

Combined, funding for these major elements of the Foreign Operations request totaled $5.23 billion, or nearly 75% higher than for FY2004. By contrast, the $16.1 billion proposed for all other Foreign Operations activities was $183 million, or 1.1% less than FY2004 amounts.

Table 3. Foreign Operations Significant Increases FY2005

	FY2004 Enacted*	FY2005 Request	FY2005 +/- FY2004
Foreign Operations	**$19.270**	**$21.318**	**10.6%**
Significant increases for FY2005:			
Anti-Terrorism programs	$0.096	$0.128	33.3%

	FY2004 Enacted*	FY2005 Request	FY2005 +/- FY2004
Millennium Challenge Account	$0.994	$2.500	151.5%
Emergency Plan for AIDS Relief	$1.600	$2.100	31.3%
Peace Corps	$0.308	$0.401	30.2%
Complex Crises Fund	—	$0.100	—
Debt Reduction	$0.094	$0.200	112.8%
Total significant increases FY2005	$2.998	$5.229	74.4%
Foreign Operations, Less Significant Increases	**$16.272**	**$16.089**	**-1.1%**

* FY2004 excludes $18.44 billion appropriated for Iraq reconstruction, but includes other amounts, largely for Afghanistan, Pakistan, and Liberia, provided in a supplemental measure (P.L. 108-106).

Fighting the War on Terrorism

Since the terrorist attacks in September 2001, American foreign aid programs have shifted focus toward more direct support for key coalition countries and global counter-terrorism efforts. In total, Congress has appropriated approximately $40.74 billion in FY2002-FY2004 Foreign Operations funding to assist the approximately 30 "front-line" states in the war on terrorism, implement anti-terrorism training programs, and address the needs of post-conflict Iraq and other surrounding countries. Roughly half of all Foreign Operations appropriations the past three years has gone for terrorism or Iraq war-related purposes.

The FY2005 budget continued the priority of fighting terrorism with $5.3 billion, or 25% of Foreign Operations resources assisting the front-line states. This total was down slightly from the roughly $5.7 billion appropriated for FY2004, although FY2004 included a sizable supplemental for Afghanistan and a few other front-line states. Anti-terrorism training and technical assistance programs also would rise by 33% above FY2004 levels. There were no funds requested, however, for Iraq reconstruction.

The Millennium Challenge Corporation

The largest funding increase for FY2005 was for the Millennium Challenge Corporation (MCC), a new government entity established on February 2, 2004. The MCC is designed to radically transform the way the United States provides economic assistance, concentrating resources on a small number of "best performing" developing nations. The request for FY2005 was $2.5 billion with a promise that the MCC will grow to $5 billion by FY2006 and remain at least at that level in the future. Congress appropriated $994 million for the MCC's first year of operations in FY2004, below the President's $1.3 billion request. The Administration said that the added MCC funding would be in addition to, and not a substitute for, existing U.S. economic aid. A number of international development advocates, however, remain concerned that given the tight budget environment, trade-offs between regular economic programs and the MCC might be required. The MCC's Board of Directors announced on May 6 that 16 countries had qualified for FY2004 MCC resources and will be invited to submit program proposals. The selection for FY2005 took place on November 8, adding one additional country.

President's Emergency Plan for AIDS Relief (PEPFAR)

In his January 2003 State of the Union address, President Bush pledged to substantially increase U.S. financial assistance for preventing and treating HIV/AIDS, especially in the most heavily affected countries in Africa and the Caribbean. The President promised $15 billion over five years, $10 billion of which would be money above and beyond current funding. Most, but not all PEPFAR funds are included in the Foreign Operations bill; the balance is provided in the Labor/HHS appropriation measure. For FY2005, the President requested in total $2.8 billion for this international HIV/AIDS initiative—$2.2 billion in Foreign Operations—up from the $2.4 billion enacted for FY2004 ($1.6 billion in Foreign Operations). Some observers continued to express concern that the FY2005 request, like FY2004, fell short of the anticipated $3 billion per year implied in the President's speech. Some further questioned the Administration's proposal that only $200 million of the total would go to the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Congress boosted the President's $200 million request in FY2004 for the Global Fund to $550 million, although $87.7 million could not be transferred because of a congressional requirement that the U.S. contribution cannot exceed one-third of total donations to the fund.

Peace Corps

The $401 million request for the Peace Corps—30% more than in FY2004—was an effort to continue the President's long-term plan of having 14,000 Americans serving in the Peace Corps by FY2007. While supportive of the multi-year initiative, Congress has not fully funded the phased-in expansion the past two years. The FY2005 request would keep the President's program on pace for the 14,000 volunteer level in FY2007.

The U.S. Emergency Fund for Complex Crises

The Administration proposed to establish within the Executive Office of the President a $100 million contingency fund allowing the United States to respond quickly to unforseen complex foreign crises. The resources would not be used to address victims of natural disasters, but rather would support peace and humanitarian intervention in conflict situations, including acts of ethnic cleansing, mass killing, or genocide. In the past, Congress has been reluctant to approve this type of contingency fund over which it can apply little oversight. The Administration had asked lawmakers to launch the Complex Crisis Fund with $150 million as part of the FY2003 Iraq War supplemental. Congress, however, chose to defer consideration of establishing the Fund until the FY2004 appropriation cycle, in which the funding was also denied.

Debt Reduction

The Administration proposed to double the amount enacted for debt reduction in FY2004. There were three components to the request: $105 million to cancel a portion of bilateral debt owed by the Democratic Republic of the Congo under the Heavily Indebted Poor Country (HIPC) initiative; $75 million as a contribution to the HIPC Trust Fund to make up for unanticipated shortfalls in implementing the program; and $20 million for the Tropical Forestry Conservation debt relief activity. Congress approved in FY2004 the same amounts for the HIPC Trust Fund and the Tropical Forestry Conservation program, but rejected debt relief funding for the Congo.

Other Key Elements of the FY2005 Request

Beyond these specific and prominent issues, the Foreign Operations proposal for FY2005 sought to increase aid activities in a few areas while cutting resources for several programs. Significant appropriation increases included:

- **Export-Import Bank** resources would increase from $39 million to $167 million, allowing the Bank to guarantee about $11.98 billion in loans, compared to an estimated level of $11.5 billion in FY2004.
- **Foreign Military Financing** funds would increase by about $400 million, or 9%, largely due to increases proposed for Israel and Pakistan, Poland, and the Philippines.
- **Contributions to the World Bank** and other international financial institutions would grow by $110 million, or 8%, covering all scheduled U.S. payments to the multilateral development banks, plus clearing $59 million of U.S. arrears owed to these institutions.

For a few Foreign Operations accounts, comparisons between FY2005 and FY2004 were affected by amounts approved in FY2004 supplemental spending. In these cases, the FY2005 request was less than totals provided in FY2004, but higher than levels enacted in the *regular* Foreign Operations bill. In other words, supplemental spending approved in P.L. 108-106, largely for Iraq and Afghanistan reconstruction, pushed FY2004 amounts higher than the FY2005 submission. The **Economic Support Fund**—economic aid to strategically important countries—was set at $2.5 billion for FY2005, 18% less than the FY2004, but 19% higher than provided in the regular Foreign Operations measure. Likewise, **International Narcotics and Law Enforcement** spending of $359 million proposed for FY2005 was 13% less than FY2004 totals, but nearly 50% more than enacted in the regular appropriation.

For several other Foreign Operations accounts, the FY2005 submission represented a reduction below amounts approved in FY2004 in which supplemental appropriations were not a factor. Assistance to **Former Soviet states and Eastern Europe**, collectively, would decline by $65 million, or 6% from FY2004 levels. The request reflected a reorientation in the former Soviet aid account to focus more on Central Asian states, linked to the war on terrorism, and to continue the process of graduating Russia and Ukraine from U.S. aid roles.

Bilateral Development Assistance

Assessing the Administration's request for bilateral development and health assistance was complicated due to the addition of a new "core" development aid account for international HIV/AIDS funding and the transfer of resources into this new account from the Child Survival/Health line item. Collectively, the three "core" bilateral development aid accounts—Development Assistance, Child Survival/Health, and the Global AIDS Initiative—would increase in FY2005 by about $500 million, or 14%. But because HIV/AIDS resources would grow by roughly $600 million, the FY2005 request for most other development and health activities was below FY2004 enacted amounts. Further complicating comparisons between FY2005 and FY2004 was the Millennium Challenge Corporation (MCC) that may add considerable amounts of bilateral development aid resources for non-HIV/AIDS programs once MCC "compacts" are signed and funded. In short, overall development aid spending, including the MCC, rose about 43% under the FY2005 request, although the impact on specific development programs could not be determined due to the uncertainty over how MCC allocations would affect specific sectors.

At the country level, however, it was clear that nations which had been named as HIV/AIDS focus countries or are selected for MCC support—27 countries in all—would see a sharp increase in bilateral development assistance from the United States. Uganda and Zambia, for example, two HIV/AIDS focus countries, were projected to receive in FY2005 double and triple the amounts of U.S. assistance provided in FY2003, respectively. Mozambique, a nation that was also an HIV/AIDS focus country *and* had qualified to submit an MCC program proposal, could also see U.S. aid triple between FY2003 and FY2005. But for the more than 40 other bilateral development aid recipients, levels would remain mostly unchanged under the FY2005 budget, and in some cases decline from FY2003 and FY2004 amounts.

Table 4. Summary of Foreign Operations Appropriations

(Discretionary funds, in millions of current dollars)

Bill Title & Program	FY2003 Enacted	FY2004 Regular	FY2004 Supp	FY2004 Total	FY2005 Request
Title I - Export Assistance	369	(119)	—	(119)	6
Title II - Bilateral Economic Aid	15,297	11,441	20,876	32,317	14,364
Development/Child Survival/Global AIDS	*3,175*	*3,689*	—	*3,689*	*4,199*
Iraq Relief & Reconstruction	*2,475*	—	*19,422*	*19,422*	—
Israel/Egypt	*1,507*	*1,049*	—	*1,049*	*895*
Millennium Challenge Acct	—	*994*	—	*994*	*2,500*
Title III - Military Assistance	6,398	4,454	337	4,791	5,151
Israel/Egypt	*4,378*	*3,439*	—	*3,439*	*3,520*
Title IV - Multilateral Aid	1,610	1,703	—	1,703	1,797
Total Foreign Operations	**23,674**	**17,479**	**21,213**	**38,692**	**21,318**
Total, without Iraq Recon.	**21,199**	**17,479**	**1,791**	**19,270**	**21,318**

Source: House Appropriations Committee and CRS calculations.

Leading Foreign Aid Recipients Proposed for FY2005

While Iraq is the largest current recipient of U.S. assistance, Israel and Egypt remain the largest regular U.S. aid recipients, as they have been for many years. In the aftermath of the September 11 terrorist attacks, the war in Iraq, and the initiation of the President's Emergency Program for AIDS Relief (PEPFAR), foreign aid allocations have changed in several significant ways. The request for FY2005 continued the patterns of aid distributions of the past two years, with the new feature of several PEPFAR countries joining the list of top recipients. **Table 5** lists those nations that have received an average of more than $100 million from the United States in FY2004 and requested or earmarked for FY2005. Countries are listed in the order of the combined amounts for those two years.

Since September 11, the Administration has used economic and military assistance increasingly as a tool in efforts to maintain a cohesive international coalition to conduct the war on terrorism and to assist nations which have both supported U.S. forces and face serious terrorism threats themselves. Pakistan, for example, a key coalition partner on the border with Afghanistan, had been ineligible for U.S. aid, other than humanitarian assistance, due to sanctions imposed after

India and Pakistan conducted nuclear tests in May 1998 and Pakistan experienced a military coup in 1999. Since lifting aid sanctions in October 2001, the United States has transferred over $1.9 billion to Pakistan. Jordan, Turkey, Indonesia, the Philippines, and India also are among the top aid recipients as part of the network of "front-line" states in the war on terrorism.

Another major cluster of top recipients are those in the Andean region where the Administration maintains a large counternarcotics initiative that combines assistance to interdict and disrupt drug production, together with alternative development programs for areas that rely economically on the narcotics trade.

A new dimension in U.S. aid allocations—the impact of the President's international HIV/AIDS initiative—can also be seen in amounts allocated for FY2004 and proposed for FY2005. Uganda, Ethiopia, Kenya, Zambia, South Africa, and Nigeria, all PEPFAR focus countries, are now among the leading recipients of U.S. assistance. This list will further change once the Administration announces aid packages for Millennium Challenge Account qualifying countries, perhaps adding several additional countries that receive more than $100 million in U.S. assistance.

Missing, or falling at the bottom of the list of top recipients, are several countries in the Balkans and the former Soviet Union—Serbia and Montenegro, Kosovo, Russia, Ukraine, Armenia, and Georgia—which have seen levels decline in recent years. Turkey, a leading recipient in most years over the past 25 years, also falls well down the list as a result of a congressionally-directed reduction in military aid.

Table 5. Leading Recipients of U.S. Foreign Aid

(Appropriation allocations; in millions of current dollars)

	FY2002 Total	FY2003 Total	FY2004 Regular	FY2004 Supp	FY2004 Total	FY2005 Estimates[a]
Iraq	25	2,485	—	18,439	18,439	—
Israel	2,788	3,682	2,624	—	2,624	2,580
Egypt	1,956	2,204	1,865	—	1,865	1,836
Afghanistan	527	590	405	1,364	1,769	980
Colombia	406	602	574	—	574	566
Jordan	355	1,556	459	100	559	462
Pakistan	1,045	502	190	200	390	700[b]
Sudan[c]	71	138	393	10	403[c]	499[c]
Uganda[d]	83	146	146	—	146	236
Kenya[d]	78	85	128	—	128	222
Peru	197	204	170	—	170	164
Ethiopia[d]	105	408	160	—	160	167
Bolivia	134	171	152	—	152	159
South Africa[d]	68	73	107	—	107	186
Indonesia	137	161	127	—	127	161
Nigeria[d]	66	73	101	—	101	177
Zambia[d]	57	57	86	—	86	173

	FY2002 Total	FY2003 Total	FY2004 Regular	FY2004 Supp	FY2004 Total	FY2005 Estimates[a]
Liberia	5	29	11	203	214	39
Serbia & Montenegro	165	152	135	—	135	96
Philippines	131	153	96	—	96	131
India	80	139	111	—	111	100
Russia	164	156	105	—	105	96

Sources: U.S. Department of State; conference report on H.R. 4818.

Note: Countries are listed in order of the combined FY2004 total and FY2005 estimate.

Note: FY2002 includes funds allocated from the regular Foreign Operations appropriation, plus funds drawn from the Emergency Response Fund appropriated in P.L. 107-38 and allocated from the FY2002 Supplemental Appropriation (P.L. 107-206). FY2003 includes funds allocated from the regular Foreign Operations appropriation (P.L. 108-7) and allocated from the FY2003 Iraq War Supplemental (P.L. 108-11). FY2004 regular appropriation includes amounts allocated from the Consolidated Appropriations, FY2004 (P.L. 108-199). FY2004 supplemental includes funds allocated from the P.L. 108-106.

a. FY2005 estimates are based on the Administration's request, as modified by Congress through earmarks and directives included in the conference report on H.R. 4818.

b. FY2005 estimate for Pakistan assumes that the Administration will exercise the authority granted by Congress in the conference report on H.R. 4818 to transfer $150 million from prior year ESF and FMF appropriations. Otherwise, the total for Pakistan will be up to $150 million less.

c. Amounts for Sudan in FY2004 include $256 million for the emergency in Darfur. The FY2005 estimate for Sudan includes $404 million, as directed in the conference report on H.R. 4818, plus $95 million appropriated earlier in P.L. 108-287, the DOD spending bill for FY2005.

d. PEPFAR recipients. Amounts for FY2004 and FY2005 include estimates for HIV/AIDS resources.

House Consideration

The House began consideration of the FY2005 foreign aid budget request on June 23 when the House Foreign Operations Subcommittee approved a $19.39 billion measure, $1.93 billion, or 9% below the President's $ 21.32 billion request. The full House Appropriations followed by reporting the bill (H.R. 4818) on July 13 without making funding changes to the Subcommittee's draft. The House approved H.R. 4818 on July 15 (365-41) after adopting several amendments, none of which altered the overall amount provided in the bill.

The House-passed measure was about $2 billion higher than the FY2004 regular Foreign Operations spending bill, excluding supplemental appropriations, but only $115 million larger than total Foreign Operations for FY2004, when just Iraq reconstruction funds are excluded. (FY2005 totals for Foreign Operations were augmented by an emergency-designated $95 million in P.L. 108-287, the DOD appropriation bill for FY2005, providing additional humanitarian aid to refugees in the Darfur region of Sudan; and $100 million for hurricane relief aid for Caribbean nations approved in P.L. 108-324, the FY2005 supplemental measure.)

HIV/AIDS and Other Development Aid

H.R. 4818, as passed by the House, fully funded the $2.2 billion request for the President's Emergency Plan for AIDS Relief (PEPFAR). (Funding for international HIV/AIDS included in other appropriation bills brought the Administration's total FY2005 request to $2.8 billion.) Included in the PEPFAR appropriation was $400 million for the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria (Global ATM Fund), $300 million more than the President's request. (The President requested an additional $100 million for the Global ATM Fund in the Labor/HHS/Education appropriation.) The bill further required the same allocations for malaria and tuberculosis programs as provided in FY2004, reversing a proposal to reduce both activities in the President's request.

In other key decisions concerning bilateral development assistance, H.R. 4818:

- provided $4.34 billion for the three **"core" bilateral development aid accounts**, up by $138 million from the request, and by nearly $650 million from FY2004 levels.
- increased **basic education** programs to $400 million, almost 20% more than the request and the earmark for FY2004.
- restored funding for **vulnerable children** programs to $28 million from the Child Survival account, the same as FY2004 but $18 million more than proposed for FY2005.
- set **trade capacity building** funds at $517 million across the entire bill, $194 million of which would come from the Development Assistance account.
- directed the Administration to restore proposed development assistance cuts to countries in **Africa.**

Family Planning/Reproductive Health

On population aid issues, the bill set bilateral family planning assistance at $432 million, $33 million above the request, and funding for the U.N. Population Fund (UNFPA) at $25 million. UNFPA contributions, however, would be subject to restrictions that resulted in a U.S. suspension of UNFPA support in FY2002 and FY2003. During the July 9 markup, the House panel defeated an amendment (26-32) by Representative Lowey that would have provided $25 million for UNFPA programs only in Iraq, Afghanistan, Tanzania, Jordan, Kenya, and Pakistan. None of the funds would have been available for UNFPA activities elsewhere, including those in China, where evidence of coercive family planning practices prompted the Administration to deny funding to UNFPA the past three years. The State Department announced on July 16, 2004, that once again it had found UNFPA to be in violation of the "Kemp-Kasten" provision in the Foreign Operations spending bill.

The House proposal further included $105 million for the U.N. Development Program (UNDP), $15 million more than requested, and $125 million for UNICEF, $5 million more than proposed.

Country Aid Levels

For selected countries, H.R. 4818 provided amounts at or above the President's request, with a reduction proposed for Turkey:

- **Israel—**$2.58 billion, as requested.

- **Egypt**—$1.84 billion, as requested.
- **Afghanistan**—$977 million, $48 million more than requested.
- **Jordan**—$460 million, as requested.
- **Cyprus—**$13.5 million, as requested.
- **Turkey**—no funding for the $50 million economic aid request.
- **Lebanon—**$35 million in economic aid, $3 million above the request.
- **East Timor**—$22 million in economic aid, up from $13.5 million proposed.
- **Indonesia**—military training (IMET) funds may be provided if the Secretary of State determines that Indonesia is cooperating in the FBI's investigation of the August 2002 murders of two Americans and an Indonesia.
- **Sudan**—$311 million, with no funds available for the government in Khartoum until it takes steps to resolve the crisis in Darfur.
- **Pakistan**—$150 million in military aid, half the amount requested, but with an authority to allow a transfer of an additional $150 million from other accounts.
- **Cuba Democracy Program**—$9 million, as requested.
- **Haiti**—$74.5 million in economic aid, $50 million higher than the request.

Iraq

The President did not request additional reconstruction funds for Iraq and H.R. 4818 did not include any further appropriations. The House proposal, however, authorized the United States to take the lead in a multilateral effort to cancel a significant amount of Iraq's outstanding debt and to use previously appropriated Iraq reconstruction funds to cover the cost of any such debt relief. The bill further reconstituted the Coalition Provisional Authority Inspector's General office that has been monitoring Iraq reconstruction resources. The CPA IG expired with the transfer of authority in Iraq on June 28 and the Administration had planned on merging these oversight responsibilities into the State Department's Office of Inspector General. The House measure would place the Iraq reconstruction IG in the Department of State, but as a entity reporting directly to the Secretary of State. Further, the House bill made the Secretary of State responsible for oversight of all Iraq reconstruction activities, replacing the CPA.

Reductions

The largest reduction recommended by the H.R. 4818 was to cut by half—to $1.25 billion—the President's request for the Millennium Challenge Corporation (MCC). The MCC received a $994 million appropriation for FY2004, with an Administration plan to expand the program to $2.5 billion in FY2005 and $5 billion in FY2006. A reduction like that proposed by the House would likely result in smaller and/or fewer grants being awarded to MCC qualified countries.

Other accounts reduced by House action, when compared with the President's request, included:

- **Peace Corps**—$330 million (-$71 million).
- **Emergency fund for Complex Crisis**—no funding provided.

- **International Narcotics/Law Enforcement**—$329 million (-$30 million).
- **Non-Proliferation/Anti-Terrorism**—$382 million (-$33 million).
- **Debt reduction**—$105 million (-$95 million). Most of the reduction would be taken from the $105 million request for the costs to cancel debt for the Democratic Republic of Congo.
- **World Bank, International Development Association (IDA)**—$850 million (-$211 million). This action would deny the Administration $200 million pledged to IDA if the World Bank successfully implemented certain management reforms.

Floor Amendments

During House debate on July 15, Members considered a number of amendments, some controversial and strongly opposed by the Administration. Of particular concern to the Administration was a proposal by Representative Lantos to shift $570 million in military aid funds for Egypt to economic assistance. Proponents of the amendment argued that external security threats facing Cairo did not warrant such a large—$1.3 billion—annual military aid package from the United States, and that economic challenges confronting Egypt were of more immediate concern. In a letter to House Members, Secretary of State Powell expressed strong opposition, arguing that U.S. military support of Egypt is a "cornerstone" of the Camp David Accords and contributes to regional peace, efforts to combat terrorism, U.S.-Egyptian military cooperation. The reduction of U.S. military grants that are anticipated to be used for the purchase of previously ordered American-made defense items might result in the cancellation of some prior contracts by Egypt, according to the Secretary. The House defeated the Lantos amendment 131-287.

Among other amendments considered, the House approved proposals that:

- banned the use of funds by any U.S. government official to request the United Nations assess the validity of U.S. elections (Representative Buyer; 243-161);
- prohibited Export-Import Bank support for any entity or its corporate parent is incorporated or chartered in Bermuda, Barbados, the Cayman Islands, Antigua, or Panama (Representative Sanders; 270-132);
- banned Economic Support Fund (ESF) assistance to countries that are party to the International Criminal Court (ICC) and do not sign an Article 98 agreement with the United States pledging American soldiers serving in their country will not be surrendered to the ICC. Current law prohibits U.S. military aid to such countries, although with a waiver that has been used by President Bush for reasons of national interest and for countries that are in the process of considering the ratification of Article 98 agreements. The ESF ban linked to Article 98 agreements did not include a waiver authority. (Representative Nethercutt; 241-166);
- prohibited funds in the bill for assistance to Saudi Arabia. H.R. 4818 included $25,000 in military training funds for the Saudis. The Administration expressed strong opposition to the amendment (Representative Weiner; 217-191).
- barred the use of funds to send more than 50 U.S. government employees to a conference outside the United States (Representative Garrett; voice vote);

- prohibited the use of funds for any contract that contravenes the Small Business Act (Representative Kilpatrick; voice vote);
- restricted the use of funds for Turkey in contravention of existing law concerning the prevention and punishment of genocide (Representative Schiff; voice vote);

In addition to the Lantos amendment, the House also rejected proposals that would:

- cut funding to the World Bank's International Development Association by $359 million, transferring $290 million of the funds to USAID child survival and maternal health programs. The reduction for the World Bank equaled the amount of a recent Bank loan to Iran, opposed by the Administration and congressional proponents of the amendment (Representative Sherman; (111-312);
- cut funding to the World Bank's International Development Association by $425 million, transferring $250 million of the funds to the Millennium Challenge Corporation and $90 million to the Global AIDS Initiative (Representative Kennedy; 133-288);
- add $5 million for agriculture, irrigation, and rural infrastructure programs in Africa (Representative Jackson-Lee; 164-243).

An amendment by Representative Farr to limit the number of U.S. military personnel in Colombia to 550 or less was offered but withdrawn.

Senate Consideration

The Senate Appropriations Committee reported its Foreign Operations bill (S. 2812), on September 15, 2004, legislation amended and passed by the full Senate as H.R. 4818 on September 23. The measure totaled $19.6 billion, $1.7 billion, or 8%, below the President's $21.32 billion request for FY2005. The Senate bill included $19.39 billion in discretionary budget authority, representing the measure's funding allocation, plus $225 million in "emergency" appropriations for global HIV/AIDS programs and to strengthen the African Union's peacekeeping mission in Darfur, Sudan. H.R. 4818, as passed by the Senate, was about $2.2 billion higher than the FY2004 regular Foreign Operations spending measure, excluding supplemental appropriations, but only $340 million larger than total Foreign Operations for FY2004, when Iraq reconstruction funds are excluded. (FY2005 totals for Foreign Operations were augmented by an emergency-designated $95 million in P.L. 108-287, the DOD appropriation bill for FY2005, providing additional humanitarian aid to refugees in the Darfur region of Sudan; and $100 million for hurricane relief aid for Caribbean nations approved in P.L. 108-324, the FY2005 supplemental measure.)

HIV/AIDS and Other Development Aid

The Senate bill included $2.42 billion for the President's Emergency Plan for AIDS Relief (PEPFAR), $220 million higher than the request. Funding for international HIV/AIDS included in S. 2810, the Departments of Labor-HHS-Education appropriation bill, brought the Senate-recommended level to over $3.1 billion. The Administration total request was about $2.8 billion. Included in the Senate-passed PEPFAR appropriation was $400 million for the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria, $300 million more than the President's request. Another $150 million for the Global ATM Fund was included in S. 2810, bringing the total in both bills to $550 million.

Key funding levels for other bilateral development assistance, the Senate measure:

- provided $4.46 billion for the three **"core" bilateral development aid accounts** (including "emergency"-designated funds), up by $411 million from the request, and by nearly $1 billion from FY2004 levels.
- set **basic education** programs at $335 million, slightly below the $338 million request.
- restored funding for **vulnerable children** programs to $30 million from the Child Survival account, $19 million more than proposal for FY2005.
- increased by about 75%—to $275 million—funds for **other infectious diseases, including malaria and tuberculosis,** above the request. S. 2812 earmarked $200 million for other infectious diseases from regular Child Survival/Health account funds, plus an additional $75 million of the "emergency" designated money for malaria control programs.

Family Planning/Reproductive Health

On population aid and reproductive heath matters, the Senate bill set bilateral family planning assistance at $450 million, $50 million above the request. The Senate further included $34 million for the U.N. Population Fund (UNFPA). S. 2812, however, modified two controversial provisions associated with family planning funding that could have had the effect of reversing current Administration policy. The first amended the "Kemp-Kasten" restrictions that resulted in the withholding of U.S. funds to UNFPA the past three years. The amendment would have narrowed somewhat the grounds on which the Administration could find UNFPA in violation of the restrictions by stating that an organization must *directly* support coercive abortions or involuntary sterilizations in order to be denied U.S. support. The Senate measure further added new text stating that no organization could be denied funds solely because the government of a country engages in coercive practices.

S. 2812 also revised the President's so-called "Mexico City" policy that prohibits foreign non-governmental organizations (NGOs) from receiving U.S. funds if they perform or promote abortion as a method of family planning, whether or not such activities are supported with U.S.-provided resources. The Senate language stipulated that foreign NGOs could not be declared ineligible for U.S. aid for conducting any health or medical services with non-U.S. government funds so long as the practices did not violate laws in the country in which the services were provided or would not violate U.S. law. The provision (Sec. 599C of S. 2812) further provided that foreign NGOs would not be subject to conditions associated with the use of non-U.S. government funds for advocacy and lobbying activities that were more restrictive than those applied to American NGOs.

Iraq

The President did not request additional reconstruction funds for Iraq and the Senate bill did not include any further appropriations. The Senate proposal, however, authorized the use of $360 million from previously appropriated Iraq reconstruction funds to cancel about $4 billion, or roughly 95% of debt owed by Iraq to the United States. The authority to use $360 million was requested on September 14 as part of a larger package to transfer $3.46 billion approved last year for water and electrical projects in Iraq in order to augment resources for security and law enforcement, oil production, employment generation, election support, and other development activities. Because Congress placed limits on how much of the $18.4 billion Iraq reconstruction supplemental (P.L. 108-106) could be re-programmed for other purposes, the Administration also sought changes in existing transfer authorities. Changes to re-allocation limits recommended in the Senate's version of H.R. 4818 would have permitted some, but not all of the Administration's proposed reprogramming. Specifically, the Senate bill increased from 10% to 20% the amount that any particular program sector could be reduced in order to add resources to another activity. The White House proposed, however, to transfer nearly 45% of the original amount of funds for water and sewage provided in P.L. 108-106.

Darfur

H.R. 4818, as passed by the Senate, provided over $615 million for humanitarian and other relief assistance to the Darfur region of Sudan, plus $75 million for the rapid expansion of the African Union's monitoring and peacekeeping mission in Darfur. The latter funds, designated as emergency spending, were added during floor debate as an amendment offered by Senator Corzine. The Administration's request had assumed roughly $394 million for relief aid, drawn from the refugee and disaster aid accounts. Senate increases in these humanitarian aid accounts, plus authority to transfer up to $150 million from unspent Iraq reconstruction funds supporting relief efforts in Darfur, raised the estimated total for the region in the Senate bill to $690 million—$615 million for humanitarian programs $75 million for peacekeeping. These funds were in addition to $95 million emergency Sudan funding approved earlier in P.L. 108-287, the Defense Department appropriation bill for FY2005.

Country Aid Levels

Beyond Sudan, S. 2812 provided funding at or above the President's request, in a number of cases:

- **Egypt**—$1.84 billion, as requested.
- **Israel—**$2.58 billion, as requested.
- **Jordan**—$460 million, as requested.
- **Lebanon—**$35 million in economic aid, $3 million above the request.
- **Armenia**—$86 million, $19 million above the request.
- **Cyprus—**$13.5 million, as requested.
- **Georgia**—$121 million, $13 million more than proposed.
- **Russia**—$93 million in economic aid, $13.5 million higher than requested.
- **East Timor**—$22 million in economic aid, up from $13.5 million proposed.
- **Indonesia**—supported the $152 million request, but endorsed increased spending for economic, political, and social reforms and to counter the activities of Islamic extremists in the country. Military training (IMET) funds could be provided if the Secretary of State determined that Indonesia was cooperating in the FBI's investigation of the August 2002 murders of two Americans and an Indonesian.
- **Mongolia**—endorsed the $13 million request.

- **Philippines**—$55 million in military financing, $25 million higher than proposed.
- **Afghanistan**—$929 million, as requested.
- **Pakistan**—endorsed the full $700 million economic and military aid request; provided authority for use of up to $200 million of economic aid for cancelling debt owed by Pakistan.
- **Kenya**—$10 million in ESF assistance, $2 million above the request, in support of anti-corruption programs.
- **Liberia**—$70.5 million, $38 million more than requested, adding $30 million to help rebuild the Liberian military and $8 million for various development activities.
- **Sierra Leone**—$12.3 million, an increase of $4 million from the request.
- **Somalia**—$5 million in economic aid, $4 million more than proposed.
- **Sudan**—See above.
- **Haiti**—$92.5 million, $65.5 million higher than the request.

Reductions

The largest reduction recommended by the Senate was to cut by more than half—to $1.12 billion—the President's $2.5 billion request for the Millennium Challenge Corporation. The MCC received a $994 million appropriation for FY2004, with an Administration plan to expand the program to $2.5 billion in FY2005 and $5 billion in FY2006. As with a similar House-passed reduction for the MCC, the size of this cut would have likely resulted in smaller and/or fewer grants being awarded to MCC qualified countries.

Other accounts reduced by Senate action, when compared with the President's request, included:

- **Export-Import Bank**—$157 million (-$10 million).
- **USAID operating expenses**—$600 million (-$23 million).
- **Peace Corps**—$310 million (-$91 million).
- **Emergency fund for Complex Crisis**—$20 million (-$80 million).
- **International Narcotics/Law Enforcement**—$329 million (-$30 million).
- **Debt reduction**—$95 million (-$105 million).
- **World Bank, International Development Association (IDA)**—$820 million (-$241 million).
- **African Development Fund**—$75 million (-$43 million).

Conference Agreement

On November 18, 2004, Congress approved the Foreign Operations conference report (Division D of H.R. 4818). The President signed the measure on December 8 (P.L. 108-447). As passed, the act provides $19.64 billion after adjusting for a required 0.8% across-the-board rescission. Although this is $1.68 billion, or nearly 8% below the President's request, P.L. 108-447 increases amounts passed earlier by the House ($19.39 billion) and the Senate ($19.61 billion). Additional funds were added for the Millennium Challenge Account and $93 million was designated as an "emergency" appropriation for relief and peacekeeping support in the Darfur region of Sudan. The emergency funds do not count against the regular Foreign Operations allocation. The enacted level is about $2.3 billion (+13%) more than the "regular" FY2004 Foreign Operations level, but far less than the $38.78 billion total appropriation in FY2004 that included $21.2 billion for Iraq reconstruction and other supplemental needs.

(FY2005 totals for Foreign Operations were augmented by an emergency-designated $100 million for hurricane relief aid for Caribbean nations approved in P.L. 108-324, the FY2005 Military Construction and supplemental measure.)

(Unless noted otherwise, amounts for specific programs and countries discussed below are the levels specified in the Foreign Operations division D of H.R. 4818, and are subject to an across-the-board reduction of 0.8%, as also provided in H.R. 4818.)

HIV/AIDS and Other Development Aid

The Foreign Operations portion of P.L. 108-447 provides $2.28 billion for the President's Emergency Plan for AIDS Relief (PEPFAR) (after applying the rescission), roughly $80 million higher than the request and the House-passed level, but $139 million less than passed by the Senate. (Funding for international HIV/AIDS included elsewhere in P.L. 108-447 as part of other appropriation bills brings the total to $2.92 billion, $100 million more than the request.)

Although both House and Senate bills required that $400 million of the total HIV/AIDS funding in Foreign Operations be provided to the Global Fund for HIV/AIDS, Tuberculosis, and Malaria, the conference agreement includes $250 million. This level will be supplemented with the carry-forward of $87.8 million from FY2004 and $100 million from the Labor/HHS/Ed appropriation measure, thus bringing the total U.S. contribution to the Global Fund to $487.8 million in FY2005, less the 0.8% rescission. The carry-forward appropriations could not be transferred to the Global Fund in FY2004 due to a congressionally-added requirement that U.S. support to the Fund could not exceed one-third of total contributions from all donors. Without the authority to use these funds in FY2005, the $87.8 million would have become available for bilateral HIV/AIDS programs.

For other key bilateral development assistance programs, P.L. 108-447:

- provides $4.36 billion for the three **"core" bilateral development aid accounts** (after adjusting for the 0.8% across-the-board rescission), about $675 million higher than FY2004 and $160 million more than the request.

- sets **basic education** programs at $396.8 million, after making the rescission deduction, 17% more than the $338 million request.

- restores funding for **vulnerable children** programs to $30 million from the Child Survival account, $19 million more than proposed for FY2005.

- increases by about one-third—to $198.4 million (rescission adjusted)—funds for **other infectious diseases, including malaria and tuberculosis,** above the request. The enacted measure does not include the $75 million added by the Senate in emergency-designated appropriation for malaria, although the final text of H.R. 4818 provides $90 million for malaria programs, 50% higher than requested.

Family Planning/Reproductive Health

As passed, H.R. 4818 sets bilateral family planning aid assistance at $441 million, a level between House and Senate-passed amounts. The bill includes $34 million for the U.N. Population Fund (UNFPA), subject to the Kemp-Kasten conditions, but drops the Senate language amending Kemp-Kasten that might have narrowed the grounds on which the Administration could deny funding to the organization. Conferees also deleted the Senate proposed revision to the President's so-called "Mexico City" conditions on bilateral family planning assistance in a way that may have reversed the policy restrictions.

Darfur

P.L. 108-447 provides $404 million for relief and peace and security activities in Sudan, including the Darfur region. This level falls between the $311 million and over $690 million included in House and Senate-passed bills, respectively. Although the enacted agreement deletes the Senate proposal to provide $75 million in emergency funding for the African Union's peacekeeping mission in Darfur and authority to transfer up to $150 million from unspent Iraq reconstruction funds for relief efforts in the region, the conferees intend that $75 million of the total be used in support of African Union operations in Darfur. Previously, Congress approved an additional $95 million in emergency Sudan funding in P.L. 108-287, the Defense Department appropriation bill for FY2005.

Country and Regional Aid Levels

The conference agreement, to a greater extent than previous Foreign Operations measures, sets out specific country allocations from several economic and military aid accounts. In most cases, conference allocations match the President's request, although with some modifications, higher and lower, than proposed. H.R. 4818 further specifies that funding for Africa that is drawn from the Development and Child Survival accounts should be restored to levels provided in FY2004, rather than the lower amounts proposed for FY2005. Selected country aid levels include:

- **Egypt**—$1.84 billion, as requested, but with the addition of Senate-proposed language that democracy and governance programs in Egypt shall not subject to the approval of the government.
- **Iraq**—no funding, as proposed; see discussion, however, under the Continuing Resolution section.
- **Israel—**$2.58 billion, as requested.
- **Jordan**—$460 million, as requested.
- **Lebanon—**$35 million in economic aid, $3 million above the request.
- **Saudi Arabia**—bans aid ($25,000 requested) unless the President certifies that the Saudis are cooperating in efforts to combat terrorism and that U.S. assistance will help in that effort. The House had passed a similar aid prohibition, but without a Presidential waiver.
- **Armenia**—$86 million, $19 million above the request.
- **Cyprus—**$13.5 million, as requested.

- **Georgia**—$110 million, $2 million more than proposed.
- **Russia**—$90 million in economic aid, $10.5 million higher than requested.
- **Turkey**—deletion of $50 million in requested military aid.
- **East Timor**—$22 million in economic aid, up from $13.5 million proposed.
- **Indonesia**—$138 million estimated available in economic and military aid, a reduction of about $14 million from the request. Conferees dropped $10 million for police training in Indonesia and conditioned the transfer of military aid (FMF) on a Secretary of State certification that the Indonesian military was supporting counter-terrorism activities and addressing several human rights problems. Military training (IMET) funds are conditioned on Indonesia's cooperation with the FBI's investigation of the August 2002 murders of two Americans and an Indonesian.
- **Philippines**—$129 million, as proposed.
- **Afghanistan**—$980 million, about $50 million above the request.
- **Pakistan**—$700 million, as proposed, although the total would include the transfer of $150 million from prior-year economic and military aid funds.
- **Haiti**—$85 million, $60.5 million higher than the request.

Reductions

The largest reduction in P.L. 108-447 falls on the Millennium Challenge Account—reduced by $1 billion from the President's $2.5 billion request. The final level, however is $250 million and $380 million more than amounts recommended earlier by the House and Senate, respectively, coming only after strong pressure from the White House. The $1 billion cut from the request, however, will strain MCC operations to fully fund programs in 17 countries that are potentially eligible in FY2004 and FY2005.

Other accounts reduced in the enacted measure, when compared with the President's request, include:

- **Export-Import Bank**—$100 million (-$67 million), although conferees noted that with large prior-year balances remaining, Exim Bank operations should continue at anticipated levels.
- **USAID operating expenses**—$618 million (-$5.4 million).
- **Peace Corps**—$320 million (-$81 million).
- **Emergency fund for Complex Crisis**—$0 (-$100 million).
- **International Narcotics/Law Enforcement**—$329 million (-$30 million).
- **Debt reduction**—$100 million (-$100 million).
- **World Bank, International Development Association (IDA)**—$850 million (-$211 million).
- **African Development Fund**—$106 million (-$12 million).

ICC and Article 98 Agreements

The approved legislation retains similar text as passed by the House barring ESF assistance to countries that have not signed an Article 98 agreement with the United States. Such Article 98 agreements pledge that the country will not surrender American soldiers serving in their country to the International Criminal Court.

The conference measure, however, adds certain waiver authorities so that fewer countries will be affected by the aid restriction. NATO members, major non-NATO allies, a group that includes Jordan, and Taiwan are specifically exempted. Critics of the amendment when it passed the House in July were especially concerned about the status of Jordan, a key Arab state receiving substantial amounts of ESF assistance, but has not ratified an Article 98 agreement. The enacted bill further stipulates that this restriction will not affect a country's eligibility to receive Millennium Challenge Account funding. Bolivia, Lesotho, and Mali are potential MCA recipients, but do not have a ratified Article 98 agreement. Even with these exemptions, several countries, including Cyprus, Ecuador, and Peru, might face ESF aid suspension due to this provision.

Continuing Resolution and Foreign Operations

With the beginning of the new fiscal year on October 1, Foreign Operations, along with several other funding measures, operated through November 20 under the terms of H.J.Res. 107, a Continuing Resolution. In addition to temporarily funding Foreign Operations programs for the next seven weeks, the Continuing Resolution enacted into law several provisions that had been pending in House and/or Senate-passed versions of H.R. 4818.

The most significant was the approval of a September 14 request by the White House to re-allocate $3.46 billion of the $18.4 billion Iraq reconstruction aid package passed by Congress last year (P.L. 108-106). In this earlier appropriation measure, Congress had limited the extent to which the Administration could shift funds among major reconstruction sectors. Among other changes, the President proposed adding $1.8 billion for security and law enforcement, $360 million to cover the costs of cancelling about $4 billion of Iraqi debt owed the United States, and $180 million more for governance and election support programs. Offsetting these additions, the re-allocation called for reductions in the electrical and water sectors. House- and Senate-passed versions of H.R. 4818 had authorized the use of funds for debt relief, and the Senate measure, which was approved after the September 14 re-allocation request, accommodated some, but not all, of the re-allocation proposal. The Continuing Resolution effectively approved the Administration's full request, including the debt relief authorization and the re-allocation of funds.

In other Foreign Operations-related matters addressed in H.J.Res. 107, the Continuing Resolution:

- increased USAID operating expenses for managing the Iraq reconstruction operation from $29 million in P.L. 108-106 to $119 million;
- authorized the Overseas Private Investment Corporation to operate in Iraq; and
- allowed the Millennium Challenge Corporation to extend assistance in FY2005 to countries that narrowly missed qualifying for the program in hopes of strengthening their chances for selection in the future. Existing law approved this authority only for FY2004.

Selected Major Issues in the FY2005 Foreign Operations Debate

While the Foreign Operations appropriations bill can include virtually any foreign policy issue of interest to Congress, the annual debate usually focuses on several major policy and spending issues. For FY2005, substantial debate focused on the following.

Foreign Aid to Combat Terrorism

Since the September 11, 2001, terrorist attacks and the initiation of military operations in Afghanistan and Iraq, combating global terrorism has become one of the top priorities of American foreign assistance. Secretary of State Powell has continued over the past two years to emphasize at numerous congressional hearings that fighting terrorism is the most important objective of the Foreign Operations budget requests.

Although there is disagreement regarding the extent to which foreign aid can directly contribute to reducing the threat of terrorism, most agree that economic and security assistance aimed at reducing poverty, promoting jobs and educational opportunities, and helping stabilize conflict-prone nations can indirectly address some of the factors that terrorists use in recruiting disenfranchised individuals for their cause.

Foreign aid can be programmed in a number of ways that contribute to the war on terrorism. Assistance can be transferred, as has occurred in Pakistan and Afghanistan, to bolster efforts of a coalition-partner government, to counter domestic dissent and armed attacks by extremist groups, and to promote better health care, education, and employment opportunities to its people. Security assistance can finance the provision of military equipment and training to nations facing threats from their own internally-based terrorist movements.

As illustrated in **Table 6**, the United States provided through FY2004 more than $19.4 billion to 26 so-called "front-line" states in the global war on terrorism since the September 11, 2001 terrorist attacks. ("Front-line" states are those nations cooperating with the United States in the global war on terrorism or are facing terrorist threats themselves.) When combined with roughly $21 billion appropriated for Iraq reconstruction assistance enacted in FY2003 and FY2004 supplementals, total funding for bilateral terrorism-related country assistance is more than $40 billion. This is slightly more than half of the nearly $79 billion approved by Congress for worldwide Foreign Operations spending since September 11. For FY2005, the Administration requested $5.45 billion for the "front-line" states. Based on passage of the FY2005 appropriation, the estimated level for this year will be slightly less, largely due to reductions in aid to Turkey.

Although increased levels of foreign aid are only one sign of the importance the United States assigns to the support provided by these front-line states, the amounts allocated since September 11 are in sharp contrast to the $3.4 billion provided to these 26 countries prior to the attacks in regular FY2001 appropriations. The FY2005 proposal, for example, was 60% higher than foreign aid allotted prior to September 11. Additional economic and military assistance has been particularly evident in a few countries, including Jordan, Pakistan, Afghanistan, Turkey, the Philippines, Kyrgystan, Tajikistan, Uzbekistan, Oman, Yemen, and Djibouti. For FY2005, Pakistan, the Philippines, Georgia, Indonesia, and Morocco are scheduled to receive the largest increases among the front-line states.

Congress has been supportive of additional foreign aid resources aimed at countering terrorism. Nevertheless, some warn that the United States needs to be cautious about the risks of creating a close aid relationship with governments that may have questionable human rights records, are not accountable to their people, and are possibly corrupt. Some Members have been especially critical of Administration efforts to include in aid proposals for "front-line" states legislative language that would waive all existing restrictions and prohibitions on the transfers. Instead, these critics argue, the Administration should specifically identify any obstacles to proceeding with a country aid program and seek a congressional waiver for those particular problems. For example, in late 2001 the Administration wanted to provide Pakistan with $600 million in fast-disbursing economic aid. Instead of providing a blanket waiver of legislative obstacles, Congress approved in P.L. 107-57 specific waivers of aid prohibitions that applied to countries that engaged in missile proliferation, whose leaders came to power through a military coup, and which were behind in debt payments to the United States.

Beyond substantial amounts of bilateral aid for "front-line" states, the Foreign Operations appropriation bill funds several global programs specifically aimed at anti-terrorism efforts overseas.

Anti-Terrorism Assistance (ATA)

Since FY1984, the State Department has maintained the ATA program designed to maximize international cooperation in the battle against global terrorism. Through training, equipment transfers, and advice, the ATA program is intended to strengthen anti-terrorism capabilities of foreign law enforcement and security officials. Since its initiation in 1984, over 23,000 officials from 112 countries have participated in ATA projects. ATA funding is included within the Foreign Operations account of Non-proliferation, Anti-terrorism, Demining, and Related Programs (NADR).

Resources for the ATA program rose sharply following September 11, growing from $38 million in FY2001 to $96 million in regular FY2004 funding. (Congress further provided $35 million in FY2004 supplemental appropriations for expansion of ATA programs in Afghanistan, including protection of Afghan President Karzai.)

For FY2005, the State Department sought $128.3 million for ATA programs, up one-third from regular FY2004 levels. Most of the new request—$105 million—would continue on-going training programs for officials from the "front-line" states, an Afghan Presidential Protection activity, and special programs in Pakistan and Indonesia. New for FY2005, in-country programs were proposed for Colombia, Malaysia, Kenya, the Philippines, and the tri-border region of Brazil, Paraguay, and Argentina.

Table 6. U.S. Assistance to Front-Line States in War on Terrorism

(in millions of dollars)

	FY2001 Pre-9/11[a]	FY2001 Post-9/11[a]	FY2002 Enacted	FY2003 Enacted	FY2004 Estimate	FY2005 Estimate
Egypt	1,992	—	1,956	2,204	1,865	1,836
Afghanistan	32	194	492	590	1,769	980
Pakistan	5	993	153	502	390	700

	FY2001 Pre-9/11[a]	FY2001 Post-9/11[a]	FY2002 Enacted	FY2003 Enacted	FY2004 Estimate	FY2005 Estimate
Jordan	229	—	355	1,556	559	462
Kenya[b]	86	—	78	94	144	222
Ethiopia[b]	144	—	103	408	174	167
Indonesia	133	—	137	161	128	161
India	138	—	174	139	111	131
Philippines	49	—	131	153	96	129
Georgia	109	—	124	98	86	110
Armenia	93	—	98	102	80	80
Bangladesh	127	—	113	94	80	64
Uzbekistan	31	80	80	53	48	52
Morocco	17	—	18	16	20	52
Azerbaijan	41	—	56	59	49	51
Kazakhstan	51	2	56	51	42	40
Turkey	2	20	233	1,021	145	39
Kyrgyzstan	36	4	81	46	43	38
Tajikistan	30	—	94	37	32	36
Yemen	5	—	30	17	29	28
Oman	1	—	26	82	26	22
Tunisia	5	—	5	6	12	12
Turkmenistan	9	—	20	10	9	9
Djibouti	1	—	3	44	6	6
Malaysia	1	—	1	2	1	2
Algeria	0	—	2	1	1	1

	FY2001 Pre-9/11[a]	FY2001 Post-9/11[a]	FY2002 Enacted	FY2003 Enacted	FY2004 Estimate	FY2005 Estimate
TOTAL	**3,367**	**1,293**	**4,619**	**7,545**	**5,945**	**5,430**

Source: U.S. Department of State and CRS calculations. Countries are listed in order of the size of aid provided and requested since September 11, 2001. Amounts include funds appropriated for programs under jurisdiction of the Foreign Operations spending measure, plus food assistance provided in the Agriculture appropriation bill.

a. FY2001 pre-September 11 are amounts allocated from regular FY2001 appropriations. FY2001 post-September 11 are amounts distributed from the Emergency Response Fund, funding for which was provided in P.L. 107-38, enacted in September 2001.

b. Totals for FY2004 and FY2005 include estimates for Global AIDS Initiative funds.

Terrorist Interdiction Program (TIP)

As one response to the 1998 bombings of American embassies in East Africa, the State Department launched the TIP, an activity intended to restrict the ability of terrorists to cross international borders, launch attacks, and escape. TIP strengthens border security systems in particularly vulnerable countries by installing border monitoring technology, training border security and immigration officials in its use, and expanding access to international criminal information to participating nations. Like ATA, funds for TIP are part of the NADR account in the Foreign Operations spending bill.

Since September 11, the State Department has expanded from 34 to 60 the number of countries where it believes TIP would immediately contribute to the global counterterrorism campaign. The $4 million TIP budget doubled for FY2001 following September 11, and grew to $14 million in FY2002. The TIP annual budget fell back to $5 million the past two years, the same amount requested for FY2005.

Counterterrorism Engagement with Allies

Following the September 11 attacks, the United States began to conduct Senior Official Policy Workshops and multilateral conferences in order to better respond to terrorist incidents involving weapons of mass destruction overseas. With $3 million from emergency FY2002 supplemental spending, the State Department conducted workshops in 18 countries as well as several regional conferences. Congress did not approve any additional resources the past two years, but the Administration sought $500,000 in FY2005 to continue conferences and other bilateral engagements with allies in the war on terrorism.

Terrorist Financing

In December 2001, an interagency review group identified 19 countries where a significant terrorist financing threat existed, and with $3 million allocated from the Emergency Response Fund, launched a training and technical assistance program. The State Department allocated $10 million out of the FY2002 supplemental appropriation to expand the program, complemented with Treasury Department contributions of about $5 million each of the past two years. State Department funds are included in the Foreign Operations NADR account while Treasury Department resources are drawn from the Technical Assistance program, also funded in Foreign Operations. Counterterrorism financing activities would expand significantly under the FY2005 request, with $7.5 million proposed from the State Department's NADR budget and approximately $8.5 from Treasury's Technical Assistance program.

Aid Restrictions for Terrorist States

Annual Foreign Operations spending bills routinely include general provisions prohibiting U.S. assistance to countries engaged in terrorist activities or providing certain types of support to terrorist groups. Included in the FY2004 funding measure were two:

- Sec. 527 prohibited bilateral U.S. assistance to any country that the President determines grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism. The President could waive the restrictions for national security or humanitarian reasons.
- Sec. 543 prohibited U.S. aid to a government which provides lethal military equipment to a country that the Secretary of State has determined is headed by a terrorist supporting government. The President could waive the requirement if it is important to U.S. national interests.

Despite these restrictions, however, certain types of humanitarian foreign assistance can be provided "notwithstanding" other provisions of law, which would override the terrorism restrictions. Disaster and refugee relief, child survival and HIV/AIDS programs, emergency food and medicine, and demining operations are among the categories of U.S. assistance that could potentially be provided to a country that would otherwise be ineligible.

Table 7. Global Counter-Terrorism Program Funding

(in millions of dollars)

Program	FY03 Enacted	FY04 Regular	FY04 Supp.	FY04 Total	FY05 Request	FY05 House	FY05 Senate	FY05 Conf.
Anti-Terrorism Aid	65.6	96.4	35.0	131.4	128.3	111.0	128.3	120.0
Terrorist Interdiction	5.0	5.0	—	5.0	5.0	5.0	5.0	5.0
Engagement with Allies	—	—	—	—	0.5	0.5	0.5	0.5
Terrorist Financing - State Department	5.0	5.0	—	5.0	7.5	7.5	7.5	7.5
Terrorist Financing - Treasury Department	5.0	5.0	—	5.0	8.5	10.0	8.5	10.0

Congressional Action

In general, Congress, with slight reductions, supported funding levels proposed by the Administration under the objective of fighting the war on terrorism. The conference agreement on H.R. 4818 itemizes amounts for the largest accounts out of which most aid for the "front-line" states is drawn—Economic Support Fund (ESF), aid to Eastern Europe (SEED), support for the former Soviet Union (FSA), and Foreign Military Financing (FMF). Conferees set levels for "front-line" states $58 million below requested amounts. Most of the reduction comes from the elimination of $50 million in economic aid proposed for Turkey. Conferees also cut direct FMF funding for Pakistan from $300 million requested to $150 million, although with the authority to transfer up to an additional $150 million from prior year funds.

These decisions track generally with recommendations made in the House-passed version of H.R. 4818, which also reduced amounts for Turkey and Pakistan, with a transfer authorization for the latter. The Senate-passed measure, on the other hand, proposed increasing military aid totals for several East Asia and Pacific "front-line" states to over twice as much as proposed by the executive branch. For example, under the Senate plan the Philippines would have received $55 million in FMF assistance, compared with $30 million proposed. Indonesia, which was not slated by the Administration for FMF aid in FY2005, would have received $6 million, under certain conditions. The conference agreement sets Philippine FMF at $30 million and Indonesia FMF at $1 million, subject to restrictions.

Counter-Terrorism Programs

H.R. 4818, as passed by Congress on November 20, also funds each terrorism-specific program, as noted in **Table 2**, at or near the requested level. The conference agreement reduces Anti-Terrorism Assistance to $120 million, an amount between House- and Senate-passed levels, but increases Treasury Department budget for combating terrorist financing to $10 million, as recommended by the House.

Terrorism-Related Aid Restrictions

The conference agreement also continues for FY2005 two standard Foreign Operations provisions that ban, with a Presidential waiver, bilateral U.S. assistance to countries that grant sanctuary from prosecution terrorist individuals or groups, or otherwise supports international terrorism. (Sec. 527). The approved measure further prohibits aid, which can be waived, to a government providing lethal military equipment to a country that the Secretary of State has determined is headed by a terrorist supporting government. (Sec. 542).

Other War on Terrorism Provisions

The conference agreement also retains, with modifications, two terrorism-related provisions added during House floor debate and opposed by the Administration in their original form. The first, which had been sponsored by Representative Nethercutt and approved 241-166 during debate in July, prohibits Economic Support Fund (ESF) assistance to countries that are party to the International Criminal Court (ICC) and do not sign an Article 98 agreement with the United States pledging that American soldiers serving in their country will not be surrendered to the ICC. Current law (the American Servicemembers' Protection Act; Title II of P.L. 107-206) prohibits U.S. military aid to such countries, although with a waiver that has been used by President Bush for reasons of national interest and for countries that are in the process of considering the ratification of Article 98 agreements. The Nethercutt amendment did not include waivers regarding ESF aid cut-offs.

The conference measure, however, inserts waivers, exempting NATO members, major non-NATO allies, a group that includes Jordan, and Taiwan. Critics of the amendment when it passed the House in July were especially concerned about the status of Jordan, a key Arab state receiving substantial amounts of ESF assistance, but has not ratified an Article 98 agreement. The conference agreement further stipulates that this restriction will not affect a country's eligibility to receive Millennium Challenge Account funding. Bolivia, Lesotho, and Mali are potential MCA recipients, but do not have a ratified Article 98 agreement. Even with these exemptions, several countries, including Cyprus, Ecuador, and Peru, might face ESF aid suspension due to this provision.

The second provision included by conferees bars any aid for Saudi Arabia unless the President certifies that the Saudis are cooperating in efforts to combat terrorism and that U.S. assistance will help in that effort. The House had passed a similar aid prohibition, sponsored by Representative Weiner and approved 217-191, but without including a Presidential waiver. H.R. 4818 includes $25,000 in military training funds for the Saudis, a token amount that allows the Saudis to purchase additional military training under the International Military Education and Training (IMET) program. Supporters of the amendment argued that given Saudi Arabia's oil revenues and their view that the Saudi government is not a reliable partner in the war on terrorism, the United States should not be providing any form of foreign assistance. Opponents of the amendment as originally drafted, including the Administration, contended that this largely symbolic cut-off of foreign aid would undermine counter-terrorism cooperation with the Saudis and more general Middle East peace efforts.

Millennium Challenge Account[5]

In a speech on March 14, 2002, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be $5 billion higher than three years earlier. The funds, referred to as the Millennium Challenge Account (MCA), is managed by a new Millennium Challenge Corporation (MCC) providing assistance through a competitive selection process, to developing nations that are pursing political and economic reforms in three areas:

- Ruling justly—promoting good governance, fighting corruption, respecting human rights, and adhering to the rule of law.
- Investing in people—providing adequate health care, education, and other opportunities promoting an educated and healthy population.
- Fostering enterprise and entrepreneurship—promoting open markets and sustainable budgets.

If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan following World War II and the Latin America-focused Alliance for Progress in the early 1960s. It would also represent a fundamental change in the way the United States invests and delivers economic assistance.

MCC Background

The concept is based on the premise that economic development succeeds best where it is linked to free market economic and democratic principles and policies, and where governments are committed to implementing reform measures in order to achieve such goals. The MCC differs in several fundamental respects from past and current U.S. aid practices:

[5] For a more in-depth discussion of the original MCA proposal and issues debated by Congress in 2003, see CRS Report RL31687, *The Millennium Challenge Account: Congressional Consideration of a New Foreign Aid Initiative,* by (name redacted)

- the size of the $5 billion commitment;
- the competitive process that will reward countries for past actions measured by 16 objective performance indicators;
- the pledge to segregate the funds from U.S. strategic foreign policy objectives that often strongly influence where U.S. aid is spent; and
- the requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.

The new initiative, which Congress authorized in January 2004 (Division D of P.L. 108-199), would phase in over a three-year period, beginning in FY2004. During the first year, MCC participation was limited to the 74 poorest nations with per capita incomes below $1,415 and that are eligible to borrow from the World Bank's International Development Association. The list expanded in FY2005 to include all countries with a per capita income below $1,465 (adding another 13 nations). Beginning in FY2006 and beyond, all lower-middle income countries with per capita incomes below roughly $3,035 may compete for MCC resources.

Country selection is based largely, but not exclusively, on the nation's record measured by 16 performance indicators related to the three categories of good governance, economic freedom, and investing in people. Countries that score above the median on half of the indicators in each of the three areas qualify. Emphasizing the importance of fighting corruption, the indicator for corruption is a "pass/fail" test: should a country fall below the median on the corruption indicator, it will be disqualified from consideration unless other, more recent trends suggest otherwise. (See table below for a complete list of the 16 performance indicators.) Administration officials, since announcing the MCC initiative in 2002, said that the selection process would be guided by, but not necessarily bound to the outcomes of the performance indicators. Missing or old data, general trends, and recent steps taken by governments might also be taken into account when annual decisions are made.

Eligibility to receive MCA assistance, however, does not necessarily result in an aid grant. Once selected, countries are required to submit program proposals—referred to as MCA Compacts—that have been developed through a broad-based, national discussion that includes input from civil society. The focus of program submissions may vary among countries in size, purpose, and degree of specificity, and will be evaluated by the Corporation for, among other things, how well the Compact supports a nation's economic growth and poverty reduction goals. Only those Compacts that meet the MCC criteria will be funded. It is expected that successful Compacts will support programs lasting three to five years, providing a level of resources roughly equivalent to the largest providers of assistance in the country. This will most likely result in a significant increase of U.S. economic assistance to MCA participant countries.

To manage the new initiative, the Administration proposed, and Congress authorized, the creation of a Millennium Challenge Corporation (MCC), an independent government entity separate from the Departments of State and the Treasury, and from the U.S. Agency for International Development (USAID). The MCC plans for an eventual staff of about 200, drawn from various government agencies, non-governmental organizations, and the private sector, and led by a CEO confirmed by the Senate. A Board of Directors, chaired by the Secretary of State and composed of the Secretary of the Treasury, the USAID Administrator, the U.S. Trade Representative, and the Corporation's CEO, oversees operations of the MCC and makes the country selections. Four additional Board members, two of which have yet to be submitted for confirmation to the Senate, are drawn from lists submitted by Congressional leaders.

For FY2004, the Administration sought $1.3 billion for the MCA's first year, a level reduced by Congress to $994 million. The FY2005 budget proposed $2.5 billion, with a commitment for a $5 billion program in FY2006.

MCC Implementation Steps and Issues

The passage of legislation on January 23, 2004 authorizing and funding the MCC for FY2004 (Division D of P.L. 108-199) launched a period of at least 90 days during which the new Corporation would form, issue required reports, consult with Congress and the public, and select first year participant countries. Within 10 days of enactment, the Board of Directors held its initial meeting to establish the program, and over the following weeks the Corporation identified "candidate" countries for FY2004, published the criteria and methodology to be used for country selection, solicited public comments, issued guidelines for Compact proposals, and, on May 6, 2004, selected 16 countries to participate in the MCA's first year of operations. This was followed on November 10 with the selection of FY2005 eligible MCA countries, an action that added one new participant to the FY2004 list. An additional 13 countries have also been named as threshold nations—those that just missed qualifying as eligible countries.

Continuing implementation matters that will unfold in the months ahead will include the relationship of MCC programs with those operated by USAID, how the Corporation and USAID will support threshold countries to better prepare for future performance reviews, and the awarding of MCA grants—in the form of Compacts—to MCA eligible countries.

Establishing the Millennium Challenge Corporation

On February 2, 2004, the Board of Directors met, agreed to Corporation by-laws, and approved Under-Secretary of State Larson as the interim CEO. Subsequently, the President nominated Paul Applegarth to be the permanent MCC CEO, an individual confirmed by the Senate on May 5. CEO Applegarth has held various international and development positions over the past 30 years, primarily in the private sector. Most recently, he was the Managing Director of Emerging Markets Partnership, serving as the COO of Emerging Africa Infrastructure Fund in 2002.

Naming FY2004 Candidate Countries

Also on February 2, the MCC Board issued a list of 63 "candidate" countries that would be reviewed for possible selection as MCA participants in FY2004. These countries, according to authorizing legislation, must be eligible for assistance from the World Bank's International Development Association, have a per capita income of $1,415 or less, and not be otherwise ineligible to receive U.S. assistance. The latter condition eliminated twelve countries—Burma, Burundi, Cambodia, Central African Republic, Cote d'Ivoire, Guinea-Bissau, Liberia, Serbia, Somalia, Sudan, Uzbekistan, and Zimbabwe—that were statutorily barred from receiving American aid.

Publishing the Selection Criteria and Methodology

Pursuant to reporting requirements set in the MCC legislation, the Corporation on March 5, 2004, sent to Congress an overview of the criteria and methodology that would be used to determine the eligibility of the 63 candidate countries in FY2004. The report suggested that there would be relatively few and only minor changes to the criteria and methodology that had been outlined 15 months earlier. The same 16 performance indicators, as listed in **Table 8** below, would be utilized. In a few cases, data sources shifted from international institutions to national governments. This was especially true in cases where existing data for an indicator were old or incomplete.

Although the Corporation did not alter any of the original 16 performance indicators, it attempted to address additional criteria added by Congress in P.L. 108-199 through the use of supplemental data and qualitative information. While the legislative authorities broadly match criteria proposed by the Administration, lawmakers included four additional matters on which to evaluate a country's performance. These relate to the degree to which a country:

- recognizes the rights of people with disabilities;
- supports a sustainable management of natural resources;
- respects worker rights; and
- makes social investments, especially in women and girls.

Given the range and diversity of suggestions offered throughout the public and congressional debate of the MCC, many observers were surprised that the Corporation did not propose more substantive changes to the criteria and methodology. Some questioned how seriously the Administration considered alternative approaches and whether the Corporation would be open to future revisions.[6] (During the public comment period and at congressional oversight hearings, some suggested that existing data sources needed to be refined or new surveys created in order to specifically measure a country's commitment on the four criteria added by Congress.

After further study of the criteria and methodology, the Corporation announced on August 26, 2004, a revised set of performance indicators that will be used for the FY2005 selection process. The MCC will lower the inflation rate threshold from 20% to 15%, making it somewhat more difficult to pass this test (only 6 of the 63 candidate countries failed this test for FY2004). An indicator measuring girls' primary education completion rates will replace a broader measure used in FY2004 that did not disaggregate primary education graduation by gender. As noted above, including the means to measure country performance on key women and girls issues is one of the requirements added by Congress during deliberation on MCC authorizing legislation.

The Corporation, further indicated that it will explore additional criteria and methodology changes for FY2006. Under consideration are options to:

- lower the inflation level to 10%.
- identify a measurement related to natural resource management; the MCC has created a working group to study possibilities.
- review other possible indicators that would better measure trade barriers that are linked with economic growth.
- develop a more comprehensive indicator than the current Days to Start a Business to gauge a government's commitment to entrepreneurship and private-sector ownership.

[6] See, for example, Steve Radelet, et al., *A Comment on the Millennium Challenge Account Selection Process*, Center for Global Development, March 9, 2004.

- consider additional gender-relation indicators.

Country Selection for FY2004

On May 6, the MCC Board of Directors determined that 16 countries would be eligible for FY2004 MCA funding and invited each to submit program proposals:

Armenia	Madagascar
Benin	Mali
Bolivia	Mongolia
Cape Verde	Mozambique
Georgia	Nicaragua
Ghana	Senegal
Honduras	Sri Lanka
Lesotho	Vanuatu

As expected, the selection process raised a number of questions and concerns. The Administration had previously said that the Board would be guided by, but not entirely bound to, the outcome of the performance indicator review process; that Board members could apply discretion in their selection. Performance trends, missing or old data, and recent policy actions might come into play during selection deliberations, officials noted.

The final selection reflected decisions that both strictly followed the performance indicator outcomes and applied Board discretion to take into account other factors. Ten of the countries complied with the stated criteria: performing above the median in relation to their peers on at least half of the indicators in each of the three policy clusters and performing above the median on corruption. The Board also examined whether a country performed substantially below average on any single indicator and whether their selection was supported by supplemental information. Each of the ten countries also passed these additional tests.

For ten other countries, however, some discretion was applied by the Board. In three cases—Cape Verde, Lesotho, and Sri Lanka—the countries met the criteria but fell significantly below average on one indicator, yet were still selected by the Board due to recent policy changes or positive trend lines. For three others—Bolivia, Georgia, and Mozambique—the Board deviated from a strict application of the selection criteria because of evidence that the governments were taking corrective actions in the deficient areas.

On the other hand, the MCC Board chose not to select four countries that technically met the performance criteria but fell substantially below the median on one or more indicator. In each of these cases, the Board did not believe that the government was taking any action to improve its performance. Although Bhutan, Mauritania, and Vietnam passed the corruption hurdle and half of the "ruling justly" indicators, they scored very low on the measurements for Political Rights and Civil Liberties, and in Vietnam's case, on the Voice and Accountability indicator. A fourth country—Guyana—was also not selected despite passing the necessary hurdles. It scored particularly low on the Fiscal Policy measurement.

It has been long assumed by MCC officials and close observers of the MCA initiative that when the country selections were announced, there would be disagreements and possible surprises in the final list, especially if the Board exercised its discretionary authority as it did for FY2004 participants. Representative Lowey, for example, expressed her view at a May 13 House Appropriations Committee hearing that East Timor, which failed to pass the "economic freedom" hurdle in part due to missing data on two of the indicators, should have been selected. CEO

Applegarth responded that East Timor is a new nation and that it was premature to conclude that it was a "high-performing" country. He acknowledged, however, that East Timor should be given close consideration in the future if the current trend lines continue.

Besides East Timor, some suggested that Kenya should have been included because of its new government's commitment to education and anti-corruption efforts. USAID Administrator Natsios acknowledged at the hearing that Albania was a "close call," failing because it scored slightly below the median on corruption. Like Albania, Malawi and Moldova would have qualified on the basis of performance if not for slightly failing scores on corruption. Several small island states, including Kiribati, Sao Tome, and Tonga, were not selected even though the absence of data for several categories may have played a role.

Despite these questions over specific country eligibility, the selection process appeared to have satisfied two major concerns that have been consistently expressed over the past year. Based on earlier analysis, some argued that Africa would be under-represented in the final selection process, with perhaps as few as three regional states participating. In fact, eight, or half of the first year qualifying nations, were from Africa. Selection of countries that would give the appearance of geostrategic considerations was a concern of many who view the absence of security-related factors from MCA decision-making as one of the most attractive features of the initiative. Had the Board used its discretionary powers to select Indonesia, for example, some critics would have likely charged that the decision stemmed more from Jakarta's role in the war on terrorism than on strict policy performance. Indonesia passed all necessary hurdles except for corruption.

Country Selection for FY2005

Meeting on November 8, the MCC Board of Directors made its selection of FY2005 eligible countries:

Armenia	Mali
Benin	Mongolia
Bolivia	Morocco
Georgia	Mozambique
Ghana	Nicaragua
Honduras	Senegal
Lesotho	Sri Lanka
Madagascar	Vanuatu

The Board chose one new country for FY2005—Morocco—while 15 of the 16 nations included for FY2004 were determined eligible again for FY2005. Cape Verde was not selected due to the fact that its per capita GNI exceeded the $1,465 ceiling. Cape Verde, however, remains eligible for MCA support using FY2004 funds. Board selections represent both a high degree of continuity between FY2004 decisions as well as a sharp difference in the degree to which it applied its discretionary authority for qualifying or denying countries for FY2005.

The fact that each country (except Cape Verde) selected for FY2004 MCA participation was also declared eligible for FY2005 should not be surprising, given the nature of the MCA concept. The Board identified in May 2004 what it determined to be the 16 "best performers" based on the assumption that these countries had, and would continue to express, a strong commitment to the types of economic, governance, and social policy reforms measured by the MCC. Absent a substantial negative development since May, there was a presumed expectation that these same countries would score well in a subsequent performance comparison with their income peers. Moreover, except in some extreme situations, evidence of a slide in policy performance as measured through the various data sources would likely lag behind the actual policy shift and not be reflected in the immediate data updates.

In addition, two other factors that may not apply in future years seem to have affected the outcome for FY2005. First, with the selection dates for FY2004 and FY2005 coming only six months apart—rather than one year, as should be the case in the future—it was likely that the data would indicate less change than might be the case if the comparisons occurred over a longer period. Between May and November, several of the data sources upon which the 16 performance indicators are based did not update or revise their figures. As a result, the review of countries for FY2005 was based on much of the same data and rankings as had been the case for the FY2004 selection.

Moreover, the addition of 13 new countries for consideration in the FY2005 round had the effect for at least six of the indicators of lowering the median against which countries were compared. Because of this, if a country scored well—above the median—in the FY2004 selection decision, it was likely that it would score the same or better in the review for FY2005 where medians declined. For example, in May Bolivia fell exactly at the median on the corruption indicator. But in November, when the median for corruption dropped somewhat after new countries were added, Bolivia scored above the median even though Bolivia's score on corruption did not change. This phenomena is unlikely to be repeated again to the same extent since countries in the low-income group will be added or subtracted only if their economy grows beyond the per capita income ceiling or U.S. foreign aid sanctions are applied or lifted since the last review. The net effect is that the core set of low-income countries competing for MCA selection is unlikely to change as much as it did in FY2005, thereby reducing the extent to which the median will be altered simply because of the addition of new countries.

Despite the degree of continuity between FY2004 and FY2005 in the selection of eligible countries, the MCC Board departed somewhat from the previous round by not selecting a large number of countries that technically met the MCA performance criteria. Many observers may raise questions over the FY2005 selections regarding the countries that were *not* selected rather than those that were.

As noted above, in May 2004, the Board chose not to select four countries—Bhutan, Guyana, Mauritania, and Vietnam—although each passed the minimum number of indicators. The Board decided to exclude these four because they scored "substantially below" the median on one or more measurements, although without defining precisely what represented a mark "substantially below" the median.

For FY2005, the Board did not select 10 countries that met the criteria, including three of the four left out of the FY2004 round (Mauritania did not meet the minimum qualifications). In addition, for FY2005 Burkina Faso, China, Djibouti, Egypt, Nepal, the Philippines, and Swaziland met the minimum standards but were not selected. Thus far, the Corporation has offered little explanation as to why these countries were not chosen. It appears, however, that scoring "substantially below"—perhaps in the lowest 25^{th} percentile—has become a de-facto criteria for exclusion. For example, the Corporation's CEO Paul Applegarth commented that the Philippines, a country that passed 13 of the 16 indicators, did not qualify because Manilla scored "substantially below" the median on tests for health expenditures and fiscal policy, and that more recent trends indicated the fiscal policy situation was deteriorating further. Each of the other nine nations that met the minimum qualifications but were not selected also had one score in the 25^{th} percentile, although the Corporation has not commented on whether this was the reason for not choosing them.

Another possible reason for limiting the number of qualifying countries in the FY2005 round might be due to anticipated funding reductions. The Administration had requested combined FY2004/FY2005 appropriations of $3.8 billion, but may have available 25%-30% less, depending on the outcome of congressional debate on the FY2005 budget. Corporation officials have said that reduced funding would lead to fewer countries assisted and/or smaller grants per country, a situation that would be complicated further by qualifying additional nations.

Instead, the Board of Directors invited three of these 10 countries to participate in the Threshold Program, intended to help "near-miss" nations take steps to strengthen areas that would help them qualify for full MCA assistance in the future. Burkina Faso, Guyana, and the Philippines may now apply for Threshold Program assistance.

Another Board departure in the FY2005 selection process was to avoid using its discretionary authority to qualify countries that did not meet the minimum performance indicators. In May, the Board chose three nations—Bolivia, Georgia, and Mozambique—that did not pass the so-called "hard-hurdle" of corruption. The latter two again qualified despite falling below the median on corruption, while Bolivia did not require an exemption after the median dropped below its score with the addition of new countries. For FY2005, five nations—Malawi, Moldova, Paraguay, Tanzania, and Ukraine—passed the required number of performance indicators, except corruption. Although Malawi, Paraguay, and Tanzania are Threshold Countries, none of the five were chosen for full MCA status.

"Threshold" Countries and U.S. Assistance

In order to encourage non-qualifying countries to improve in weak areas, the United States will help governments that are committed to reform to strengthen performance so that they would be more competitive for MCA funding in future years. Congress provided in authorizing legislation that not more than 10% of MCA appropriations ($99.4 million in FY2004) could be used for such purposes, stating that the funding could be made available through USAID. The MCC set aside up to $40 million for countries that just missed qualifying for FY2004 funding and will announce an amount for FY2005 following enactment of new appropriations.

The Corporation has made two announcements regarding the selection of Threshold Countries. On September 30, the Corporation named seven participants: Albania, East Timor, Kenya, Sao Tome and Principe, Tanzania, Uganda, and Yemen. Five weeks later, on November 8, the MCC added six more nations for FY2005: Burkina Faso, Guyana, Malawi, Paraguay, the Philippines, and Zambia. According to the Threshold Program Policy guidance issued by the Corporation, the program will assist countries make policy reforms and institutional changes in areas where they failed to meet the MCA performance criteria. If the Corporation, in consultation with USAID, determines that the concept paper shows sufficient commitment to reform and a promise of success, the country will prepare a Threshold Country Plan that specifically establishes a program schedule, the means to measure progress, and financing requirements, among other considerations. USAID is charged with overseeing the implementation of Threshold Country Plans, including working with countries to identify appropriate implementing partners such as local, U.S., and international firms; NGOs; U.S. government agencies; and international organizations. Like regular MCA Compacts, funding is not guaranteed for each country selected for the Threshold Program, but will be based on the quality of the Country Plan.

Role of USAID and the Future of Agency Programs in MCA Countries

As noted above, how USAID would participate in the MCA initiative has been a continuing concern of Congress and various policy analysts. Legislation authorizing the MCC requires the Corporation's CEO to coordinate with USAID and directs the Agency to ensure that its programs play a primary role in helping candidate countries prepare for MCA consideration. Corporation and USAID officials have said there will be close collaboration between the two entities, although the precise nature of the relationship has yet to be made public. USAID maintains missions in 14 of the 17 eligible countries might be expected to support MCC programs, through contracting, procurement, and monitoring tasks.

Another question is how USAID will adjust its own programs in MCA countries, especially where the Agency maintains relatively small activities in relation to other donors. Since the goal is to provide resources that will make MCA programs among the largest aid operations in a country, it is likely that USAID spending will fall well below amounts provided through MCC Compacts. For example, in Mongolia, where U.S. aid programs have totaled $10-$12 million annually in recent years, the United States was the fourth largest bilateral donor in 2002, representing less than a quarter of the size of Japan's economic aid disbursements. In Ghana, Senegal, and Sri Lanka, USAID maintains larger programs but spends far less than other countries and multilateral agencies.

Like other issues involving USAID, this question remains under review. USAID Administrator Natsios told the House Appropriations Committee on May 9, 2004, that the Agency would not withdraw from or cut programs in MCA countries, but would not increase spending either. He said, however, that USAID would work to ensure that its programs operate in an integrated way with MCA-funded activities.

Funding Issues and the FY2005 MCC Request

As mentioned above, Congress appropriated $994 million for FY2004 MCC programs and considered a $2.5 billion request for FY2005. This was by far the largest increase sought by the Administration in the Foreign Operations appropriations proposal and viewed by many observers as one of the most vulnerable items in an increasingly difficult budget environment.

A growing concern raised by some Members of Congress was whether sufficient funds would be available to support MCC programs in every country selected, especially if the Board continues to make exceptions and qualifies more countries than meet the strict criteria. Representative Kolbe, chairman of the House Foreign Operations Subcommittee, speculated at a May 9 hearing that, based on recent Board decisions, by 2006 as many as 40 countries might have qualified. This, he believed, could not be fully supported with likely funding levels and might raise country expectations that could not be met, thereby undermining program incentives.

MCC officials point out that qualification for the program does not mean that a government will receive funding. That decision will be based on the quality of the Compact proposals and it is possible that the Corporation will not finalize agreements with all eligible countries. A March 2004 GAO report estimated that the MCC could adequately fund 8-13 Compacts with an appropriation of $3.5 billion (the combined FY2004 enacted and FY2005 amounts). This suggests that, even if Congress fully funds the pending proposal, the Corporation will not be able to support programs in all 16 countries approved for FY2004 and those selected for FY2005. If Congress reduces the $2.5 billion request, the MCC may face increasing difficulties funding

Compacts of a sufficient size that will have a meaningful impact on a country's economic growth and poverty reduction goals. This may lead to further congressional examination of the Board's selection process and consideration of ways to limit the number of countries selected in the future.

Congressional Action

Foreign Operations bills passed in both the House and Senate (H.R. 4818) made substantial reductions to the President's MCC request for FY2005. The bill, as approved by the House, reduced by half the President's $2.5 billion proposal. In cutting the MCC proposal, the House Appropriations Committee noted that its decision resulted solely from the constrained budget environment in FY2005 and the need to address other Administration and Congressional priorities. The executive branch, in its Statement of Administration Policy on H.R. 4818 issued prior to House debate, expressed its "disappointment" over the level of MCC funding and urged Congress to increase resources. During floor consideration on July 15, the House defeated (41-379) an amendment by Representative Paul to eliminate all MCC appropriations.

The House Committee, in its report on H.R. 4818, also expressed concern over Corporation plans to enter into multi-year Compacts without committing total funding for these programs in the year the Compact is signed. This, the Committee believed, would obligate future Congresses to fund prior year contracts. Consequently, the bill requires the MCC to only sign Compacts for which complete funding is available from existing appropriations. The House Committee also recommended that Compacts be limited to a 3-4 year period rather than a 3-5 year duration envisioned by the MCC.

The Senate measure proposed a more significant cut to the President's MCC request—to $1.12 billion. Despite the reduction, the Senate Appropriations Committee noted its strong support for the program and re-emphasized some aspects of the MCC set out in authorizing legislation. The Senate panel requested a report on how the MCC will monitor and evaluate program Compacts, recommended that the Corporation use funds to identify a source of data to measure country performance with respect to people with disabilities, and urged the MCC to use the expertise of higher education institutions and to eliminate from Compact proposals elements that would have an adverse environmental impact. The Senate Committee further noted that rural electrification should be regarded as a significant part of a country's rural development goal.

Following strong pressure from the White House to increase MCC funding above House- and Senate-passed levels, conferees settled on $1.5 billion for the MCC in FY2005. Like the House bill, the conference agreement requires that the MCC fully fund multi-year compacts selected in FY2004 and FY2005. The measure further amends MCA authorizing legislation, adding a more specific definition of the performance criteria related to "investing in people." In the future, this category will extend to government policies promoting health, education, and other factors contributing to the well-being and productivity of its citizens, including access to affordable housing.

The combination of a reduced appropriation and the requirement for funding FY2004 and FY2005 compacts with existing appropriations may significantly limit the number and/or size of program proposals the Corporation can support in the first two years.

Table 8. MCC Performance Indicators for FY2005

Ruling Justly	Investing in People	Economic Freedom
Control of Corruption Source: World Bank Institute http://www.worldbank.org/wbi/governance/govdata2002/index.html	**Public Primary Education Spending as % of GDP** Sources: National governments	**Country Credit Rating** Source: Institutional Investor Magazine, September 2004.
Voice and Accountability Source: World Bank Institute http://www.worldbank.org/wbi/governance/govdata2002/index.html	**Primary Girls' Education Completion Rate** Sources: World Bank and UNESCO	**Inflation** (must be below 15%) Source: Multiple
Government Effectiveness Source: World Bank Institute http://www.worldbank.org/wbi/governance/govdata2002/index.html	**Public Expenditure on Health as % of GDP** Sources: National governments	**Fiscal Policy** Source: National governments and IMF World Economic Outlook
Rule of Law Source: World Bank Institute http://www.worldbank.org/wbi/governance/govdata2002/index.html	**Immunization Rates: DPT and Measles** Sources: World Health Organization	**Trade Policy** Source: The Heritage Foundation, Index of Economic Freedom http://www.heritage.org/research/features/index/
Civil Liberties Source: Freedom House http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf		**Regulatory Policy** Source: World Bank Institute http://www.worldbank.org/wbi/governance/govdata2002/index.html
Political Freedom Source: Freedom House http://www.freedomhouse.org/research/freeworld/2004/table2004.pdf		**Days to Start a Business** Source: World Bank http://rru.worldbank.org/DoingBusiness/ExploreTopics/StartingBusiness/CompareAll.aspx

Development Assistance, Global Health Priorities, and HIV/AIDS

A continuing source of disagreement between the executive branch and Congress is how to allocate the roughly $3 billion "core" budget for USAID development assistance and global health programs. Among the top congressional development aid funding priorities in recent years have been programs supporting child survival, basic education, and efforts to combat HIV/AIDS and other infectious diseases. The Administration has also backed these programs, but officials object to congressional efforts to increase funding for children and health activities when it comes at the expense of other development sectors. More recently during the FY2003 and FY2004 budget cycles, some Members of Congress argued that it has been the executive branch that has added funds for Administration priorities by cutting resources for other development activities.

In years when Congress has increased appropriations for its priorities, but not included a corresponding boost in the overall development aid budget, resources for other aid sectors, such as economic growth and the environment, have been substantially reduced. This was more problematic during the mid-to-late 1990s when world-wide development aid funding fell significantly. In more recent years, and especially for FY2003 and FY2004, Congress increased overall development assistance so that both congressional and executive program priorities could be funded without significant reductions for non-earmarked activities. Nevertheless, Administration officials continue to argue that such practices undermine their flexibility to adjust resource allocations to changing global circumstances.

In 2001, the Bush Administration set out revised USAID core goals for sustainable development programs focused around three "spheres of emphasis" or "strategic pillars" that include Global Health, Economic Growth and Agriculture, and Conflict Prevention and Developmental Relief. The Administration further introduced a new initiative—the Global Development Alliance (GDA)—in an effort to expand public/private partnerships in development program implementation. Under the initiative, USAID identifies good development opportunities being conducted by private foundations, non-governmental organizations, universities, and for-profit organizations, and provides parallel financing to leverage resources already committed to these activities. USAID officials envisioned that the agency would become much more of a coordinating and integrating institution to expand and enhance development efforts of these non-governmental development partners. Although it started out as a much more ambitious project—USAID requested $160 million for FY2002—the GDA has received relatively modest funding allocations, with a high of $20 million in FY2002, declining to $15 million in FY2004. USAID seeks $10 million for FY2005.

Underscoring the importance of the debate over funding allocations of development aid resources has been an elevation by the Administration of the value of foreign economic assistance as an instrument of U.S. foreign policy since the terrorist attacks of September 11, 2001. Congress has approved two Presidential foreign aid initiatives—the Millennium Challenge Account (MCA) and the President's Emergency Program for AIDS Relief (PEPFAR)—that are increasing funding significantly for development assistance programs. Moreover, the President's September 2002 National Security Strategy established global development, for the first time, as the third "pillar" of U.S. national security, along with defense and diplomacy.

For FY2005, the President proposed another substantial increase in overall development assistance, although the programs were configured differently than they have been in the past and the additional resources were heavily concentrated in a few activities where about 30 countries would receive the greatest benefits. Although development activists, including numerous non-governmental organizations (NGOs), strongly support these rising foreign aid budgets, they have also raised questions about the degree of resource concentration and whether the Administration is committed to a broad-based, worldwide development strategy. While country participants in the two new foreign aid initiatives—PEPFAR, which concentrates resources in 15 "focus" countries, and the MCA, for which 17 have been selected in FY2004 and FY2005—are likely to see development aid from the United States grow significantly, the outlook for the other 30-40 recipients of American economic assistance is a projection of flat or slightly lower levels of aid. The Administration further has said that MCA funding would be in addition to, not a substitute for continuing "core" development activities. Critics have charged that the FY2004 and FY2005 budget requests violated that pledge by cutting amounts for "core" programs.

Table 9. Development Assistance Funding

(in millions of dollars)

	FY2003 Actual	FY2004 Estimate	FY2005 Request	FY05+/-FY04	
				$	%
USAID "Core Development" Programs:					
Economic Growth[a]	$1,151.2	$1,152.7	$1,121.0	($31.7)	-2.8%
Global Health[b]	$1,705.4	$1,824.2	$1,420.0	($404.2)	-22.2%
Democracy/Conflict/Humanitarian[a]	$213.9	$211.7	$208.0	($3.7)	-1.7%
Subtotal, "Core Development"	**$3,070.5**	**$3,203.5**	**$2,749.0**	**($454.5)**	**-14.2%**
Global AIDS Initiative	—	$488.1	$1,450.0	$961.9	—
Millennium Challenge Account	—	$994.0	$2,500.0	$1,506.0	—
TOTAL, Development Aid	**$3,070.5**	**$4,685.6**	**$6,699.0**	**$2,013.4**	**43.0%**

Source: USAID.

a. USAID's "strategic pillars" for Economic Growth and Democracy correspond to the Development Assistance account in title II of annual Foreign Operations appropriations bills.

b. USAID's "strategic pillar" for Global Health corresponds to the Child Survival and Health Program Fund account in title II of annual Foreign Operations appropriations bills.

Development activists and policy analysts have further expressed concern regarding the recent diffusion of development aid policy implementation among multiple agencies. To some, this raises questions over the ability to coordinate foreign aid activities, present a coherent policy approach, and design an overall development assistance strategy. (See, for example, testimony on evolving U.S. foreign aid policy before the House International Relations Committee on February 26, 2004.) A number of analysts note that large segments of policy making and implementation responsibilities have shifted from USAID, the principal American aid agency for over 40 years, to a new State Department office that will coordinate PEPFAR, and to the Millennium Challenge Corporation that was established in February 2004 and manages MCA resources.

FY2005 Development Assistance Request

For "core" development assistance—programs that match the current structure of USAID's "strategic pillars" and Foreign Operations appropriation accounts for Development Assistance and Child Survival and Health Program Fund—the Administration proposed $2.75 billion, as shown in **Table 9**. This represented a $455 million, or 14% reduction from amounts for FY2004. This comparison on its own, however, is somewhat misleading. It does not reflect the large amount of funds—$1.45 billion—requested for the State Department's Global AIDS Initiative office, a large portion of which in previous years would have been counted within USAID "core" development aid budget. It also does not include the $2.5 billion request for the Millennium Challenge Corporation. Adding these amounts to the traditional USAID "core" accounts, the total development aid request for FY2005 was $6.7 billion, or 43% higher than FY2004.

Perhaps a more informative analysis of the FY2005 proposal is to look below the total figures and compare funding levels recommended for individual components of development assistance. This comparison, as illustrated in **Table 2**, presents a mixed picture of the FY2005 budget proposal. Under the category of Economic Growth, Agriculture, and Trade, funding for agriculture and environment would decline in FY2005. Basic education programs have been an especially high priority for Congress during the past decade. The Administration's proposal would cut basic education slightly from current the development assistance budget, and overall, taking into consideration other economic aid accounts, proposed $314 million, or $10 million less than enacted for FY2004. The category for Democracy, Conflict, and Humanitarian programs was also reduced slightly for FY2005.

Under the third category of Global Health, which corresponds to the Foreign Operations appropriation account of Child Survival and Health, the FY2005 request was mixed. Although HIV/AIDS funding was reduced by over $300 million, this cut was more than compensated by a $1.45 billion proposal for the State Department's Global AIDS Initiative. The Administration, however, proposed a sizable reduction in the U.S. contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria—$400 million in FY2004 to $100 million in FY2005—for funds drawn from Foreign Operations.

For all other programs under the Global Health category, the FY2005 represented a reduction. Sizable cuts were proposed for vulnerable children activities and for other infectious diseases, including malaria and tuberculosis. Family planning and reproductive health were also reduced, representing the first time the Bush Administration had proposed a funding level less than its budget request the previous year. Across all Foreign Operations accounts, including Child Survival, Economic Support Fund, East Europe, and former Soviet states, the FY2005 request was $399.2 million, down about $30 million from estimates for FY2004. In his three previous budget submissions, President Bush had requested $425 million for family planning activities.

International HIV/AIDS

By far, the largest growth area for development assistance was for HIV/AIDS prevention, treatment, and care programs (**Table 3**). Resources requested under the Foreign Operations bill for HIV/AIDS in FY2005, including funds for malaria and tuberculosis, totaled $2.2 billion, a 37% increase over $1.6 billion appropriated for FY2004. Moreover, the Administration sought another $623 million for international HIV/AIDS from non-Foreign Operations accounts, most importantly for the Centers for Disease Control and Prevention funded under the Labor/HHS/Education appropriation bill. The total request across all appropriation measures for FY2005 was $2.82 billion.

A contentious issue that has arisen during congressional debates in the past two years has been the President's proposal for an annual $200 million contribution to the Global Fund to Fight AIDS, Tuberculosis, and Malaria—$100 million each from Foreign Operations and Labor/HHS/Education. For FY2003, Congress increased the U.S. contribution to $350 million and subsequently authorized "up to" $1 billion for FY2004 in P.L. 108-25, the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003. The FY2004 appropriation for the Global Fund was $550 million, while the President proposed $200 million in FY2005.

Table 10. "Core" Development Assistance Funding

(in millions of dollars)

Strategic "Pillar"	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Enacted	FY2005 Request
Economic Growth/Agriculture/Trade	**$844.3**	**$1,031.6**	**$1,151.2**	**$1,152.7**	**$1,120.9**
Agriculture	$160.4	$201.9	$258.8	$268.4	$268.0
Environment	$274.1	$285.6	$302.5	$293.7	$275.0
Trade & Investment/Econ Growth	$246.6	$331.8	$313.2	$313.2	$316.0
Basic Education for Children	$102.8	$150.0	$216.6	$216.8	$212.0
Higher Education and Training	$60.4	$62.3	$60.1	$60.6	$49.9
Global Health	**$1,214.5**	**$1,347.5**	**$1,705.4**	**$1,824.1**	**$1,420.0**
Child Survival/Maternal Health	$295.4	$337.0	$321.9	$327.8	$325.0
Vulnerable Children	$29.9	$25.0	$26.8	$28.0	$10.0
HIV/AIDS (bilateral)	$289.3	$395.0	$587.7	$513.5	$500.0
Global Fund for AIDS, TB, & Malaria	$100.0	$40.0	$248.4	$397.6	$100.0
Other Infectious Diseases	$123.7	$165.0	$154.5	$183.9	$139.0
Family Planning	$376.2	$385.5	$366.1	$373.3	$346.0
Democracy, Conflict, & Humanitarian	**$156.5**	**$146.4**	**$213.9**	**$211.5**	**$208.0**
Democracy & Local Governance	$131.3	$119.4	$139.0	$159.4	$164.0
Human Rights	$25.2	$27.0	$26.8	$25.0	$17.0
Conflict	—	—	$48.1	$27.1	$27.0
[Global Development Alliance]	**[—]**	**[$20.0]**	**$14.9**	[$15.0]	[$15.0]
TOTAL, Development Aid	**$2,215.3**	**$2,525.5**	**$3,085.4**	**$3,188.3**	**$2,748.9**

Source: USAID.

Note: Amounts in this table reflect levels allocated from USAID's "core" development aid accounts: Development Assistance and the Child Survival and Health Program Fund. In addition to figures shown here, funds are drawn from other economic aid programs—Economic Support Fund, aid to Eastern Europe, and former-Soviet assistance—that are co-managed by USAID and the State Department. For activities such as basic education and global health, most funding comes from these "core" development accounts. In other areas, however, especially economic growth , agriculture, and democracy, a sizable amount of resources is drawn from these non-"core" accounts. Complete data for all years across all accounts are not currently available. Consequently, it is only possible to draw comparisons for "core" development aid resources.

Congressional Action

Following recommendations made earlier in House- and Senate-passed FY2005 Foreign Operations bills, the conference agreement on H.R. 4818 boosts the President's request for the two "core" development aid accounts, increases spending for HIV/AIDS programs beyond the executive's recommendation, but reduces sharply the proposed Millennium Challenge Account budget. As shown in **Table 11**, in total, the final Foreign Operations measure cuts the President's overall $6.7 billion request by about $850 million, or 12.6%. The $1 billion reduction to the MCA appropriation makes up most of the cut, but is off-set by nearly $120 million increases for each of the Child Survival/Health and Development Assistance accounts (+8% and +9%, respectively). The Global AIDS Initiative—those HIV/AIDS funds managed by the State Department's Special Coordinators Office—also falls by $75 million from the request, a level, however, that is more than off-set with HIV/AIDS funding increases in the Child Survival/Health and other Foreign Operations accounts.

Table 11. Development Assistance and Congressional Action

(in millions of dollars)

	FY2003 Actual	FY2004 Estimate	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conf.*
USAID "Core Development" Accounts:						
Child Survival/Health (regular)	$1,704.6	$1,824.2	$1,420.0	$1,648.5	$1,550.0	$1,537.6
Child Survival/Health (emergency)	—	—	—	—	$150.0	—
Development Assistance	$1,380.0	$1,376.8	$1,329.0	$1,429.0	$1,460.0	$1,448.3
Subtotal, "Core Development"	**$3,084.6**	**$3,215.9**	**$2,749.0**	**$3,077.5**	**$3,160.0**	**$2,985.9**
Global AIDS Initiative	—	$488.1	$1,450.0	$1,260.0	$1,450.0	$1,373.9
Millennium Challenge Account	—	$994.0	$2,500.0	$1,250.0	$1,120.0	$1,488.0
TOTAL, Development Aid	**$3,084.6**	**$4,698.0**	**$6,699.0**	**$5,587.5**	**$5,730.0**	**$5,847.8**

Source: House and Senate Appropriations Committees.

*FY2005 amounts are reduced by an across-the-board rescission of 0.8%.

As approved, the conference agreement provides $2.28 billion in Foreign Operations for the President's Emergency Plan for AIDS Relief (PEPFAR) (rescission-adjusted), roughly $80 million higher than the Administration's request and with a somewhat different allocation of funds among various HIV/AIDS accounts and activities. This is slightly higher than the level passed earlier by the House but less than the $2.42 billion approved by the Senate. The Senate level had included $150 million in "emergency"- designated appropriations that conferees did not adopt.

Much attention throughout the debate centered on the level of funding for the U.S. contribution to the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria (Global ATM Fund). The President proposed a total of $200 million—$100 million each from Foreign Operations and Labor/HHS/Ed funding measures. House- and Senate-passed bills had provided $500 million and $550 million respectively, with $400 million coming from the Foreign Operations bill in each case. Conferees, however, lowered these amounts for the Global ATM Fund to a total level of $435 million, made up from the following sources:

- $248 million from FY2005 Foreign Operations (rescission adjusted)
- $99.2 million from FY2005 (Labor/HHS/Ed (rescission adjusted)
- $87.8 million carry-over from unspent FY2004 Foreign Operations

The carry-over funds from FY2004 were available because, under law, the Administration could not transfer last year the full $546.7 million appropriation. Congress has set a cap on the total U.S. contribution that cannot exceed more than one-third of total transfers from all donors. For FY2004, this limited the U.S. payment to the Global Fund to $459 million.

Another element of the PEPFAR initiative is support for bilateral malaria and tuberculosis programs, funding for which the Administration proposed cutting from $155 million last year to $104 million in FY2005. The conference agreement on H.R. 4818 rejects the President's recommendation, increasing appropriations to $170 million. Earlier, the House had proposed at least the same amount as provided in FY2004 for malaria and tuberculosis, while the Senate had included $$175 million.

As detailed in **Table 12**, total funding in FY2005 for all PEPFAR components proposed in four appropriation measures (Foreign Operations, Labor/HHS/Ed, Agriculture, and Defense) is $2.92 billion, 24% higher than last year and 3.5% more than the President's $2.82 billion request. The total is adjusted for the 0.8% rescission and includes the $87.8 million carry-over from FY2004 for the Global Fund.

Table 12. U.S. International HIV/AIDS, Tuberculosis, and Malaria Programs

(millions of current dollars)

Program	FY2002 Actual	FY2003 Actual	FY2004 Estimate[a]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conf.[a]
USAID Child Survival/Health account for HIV/AIDS - regular	$395.0	$587.6	$513.4	$500.0	$330.0	$350.0	$347.2
USAID Child Survival/Health account for the Global Fund - regular	$50.0	$248.4	$397.6	$100.0	$400.0	$250.0	$248.0
USAID Child Survival/Health account for the Global Fund - emergency	—	—	—	—	—	$150.0	—
USAID Global Fund Carry-over	—	—	($87.8)[b]	—	—	—	$87.8[b]
USAID Child Survival/Health account for TB & Malaria	$165.0	$129.0	$155.0	$105.0	$155.0	$175.0	$168.6
USAID other economic assistance	$40.0	$38.2	$53.2	$40.0	$53.5	$40.0	$53.1
Foreign Military Financing	—	$2.0	$1.5	$2.0	$2.0[c]	$2.0	$2.0
State Dept. Global AIDS Initiative	—	—	$488.1	$1,450.0	$1,260.0	$1,450.0	$1,373.9

Program	FY2002 Actual	FY2003 Actual	FY2004 Estimate[a]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conf.[a]
Subtotal, Foreign Operations	**$650.0**	**$1,005.2**	**$1,521.0**	**$2,197.0**	**$2,200.5**	**$2,417.0**	**$2,280.6**
CDC Global AIDS Program	$143.8	$182.6	$291.9	$142.8	$142.8	$118.8	$123.9
CDC International Applied Prevention Research	$11.0	$11.0	$11.0	$11.0	$11.0[d]	$11.0[d]	$11.0[d]
CDC International TB & Malaria	$15.0	$15.8	$17.9	$15.9	$15.9[d]	$15.9[d]	15.9[d]
NIH International Research	$218.2	$278.6	$323.5	$355.0	$355.0[d]	$355.0[d]	$355.0[d]
Global Fund contribution from NIH/HHS	$125.0	$99.3	$149.1	$100.0	$100.0	$149.1	$99.2
DOL AIDS in the Workplace	$8.5	$9.9	$9.9	$0.0	$0.0	$10.0	$2.0
Subtotal, Labor/HHS/Ed	**$521.5**	**$597.2**	**$803.3**	**$624.7**	**$624.7**	**$659.8**	**$607.0**
DOD HIV/AIDS prevention education with African militaries	$14.0	$7.0	$4.2	$0.0	$10.0	$0.0	$7.5
USDA Section 416(b) Food Aid	$25.0	$24.8	$24.8	$0.0	$0.0	$25.0	$24.8
TOTAL, all appropriations	**$1,210.5**	**$1,634.2**	**$2,353.3**	**$2,821.7**	**2,835.2**	**$3,101.8**	**$2,919.9**

Sources: House and Senate Appropriations Committees, Departments of State and HHS, USAID, and CDC.

a. FY2004 and FY2005 estimates are adjusted for required across-the-board rescissions of 0.59% and 0.8%, respectively.

b. Reflects the amount that could not be transferred to the Global Fund in FY2004, but that has been carried over for a contribution in FY2005.

c. Not earmarked; estimated amount based on total FMF appropriation.

d. Not earmarked; estimated amount based on total funding for HIV/AIDS in the Labor/HHS/Ed appropriation bill.

In other key decisions concerning bilateral development assistance, House and Senate measures provide amounts shown in **Table 13**.

Table 13. Selected Development Aid Funding Targets—Congressional Action

(in millions of dollars)

	FY2004 Estimate[a]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conf.
Economic Growth/Agriculture/Trade					
Trade Capacity Building	$503.0	—	$517.0	—	$507.0
Microenterprise	$180.0	—	$200.0	$195.0	$200.0
Int'l Real Property Foundation	—	—	[b]	$2.0	$1.0

	FY2004 Estimate[a]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conf.
Plant Biotechnology R&D	$25.0	—	—	$40.0	—
Dairy Development	$21.0	—	$21.0	$21.8	—
Intl Fertilizer Develop. Center: "Core"	—	—	$2.3	$2.3[c]	$2.3[c]
Women in Development/Leadership	$11.0	—	$15.0	$15.0	$15.0
Basic Education for Children	$324.6	$338.0	$400.0	$335.0	$400.0
American Schools & Hospitals Abroad	$19.0	$16.0	$20.0	$22.0	$20.0
Collaborative Research Support Program	—	—	$28.0	$28.0	—
Biodiversity	—	—	$110.0[d]	$175.5[d]	$165.0[d]
Water Conservation/Clean Water	$100.0	—	—	$100.0	$100.0
Energy Conservation/Clean Energy	$180.0	—	—	$180.0	$180.0
Global Health					
Child Survival/Maternal Health	$330.0[e]	$325.0[e]	$330.0[e]	$345.0[e]	$345.0[e]
Vaccine Fund	$60.0	—	$65.0	$65.0	$65.0
Iodine Deficiency Disorders	$3.5	—	$3.0	$3.0	$3.0
Micronutrients	$30.0	—	$30.0	$30.0	$30.0
Polio Eradication	$25.0	—	[f]	$32.0	$32.0
Vulnerable Children	$28.0[e]	$10.0[e]	$28.0[e]	$30.0[e]	$30.0[e]
Blind Children	$1.5	—	$1.7	$1.7	$1.7
HIV/AIDS (bilateral)	$1,031.0	$1,971.0	$1,630.0	$1,840.0	$1,771.0
Microbicides	$22.0	—	$30.0	$32.0	$30.0
International AIDS Vaccine Initiative	$26.0	—	[g]	$28.0	$27.0
UNAIDS	$26.0	—	[g]	$28.0	$27.0
Global Fund for AIDS, TB, & Malaria	$321.2[h]	$100.0	$400.0	$400.0	$337.8[h]
Tuberculosis	$70.0	$54.0	[i]	$85.0	$80.0 [e]
Malaria	$85.0	$60.0	[i]	$90.0	$90.0 [c]
Family Planning/Reproductive Health	$432.0	$399.2	$432.0	$450.0	$441.0
Democracy, Conflict, & Humanitarian					
Torture Treatment Centers	—	—	$12.0	$15.0[j]	$10.0

	FY2004 Estimate[a]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conf.
Leahy War Victims Fund	—	—	—	$14.0	—

Sources: House and Senate Appropriation Committees; USAID.

* **Note:** Unless otherwise noted, amounts are for activity funding levels across all Foreign Operations accounts. Amounts reflect program funding targets specified in House and Senate Foreign Operations bills and Committee reports. Targets are not set for all programs in each bill or in the Administration's request, but are selectively identified, often to establish minimum amounts for development aid activities of special congressional importance.

a. Amounts for FY2004 and FY2005 conference agreements are not adjusted to reflect the across-the-board rescission of 0.59% and 0.8%, respectively. The rescissions may or may not have been applied to individual congressional earmarks or recommendations.

b. House bill provides sufficient funds to expand the program worldwide.

c. In addition, the Senate bill and conference agreement provide $1.7 million for R&D activities.

d. Amount applies only to resources drawn from the Development Assistance Fund account.

e. Amount applies only to resources drawn from the Child Survival and Health account.

f. House bill recommends more funding than in FY2004.

g. House bill includes UNAIDS funds in amounts for bilateral HIV/AIDS programs.

h. FY2004 Global Fund amounts are reduced by $87.8 million, money that was carried-over and added to FY2005 Global Fund appropriations.

i. House bill provides not less than FY2004 funding levels.

j. Senate bill includes all Victim of Torture activities, including Treatment Centers.

The House Appropriations Committee also addressed in its report on H.R. 4818 the Administration's concern that earmarks reflecting congressional priorities, particularly among health and education programs, reduced flexibility in providing sufficient resources for other development activities, especially in the area of economic growth. The House panel said it regards economic growth as USAID's most important long-term goal, and that while the Committee continues to recommend higher spending for health programs in the near-term, it encourages USAID to increase funds for economic growth activities.

International Family Planning and UNFPA Funding

U.S. population assistance and family planning programs overseas have sparked continuous controversy during Foreign Operations debates for nearly two decades. For FY2005, the Administration requested $399.2 million for bilateral international reproductive health and family planning programs, an 8% decrease from the $432 million FY2004 appropriation. The request also proposed $25 million, placed in "reserve" as part of the Foreign Operations spending bill's International Organizations and Programs account, that could be made available to the U.N. Population Fund (UNFPA). UNFPA could receive the funds, however, only if the President determines that the organization meets certain conditions.

Although funding considerations have at times been heatedly debated by Congress, the most contentious family planning issues addressed in nearly every annual congressional consideration of Foreign Operations bills have focused on two matters: whether the United States should contribute to the U.N. Population Fund (UNFPA) if the organization maintains a program in China where allegations of coercive family planning have been widespread for many years, and whether abortion-related restrictions should be applied to bilateral USAID population aid grants (commonly known as the "Mexico City" policy).

UNFPA Funding

The most contentious issue usually concerns the abortion restriction question, but most recent attention has focused on UNFPA and a White House decision in July 2002 to block the $34 million U.S. contribution to the organization. During the Reagan and George H.W. Bush Administrations, the United States did not contribute to UNFPA because of concerns over practices of forced abortion and involuntary sterilization in China where UNFPA maintains programs. In 1985, Congress passed the so-called Kemp-Kasten amendment which has been made part of every Foreign Operations appropriation since, barring U.S. funds to any organization that supports or participates "in the management" of a program of coercive abortion or involuntary sterilization. In 1993, President Clinton determined that UNFPA, despite its presence in China, was not involved in the management of a coercive program. From 1993 through the end of the decade, in most years Congress appropriated about $25 million for UNFPA, but added a directive that required that the amount be reduced by however much UNFPA spent in China. Consequently, the U.S. contribution has fluctuated between $21.5 million and $25 million.

For FY2002, President George W. Bush requested $25 million for UNFPA. Congress provided in the FY2002 Foreign Operations bill "not more than" $34 million for UNFPA. While members of the Appropriations Committees said it was their intent to provide the full $34 million, the language allowed the President to allocate however much he chose, up to a $34 million ceiling. The White House placed a hold on UNFPA funds in January 2002 because new evidence suggested that coercive practices were continuing in Chinese counties where UNFPA concentrates its programs. A September 2001 investigation team, sponsored by the Population Research Institute, concluded that a consistent pattern of coercion continued in "model" UNFPA counties, including forced abortions and involuntary sterilizations. Refuting these findings, a UNFPA-commissioned review team found in October 2001 "absolutely no evidence that the U.N. Population Fund supports coercive family planning practices in China or violates the human rights of Chinese people in any way." (See House International Relations Committee hearing, *Coercive Population Control in China: New Evidence of Forced Abortion and Forced Sterilization,* October 17, 2001. See also testimony of Josephine Guy and Nicholaas Biegman before the Senate Foreign Relations Committee, February 27, 2002.)

Although most observers agree that coercive family planning practices continue in China, differences remain over the extent to which, if any, UNFPA supports involuntary activities and whether UNFPA should operate at all in a country where such conditions exist. Given the conflicting reports, the State Department sent its own investigative team to China for a two-week review of UNFPA programs on May 13, 2002. The team, which was led by former Ambassador William Brown and included Bonnie Glick, a former State Department official, and Dr. Theodore Tong, a public health professor at the University of Arizona, made three findings and recommendations in its report dated May 31, 2002.

Findings:

- There is no evidence that UNFPA "knowingly supported or participated in the management of a program of coercive abortion or involuntary sterilization" in China;
- China maintains coercive elements in its population programs; and
- Chinese leaders view "population control as a high priority" and remain concerned over implications of loosening controls for socioeconomic change.

Recommendations:

- The United States should release not more than $34 million of previously appropriated funds to UNFPA;
- Until China ends all forms of coercion in law and practice, no U.S. government funds should be allocated to population programs in China; and
- Appropriate resources, possibly from the United States, should be allocated to monitor and evaluate Chinese population control programs.

Despite the team's recommendation to release the $34 million, Secretary of State Powell decided on July 22, 2002, to withhold funds to UNFPA and to recommend that they be re-directed to other international family planning and reproductive health activities. The State Department's analysis of the Secretary's determination found that even though UNFPA did not "knowingly" support or participate in a coercive practice, that alone would not preclude the application of Kemp-Kasten. Instead, a finding that the recipient of U.S. funds—in this case UNFPA—simply supports or participates in such a program, whether knowingly or unknowingly, would trigger the restriction.

The team found that the Chinese government imposes fines and penalties on families that have children exceeding the number approved by the government, a practice that in some cases coerces women to have abortions they would not otherwise undergo. The State Department analysis concluded that UNFPA's involvement in China's family planning program "allows the Chinese government to implement more effectively its program of coercive abortion." (The full text of the State Department's analysis is online at the State Department's website, http://www.state.gov/g/prm/rls/other/12128.htm. The State Department's assessment team report is also online, http://www.state.gov/g/prm/rls/rpt/2002/12122.htm.)

Critics of the Administration's decision opposed it not only because of the negative impact it may have on access to voluntary family planning programs by persons in around 140 countries where UNFPA operates, but also because of the possible application of the determination for other international organizations that operate in China and to which the U.S. contributes.

For FY2003, the President proposed no funding for UNFPA, although $25 million was requested in "reserve" for the account from which UNFPA receives its funding. Presumably, this could have been made available to UNFPA if it was found not to be in violation of Kemp-Kasten. Following several legislative attempts to reverse the Administration's denial of UNFPA—in both FY2002 supplemental appropriations and regular FY2003 Foreign Operations measures—Congress approved in P.L. 108-7, the Consolidated Appropriations Act for FY2003, a provision allocating $34 million to UNFPA, the same as in FY2002, so long as several conditions were met. The most significant requirement was that the President must certify that UNFPA is no longer involved in the management of a coercive family planning program.

Following the July 2002 determination, the Administration transferred to USAID $34 million from FY2002 appropriations and $25 million from FY2003 that would have otherwise been provided to UNFPA in order to fund USAID bilateral family planning programs for which UNFPA has no involvement. The State Department's justification of its September 25, 2003 letter to Congress regarding the FY2003 resources noted that the "factual circumstances" do not support making a determination that UNFPA no longer supports or participates in the management of a program of coercive abortion or involuntary sterilization. Section 572 of the FY2003 Foreign Operations Appropriations required the President to issue such a statement before restoring U.S. funding to UNFPA. These transferred funds, however, remained unspent due to "holds" placed on them by Members of Congress. The intent in placing the "holds" by some Members was to keep the money available for UNFPA in the event that circumstances changed and the Administration would make UNFPA eligible once again.

In the FY2004 Foreign Operations enacted bill (Division D of P.L. 108-199), Congress earmarked $34 million for UNFPA, subject, however, to the Kemp-Kasten conditions. The conference agreement further directed how the previously withheld money would be disbursed, thereby resolving a long-standing dispute over whether to commit these resources to other development programs or place them in a reserve account in case UNFPA again became eligible for U.S. support. The FY2004 appropriation specified that the $34 million withheld in FY2002 shall be used for family planning programs in twelve countries, including Congo, Ethiopia, Uganda, Haiti, and Russia. The $25 million in FY2003 funds that was earmarked for, but not transferred to, UNFPA would be made available for vulnerable children and for a new initiative within the Child Survival and Health account assisting young women, mothers, and children who are victims of trafficking in persons.

On July 16, 2004, the State Department announced that it had again found UNFPA to be in violation of the Kemp-Kasten amendment and would not provide the $34 million designated in the FY2004 appropriation measure. In a statement, the Department said that the United States has been urging UNFPA and China to modify the organization's program in a manner that would permit U.S. support to resume. The State Department found that no key changes had occurred in UNFPA's programs that would permit a resumption of U.S. funding under the conditions of the Kemp-Kasten provision.

"Mexico City" Policy

The debate over international family planning policy and abortion began nearly three decades ago, in 1973, when Congress added a provision to the Foreign Assistance Act of 1961 prohibiting the use of *U.S. appropriated funds* for abortion-related activities and coercive family planning programs. During the mid-1980s, in what has become known as the "Mexico City" policy (because it was first announced at the 1984 Mexico City Population Conference), the Reagan Administration, and later the George H. W. Bush Administration, restricted funds for foreign non-governmental organizations (NGOs) that were involved in performing or promoting abortions in countries where they worked, even if such activities were undertaken with *non-U.S. funds*. Several groups, including International Planned Parenthood Federation-London (IPPF-London), became ineligible for U.S. financial support. In some subsequent years, Congress narrowly approved measures to overturn this prohibition, but White House vetoes kept the policy in place. President Clinton in 1993 reversed the position of his two predecessors, allowing the United States to resume funding for all family planning organizations so long as no *U.S. money* was used by those involved in abortion-related work.

Between 1996 and 2000, the House and Senate took opposing positions on the Mexico City issue, actions that repeatedly held up enactment of the final Foreign Operations spending measures. The

House position, articulated by Representative Chris Smith (N.J.) and others, supported reinstatement of the Mexico City policy restricting U.S. aid funds to foreign organizations involved in performing abortions or in lobbying to change abortion laws or policies in foreign countries. The Senate, on the other hand, rejected in most cases House provisions dealing with Mexico City policy, favoring a position that left these decisions in the hands of the Administration. Unable to reach an agreement satisfactory to both sides, Congress adopted interim arrangements during this period that did not resolve the broad population program controversy, but permitted the stalled Foreign Operations measure to move forward. The annual "compromise" removed House-added Mexico City restrictions, but reduced population assistance to $385 million, and in several years, "metered" the availability of the funds at a rate of one-twelfth of the $385 million per month.

In FY2000, when the issue became linked with the separate foreign policy matter of paying U.S. arrears owed to the United Nations, a reluctant President Clinton agreed to a modified version of abortion restrictions, marking the first time that Mexico City conditions had been included in legislation signed by the President (enacted in the Foreign Operations Act for FY2000, H.R. 3422, incorporated into H.R. 3194, the Consolidated Appropriations Act for FY2000, P.L. 106-113). Because the President could waive the restrictions for $15 million in grants to organizations that refused to certify, there was no major impact on USAID family planning programs in FY2000, other than the reduction of $12.5 million in population assistance that the legislation required if the White House exercised the waiver authority.

When Congress again came to an impasse in FY2001, lawmakers agreed to allow the new President to set policy. Under the FY2001 Foreign Operations measure, none of the $425 million appropriation could be obligated until after February 15, 2001.

Subsequently, on January 22, 2001, two days after taking office, President Bush issued a Memorandum to the USAID Administrator rescinding the 1993 memorandum from President Clinton and directing the Administrator to "reinstate in full all of the requirements of the Mexico City Policy in effect on January 19, 1993." The President further said that it was his "conviction that taxpayer funds should not be used to pay for abortions or to advocate or actively promote abortion, either here or abroad." A separate statement from the President's press secretary stated that President Bush was "committed to maintaining the $425 million funding level" for population assistance "because he knows that one of the best ways to prevent abortion is by providing quality voluntary family planning services." The press secretary further emphasized that it was the intent that any restrictions "do not limit organizations from treating injuries or illnesses caused by legal or illegal abortions, for example, post abortion care." On February 15, 2001, the day on which FY2001 population aid funds became available for obligation, USAID issued specific policy language and contract clauses to implement the President's directive. The guidelines are nearly identical to those used in the 1980s and early 1990s when the Mexico City policy applied.

Critics of the certification requirement oppose it on several grounds. They believe that family planning organizations may cut back on services because they are unsure of the full implications of the restrictions and do not want to risk losing eligibility for USAID funding. This, they contend, will lead to higher numbers of unwanted pregnancies and possibly more abortions. Opponents also believe the new conditions undermine relations between the U.S. Government and foreign NGOs and multilateral groups, creating a situation in which the United States challenges their decisions on how to spend their own money. They further argue that U.S. policy imposes a so-called "gag" order on the ability of foreign NGOs and multilateral groups to promote changes to abortion laws and regulations in developing nations. This would be unconstitutional if applied to American groups working in the United States, critics note.

Supporters of the certification requirement argue that even though permanent law bans USAID funds from being used to perform or promote abortions, money is fungible; organizations receiving American-taxpayer funding can simply use USAID resources for permitted activities while diverting money raised from other sources to perform abortions or lobby to change abortion laws and regulations. The certification process, they contend, closes the fungibility "loophole."

Since reinstatement of the Mexico City policy in early 2001, several bills have been introduced to reverse the policy, but except for language included in the Senate FY2004 Foreign Operations appropriations bill (S. 1426), none has passed either the House or Senate, and no measure has been enacted into law.

Congressional Action

The Conference agreement on H.R. 4818 provides $441 million for bilateral family planning/reproductive health programs, between levels passed earlier by the House ($432 million) and the Senate ($450 million). The approved amount for FY2005 is $42 million, or about 10% higher than the Administration's request.

Conferees further earmarked $34 million for UNFPA—$25 million drawn from the International Organizations and Programs (IO&P) account and $9 million drawn from the Child Survival/Health account. The entire $34 million is subject to Kemp-Kasten restrictions. If the President determines that UNFPA is ineligible for U.S. funding under Kemp-Kasten, the conference agreement directs the Administration to transfer the $25 million IO&P account funds to the Child Survival/Health account for USAID-managed family planning, maternal and reproductive health programs. Conferees further specified that FY2004 funds previously earmarked for UNFPA be spent on anti-trafficking programs ($12.5 million) and family planning and maternal and reproductive health activities ($12.5 million). After declaring UNFPA ineligible for FY2004 funds, the Administration had signaled that it would re-program the entire $25 million for anti-trafficking programs.

Previously, House- and Senate-passed Foreign Operations bills had provided $25 million and $34 million, respectively, for UNFPA. The Senate measure also directed that the $25 million withheld from UNFPA for FY2004 shall be available for USAID bilateral family planning/reproductive health activities in 15 specific nations. In addition, a floor amendment sponsored by Senators Leahy and Bingaman specified that if UNFPA is not eligible for U.S. funds in FY2005, the $34 million earmark may not be available for any other purpose unless specified in subsequent legislation. An earlier attempt in the House, sponsored by Representative Lowey, to make the UNFPA contribution available only for programs in Iraq, Afghanistan, Tanzania, Jordan, Kenya, and Pakistan, countries which restrict or prohibit abortion, was defeated by the House Appropriations Committee (26-32).

Conferees also rejected two Senate provisions that were strongly opposed by the Administration and which in previous years prompted veto threats by the President. The first provision passed by the Senate but dropped in conference amended the Kemp-Kasten language in a way that would narrow somewhat the grounds on which the Administration could find UNFPA in violation of the restrictions. The Senate text stated that an organization must *directly* support coercive abortions or involuntary sterilizations in order to be denied U.S. support, adding the word "directly" to the condition. The amendment further included new text stating that no organization can be denied funds solely because the government of a country engaged in coercive practices. This presumably was an indirect reference to China, intending to establish a policy that UNFPA could be declared ineligible for U.S. funding exclusively because of coercive practices by Chinese family planning officials.

The second Senate amendment would have revised the President's "Mexico City" policy that prohibits foreign non-governmental organizations (NGOs) from receiving U.S. funds if they perform or promote abortion as a method of family planning, whether or not such activities are supported with U.S.-provided resources. The Senate-passed language stipulated that foreign NGOs could not be declared ineligible for U.S. aid for conducting any health or medical services with non-U.S. government funds so long as the practices did not violate laws in the country in which the services were provided or would not violate U.S. law. The provision further provided that foreign NGOs would not be subject to conditions associated with the use of non-U.S. government funds for advocacy and lobbying activities that were more restrictive than those applied to American NGOs. It is generally assumed that the Mexico City policy ban on advocacy and lobbying would be found to be a constitutional violation of the right of free speech if it were to be applied to a U.S. NGO.

Afghanistan Reconstruction[7]

The conditions in Afghanistan for reconstruction represent a challenging mix of ongoing security concerns, infrastructure destruction, and humanitarian needs that require a robust and sustained intervention. While the hunt for Al Qaeda forces within Afghanistan continues, transitional and reconstruction assistance are well underway. So far, the international community has continued to provide large amounts of aid and resources for the reconstruction effort. A long-term commitment will likely be necessary to ensure that a stable, democratic Afghanistan emerges. The outcomes of international donors conferences since January 2002 indicate a continued, strong willingness on the part of the international community to assist in the restoration of Afghanistan. However, reconstruction costs are estimated by some to be more than $15-$30 billion over the next decade.

The 9/11 Commission Report praises the U.S. efforts in Afghanistan thus far, but emphasizes the need for a sustained, long-term commitment by the United States and the international community to Afghanistan's stability and security. Recognizing that Afghanistan remains vulnerable to illicit drug production and terrorism, the Commission is far-reaching in its recommendations, which include a call for greater security and participation by international forces, more effective, robust counternarcotics activities, and increased flexibility in allocating money for relief and reconstruction.

Current Operating Environment

Key developments since September 11, 2001 and the collapse of the Taliban focus on three main pillars: First, the development of plans for security including military operations by U.S. and other coalition forces in Afghanistan; the presence of an International Security Assistance Force (ISAF); the establishment and training of an Afghan National Army and a police force; the demobilization of private militias; and the formation of provincial reconstruction teams. Second,

[7] This section was prepared by (name redacted).

establishing the political framework through the Bonn Conference and Afghanistan Interim Administration (AIA), the *loya jirga* and Islamic Transitional Government of Afghanistan (ITGA), the constitutional *loya jirga* and approval of a new constitution, presidential and parliamentary elections, and renewed diplomatic ties with the international community. Third, the creation of a strategy for reconstruction beginning with the Tokyo Reconstruction Conference in January 2002. The current operating environment continues to highlight the importance of these three themes and the work that remains to be done to assure Afghanistan's recovery.

The most serious challenges facing Afghanistan today are the lack of security and growing trafficking in narcotics. An ongoing insurgency involving remnants of the Taliban, particularly in the southeast, has created insecurity and slowed reconstruction there. Moreover, former commanders maintain control over their own areas throughout the country and continue fighting with their rivals, making difficult the extension of control by the national government, the provision of aid, and progress on reconstruction. With an estimated half of its GDP ($2.3 billion) generated through drug trafficking, there are growing concerns that Afghanistan could become a "narco state."

Under Operation Enduring Freedom (OEF) in Afghanistan, the United States has approximately 17,000 troops and the coalition is contributing another 2,000 troops. The ISAF, created by the Bonn agreement, has around 9,000 troops from 26 nations as well as 10 non-NATO countries. ISAF force levels increased from 6,400 to help secure the October 9, 2004 elections, with 2,500 additional troops sent from Spain and Italy. The supplementary Italian troops are currently attached to the NATO Response Force (NRF) but the NRF as an entity will not deploy. NATO assumed command of ISAF in August 2003. The core of ISAF is the Kabul Multinational Brigade which is now led by "Eurocorps," a rapid response force within NATO composed of forces from France, Germany, Spain, Belgium, and Luxembourg. Because of ongoing threats to Afghanistan's internal security, there were calls for ISAF expansion and deployment to other cities. In October 2003, the U.N. Security Council formally backed an expansion of ISAF outside of Kabul by adopting Resolution 1510.

U.S. forces, with other nations, are continuing to train a new Afghan National Army (ANA) that it is hoped will ultimately allow the Kabul government to maintain security on its own and enable foreign forces to depart Afghanistan. The targeted size of the army is 70,000, but it is expected to take a number of years to achieve full strength. The ANA had 15,000 troops deployed in time for the presidential elections on October 9, 2004. The ANA has established a presence in 16 of Afghanistan's 34 provinces. With the continued fighting and insecurity, the Japan and U.N.-led process of demobilization and integration of up to 100,000 private militiamen has also been slow. Estimates of the number of fighters to be disarmed under the program has varied over time. In June 2004, regional leaders identified about 60,000 total to be demobilized. Just prior to the elections, about 15,000 had been disarmed. A related program is the surrender and cantonment of heavy weapons. The United States and Germany are training a national police force (as of October numbering about 28,000 trained nationwide) while the United Kingdom has taken the lead on reducing narcotics production and trafficking.

Ensuring a secure environment for reconstruction gained greater attention with an initiative by the Pentagon to expand the role of the U.S. military in Afghanistan. In December 2002, DOD announced that it would be setting up "provincial reconstruction teams" (PRTs), composed of U.S. combat and civil affairs officers. The PRT is a military-run enclave established to create stability, promote reconstruction, and extend the reach of the central government. The U.S. PRTs are intended to have 50-100 military personnel, interagency civilian representatives and a representative from the Interior Ministry of the central government. Under the Coalition, the United States operates thirteen PRTs in Gardez, Ghazni, Herat, Parwan, Qandahar, Jalalabad, Khost, Qalat, Asadabad, Tarin Kowt, Lashkar Gah, Sharana, and Farah. Also under the coalition, New Zealand is leading a PRT in Bamiyan.

Germany took over the first ISAF PRT (from the United States) in Konduz in February 2004 with a heavier military presence of more than 250 military personnel. NATO expressed an intent to take over another 5 PRTs in the North and Northeast of the country and made specific commitments at the June 2004 Istanbul summit. Germany has set up an ISAF PRT in Faizabad (to operate as a satellite to the PRT in Konduz). The U.K.-led PRT in Mazar, which originally operated under the coalition/OEF, is now part of ISAF (as of July 2004) and has added three satellites in Sari Pol, Samangan, and Shebergan. With support from Norway and Finland, the UK has also established a new ISAF PRT in Meymaneh; another is to be set up in Baghlan and led by the Netherlands. In total, there are three new ISAF/NATO PRTs (over the existing Konduz and Mazar PRTs) and several new satellites, with approximately 500 additional personnel. Although NATO nations appear committed to the Afghanistan mission, personnel and equipment shortages plague the organization's ability to build up its presence in Afghanistan. The new pledges for ISAF operations to address staffing and equipment shortages, originally announced in December 2003, have not yet been met, although the first military transport plan for ISAF, contributed by Portugal, arrived in late July 2004.

The United States is focused on PRTs in the South and East. U.S. plans call for up to 34 Coalition or ISAF PRTs (one in each province), with the possibility of satellite PRTs within some provinces. Regional Development Zones (RDZs) grouping several PRTs are also under discussion.

The PRT concept has received mixed reviews from the aid community. Some organizations see a positive impact on security and as a result, an increase in reconstruction activity in the PRT area of operation. Others accept the PRT concept as a practical reality of providing assistance in Afghanistan, albeit with some concerns about the civil-military relationship. And still others do not want to associate with any military force because doing so might compromise their neutrality and impartiality and increase the possibility of a targeted attack.

Factional fighting and increased criminal activity have undermined relief and reconstruction operations. In some cases, where operations were directly targeted, this has led to the temporary suspension of U.N. activities or withdrawal of aid agencies from certain areas. The Afghan Nongovernmental Organization Security Office (ANSO) keeps a database to record national security incidents and to provide more effective, timely information and situation assessments to the aid community.

The strength and influence of the central government is viewed as a key factor that will determine the success of the intervention and assistance on the part of the international community. The road map of the political transition was laid out in a United Nations-sponsored conference of major Afghan factions held in Bonn, Germany, in late November 2001. The transitional government appears stable, but there are major tensions within factions of the national government and between the central government and provincial leaders. The Constitutional *Loya Jirga* adopted a new constitution in January 2004. Karzai sought to hold timely national elections to validate his leadership and counter charges that he sought to monopolize power. Northern Alliance leaders sought simultaneous parliamentary elections so that a parliament could serve as a check on presidential authority. In keeping with the Bonn agreement, national elections were scheduled for

June 2004. After several postponements, the presidential election took place on October 9, 2004, and the parliamentary elections are expected to take place in April 2005.

A joint Afghan-United Nations Committee (with the U.N. Assistance Mission in Afghanistan—UNAMA) registered voters through the Joint Election Management Body (JEMB), an Afghan-U.N. Committee established in July 2003. As of the close of the registration process in September 2004, UNAMA reported that 10.5 million voters had registered, a number equal to the original assessment of the number of eligible voters. About 42% of those registered were women. Early on the pace of registration was greatly affected by insecurity, particularly in the southeast. The registration rates then took a sharp jump, increasing concerns that some Afghans may have registered more than once.

On May 25, 2004, President Karzai endorsed the major election law to govern the elections. Eighteen candidates were certified by the JEMB to run in the presidential elections. Apparently Afghan refugees in Pakistan and Iran were registered and included in the national elections. Fears of election-related violence and voter intimidation by factional commanders made election security a key concern of the United States and international community. Election security missions involved the Coalition, ISAF, the ANA, and Afghan national police force.

On October 9, 2004, the vote was conducted under tight security and observed by about 400 international monitors from the Organization for Security and Cooperation in Europe (OSCE) and other groups, such as the International Republican Institute (IRI). There were only minor, scattered insurgent attacks during the voting—far less violence than was expected—and turnout was reported to be heavy and the voting orderly. Fears of widespread intimidation of voters by factional militiamen were not realized, although there were some reports of such activity on election day. The major threat to the election was an announcement on election day by 15 challenging candidates that they would boycott the results due to widespread fraud—primarily an alleged failure of indelible ink to prevent multiple voting. After a day of discussions and refutations by some of the international observers, most of the challengers—including the most prominent challenger Yunus Qanooni—agreed to drop their objections and allow an independent commission to investigate the alleged irregularities. On November 3, Karzai was declared the winner with 55.4% of the vote, thereby avoiding a runoff.

In parts of the country, humanitarian and reconstruction assistance still operate on parallel tracks. Highlights of the progress on reconstruction achieved in Afghanistan so far include the return of 3 million refugees, the enrollment of 2.9 million children in school, the participation of some women in the workforce and politics, and the completion of Phase I of the Kabul-Kandahar highway, just to name a few. The United Nations High Commissioner for Refugees (UNHCR) continues to assist refugees and the internally displaced, although some have raised concerns that the infrastructure may not yet be able to support this many returnees.

Apart from security problems, the current operating environment presents a number of other urgent challenges. The collapsed infrastructure, rugged terrain and extreme weather are significant factors with regard to access, food aid, health care, and basic logistics. Reconstruction efforts must be understood in the context of the differences among the regions and the political and security situation throughout the country. The international recovery and reconstruction effort is immense and complicated, involving the Afghan government, numerous U.N. agencies, bilateral donors, many international organizations, and countless non-governmental organizations (NGOs). Intended outcomes of the reconstruction process identified by the international community and the Afghan government include political stability and security, access to basic services, and adequate standard of living for the Afghan people, economic growth, and, in the long term, independence from foreign aid.

So far, the international community has continued to provide significant amounts of aid and resources for the reconstruction effort. Among contributions by other countries, Italy is providing advice on judicial reform and the United States, Japan and Saudi Arabia have together been financing the rebuilding of the Kabul-Qandahar-Herat major roadway. Discussions continue about how to assess the progress, pace, and effectiveness of reconstruction efforts, and whether sufficient aid is available. Some experts are concerned about absorption capacity and whether additional funds can be allocated quickly and effectively. Others argue that the lack of human capacity combined with insufficient security, rather than the amount of funding, are the main obstacles.

U.S. Assistance for Afghan Reconstruction

Since September 11, the United States has provided nearly $3.3 billion for reconstruction efforts in Afghanistan, making Kabul one of the largest recipients of American foreign aid. At the International Conference on Reconstruction Assistance to Afghanistan held in Tokyo in January 2002, the U.S. pledged $297 million, drawn from existing sources—either from the $40 billion Emergency Terrorism Response supplemental (P.L. 107-38) that was passed shortly after the September 11 attacks or from regular FY2002 appropriations. The sixty-one countries and twenty-one international organizations represented at Tokyo pledged $4.5 billion, with some states making pledges over multiple years and commitments to be carried out in different time frames.

Since the Tokyo pledging conference, through supplemental and regular appropriation bills, Congress has approved about $3 billion for Afghanistan, with most coming in three emergency supplemental measures for FY2002-2004. The *Afghanistan Freedom Support Act of 2002* (P.L. 107-327, S. 2712), signed by the President on December 4, 2002, authorized U.S. reconstruction efforts with $3.3 billion over four years. Included was $2 billion for humanitarian, reconstruction, and enterprise fund assistance through FY2006 and $300 million in drawdown from U.S. military stocks of defense articles and equipment for Afghanistan and other countries and organizations participating in restoring Afghan security. The legislation also included a Sense of Congress that calls for an expanded International Security Assistance Force with an authorization of an additional $1 billion over two years.

FY2005 Afghanistan Aid Request

For FY2005 appropriations, the Administration requested $929 million for Afghanistan, plus an additional $300 million for military drawdowns. The appropriations request covered several categories of aid:

- Development programs would remain at FY2004 levels in FY2005, with resources targeting agriculture ($45 million), private sector growth and investment ($31 million), environment ($28 million), primary education ($24 million), child and maternal health ($13 million), reproductive health ($7 million), and democracy building ($20 million) programs. The Administration said that a significant amount of these funds would support activities benefitting women and girls.

- Economic Support Fund assistance, requested at $225 million, would support infrastructure repair and rehabilitation, as well as technical aid for strengthening governmental institutions.

- Counter-narcotics and Law Enforcement programs totaling $90 million would emphasize three areas: continued training of the national and border control police; improving the judicial sector; and counter-narcotics law enforcement, poppy eradication, alternative development.

- Anti-terrorism/Demining funds for FY2005 ($17.5 million) would continue to finance President Karzai's protective detail, strengthen border control capabilities, and remove landmines in new areas of Afghanistan.

- Military assistance, proposed at $401 million in FY2005, roughly the same as FY2004, would continue efforts to train and equip the Afghan National Army (ANA).

- Peacekeeping funds ($24 million) would pay the salaries of ANA soldiers while in training and upon graduation.

Table 14. U.S. Assistance to Afghanistan, FY2002-FY2005

(in millions of dollars)

	FY2002 Actual	FY2003 Regular	FY2004 Supp*	FY2004 Regular*	FY2004 Total	FY2005 Req.	FY2005 Conf.
Development/Health	39.7	89.9	—	171.0	171.0	172.0	[a].
Disaster relief	191.0	94.0	—	35.0	35.0	—	[a]
Food aid	159.5	47.4	—	—	0.0	—	[a]
Refugee relief	—	55.0	—	72.0	72.0	—	[a].
Economic-ESF	105.3	216.5	825.0	75.0	900.0	225.0	225.0
Anti-terrorism/ Demining	43.4	33.0	63.8	—	63.8	17.5	[a]
Narcotics/Law Enforcement	66.0	0.0	220.0	—	220.0	90.0	[a]
Military aid	57.3	191.3	364.0	50.6	414.6	400.8	400.8
Peacekeeping	23.9	9.9	[b]	—	0.0	24.0	[a]
Other	—	—	—	2.0	2.0	—	—

	FY2002 Actual	FY2003 Regular	FY2004 Supp*	FY2004 Regular*	FY2004 Total	FY2005 Req.	FY2005 Conf.
TOTAL	**686.1**	**737.0**	**1,472.8**	**405.0**[c]	**1,876.4**	**929.3**	**980.0**

* FY2004 Supplemental totals include funds appropriated in P.L. 108-106, plus funds transferred in FY2004 to Afghanistan from the Emergency Response fund. Amounts for FY2004 Regular Appropriations reflect levels provided in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

a. The FY2005 conference agreement provides a total of $980 million for Afghanistan, but except for ESF and FMF, does not specify the accounts from which the funds should be drawn.

b. The FY2004 supplemental provided $50 million for peacekeeping activities in both Iraq and Afghanistan.

c. The Consolidated Appropriations Act, 2004, earmarked $405 million for Afghanistan. The specific account allocations listed in the conference report's Statement of Managers, however, totaled $403 million.

Congressional Action

The conference agreement on H.R. 4818 provides at total of $980 million for Afghanistan in FY2005, about $50 million more than proposed by the Administration and recommended by the Senate. The figure is slightly higher than the House-passed level of $977 million. Other provisions included in the approved Foreign Operations measure:

- $2 million for the Independent Human Rights Commission and other human rights groups (proposed by the Senate);
- $2 million for reforestation activities (proposed by the Senate);
- $50 million for Afghan women and girls (proposed by the Senate; the House proposed $60 million);
- $2 million for medical, rehabilitation, reconstruction, and other aid to Afghan communities and families that have suffered loses due to military operations (similar to Senate proposal);
- members of the Afghan National Army should be vetted for involvement in terrorism, human rights violations, and drug trafficking.

On related legislation regarding bills to reform the intelligence community and implement the 9/11 Commission recommendations, the House and Senate are considering amendments to the Afghanistan Freedom Support Act (P.L. 107-327) approved in 2002. Among other changes, H.R. 10 requires the President within six months of enactment to submit to Congress a five-year strategy for development and security needs in Afghanistan. The House bill further adds a new title to the 2002 Afghanistan reconstruction authorization Act, regarding counter-narcotics efforts in the country. S. 2774, also requires a five-year strategy report, plus revises and adds aid authorization levels for FY2005. In total, the bill authorizes $2.4 billion for Afghanistan, including $500 million in development aid, $550 million in security-related economic support, $882 million in military assistance, $410 million in counter-narcotics and anti-terrorism funding, and $60 million for peacekeeping purposes. These authorization amounts are more than two and one-half times greater than the approved FY2005 appropriation for Afghanistan.

Iraq Reconstruction[8]

Following years of authoritarian rule and economic sanctions, the United States and the international community agreed in the spring of 2003 that efforts should be made to introduce economic reform and democratic government to post-war Iraq. The best available estimates of the eventual cost of this Iraq reconstruction are provided in an October 2003 World Bank and U.N. Development Group needs assessment of 14 sectors of the Iraqi government and economy. Prepared for the benefit of the international donors conference held in Madrid on October 23-24, 2003, it established the targets by which the adequacy of available resources will be judged. The World Bank/U.N. assessments put the cost of reconstruction for the 14 sectors at $36 billion over four years, a figure that does not include $19.4 billion estimated by the Coalition Provisional Authority (CPA) for security, oil, and other sectors not covered by the Bank/U.N. assessments. Total World Bank/CPA projected reconstruction costs through 2007 amount to $55 billion.[9]

Several potential “spigots” are available to fund Iraq reconstruction. U.S. foreign aid appropriations were provided in FY2003 and FY2004 in two emergency supplemental bills specifically for Iraq. International donors have also made aid contributions. Iraqi funds, mostly derived from oil export profits, have been employed largely to cover the “normal” operating costs of the Iraqi government, but, where sufficient amounts are available, have been used to address reconstruction needs. Additionally, the reduction or rescheduling of Iraqi debt repayments makes further resources available.

U.S. Assistance

In the FY2003 Emergency Supplemental (P.L. 108-11), signed on April 16, 2003, $2.48 billion was appropriated for a special Iraq Relief and Reconstruction Fund (IRRF) for the purpose of aid efforts in a wide range of sectors, including water and sanitation, food, electricity, education, and rule of law. The legislation gave the President control over the Fund, and amounts could be transferred only to the Department of State, the Agency for International Development (USAID), the Department of the Treasury, the Department of Defense, and the Department of Health and Human Services, subject to the usual notification procedures.

The FY2004 Emergency Supplemental (P.L. 108-106), signed on November 6, 2003, added $18.4 billion to the IRRF and allowed funds to go directly to the CPA in addition to the above named agencies. While earlier funds had been used to support a broad range of humanitarian and reconstruction efforts, the FY2004 appropriation was largely intended to have an immediate impact on the two greatest reconstruction concerns raised since the occupation of Iraq began—security and infrastructure. The reconstruction funds were provided entirely as grants, after the Administration threatened to veto any measure that provided aid in the form of loans. The legislation established an Inspector General office to monitor the use of funds by the CPA, and included extensive reporting requirements regarding expenditures, projects, and other sources of revenue. The bill also provided $983 million for operating expenses of the CPA. Exceptions to the rule of full and open competition for contracts have to be justified and notified to Congress.

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[8] This section was prepared by (name redacted).

[9] For the full text of the report online, see the World Bank website at http://siteresources.worldbank.org/INTIRAQ/Overview/20147568/Joint%20Needs%20Assessment.pdf.

On September 14, 2004, the Administration asked Congress to approve a significant re-allocation of $3.46 billion of the $18.4 billion (see "Reconstruction Priorities" below). Because the desired changes were greater than the supplemental's restriction on how much a specific sector—such as security or health—could be increased (no more than 20%) or decreased (no more than 10%) from the original congressional allocation, a simple notification to the appropriations committees was insufficient. Congress, in passing on September 29, 2004, H.J.Res. 107, the Continuing Appropriations Act for FY2005 (P.L. 108-309), approved the Administration's re-allocation proposal. (See **Table 17**, below, for specific details on sector re-allocations.)

Table 15. Funds Committed/Pledged to Iraq Relief and Reconstruction

(in millions of dollars)

	FY2003	FY2004	Total
United States Assistance			
Iraq Relief and Reconstruction Fund	**2,475.0** (of which 2,418.0 obligated as of 11/17/04)	**18,439.0** (of which 8,898.0 obligated as of 11/17/04)	**20,914.0**
DOD - Oil Repair	802.0	—	802.0
DOD - Iraq Army	51.2	—	51.2
DOD - CERP	—	140.0	140.0
CPA/Embassy Administration	684.6	983.0	1,667.6
Other Agency Funds	478.9	1.9	480.8
Total U.S. Assistance	**4,491.7**	**19,563.9**	**24,055.6**
Iraq Resources (as of 9/30/04)			
U.S. Vested Funds			1,724.0
U.S. Seized Funds			927.0
Development Fund for Iraq (DFI)			25,782.0
Total Iraq Resources			**28,433.0**
Other Donors (as of 10/14/04)			
Humanitarian Funds			849.0
Reconstruction Grants & Loans Pledged at Madrid Conference			13,588.9 (of which at least 9,000.0 are loans)
Total Other Donor Grants & Loans			**14,437.9**

Source: Section 2207 Report to Congress Pursuant to P.L. 108-106, October 2004; CPA Inspector General Report to Congress Pursuant to P.L. 108-

Although the IRRF accounts for most U.S. reconstruction aid to Iraq, funds have been drawn from other accounts for related purposes. Department of Defense appropriations were used to cover the FY2003 operational expenses of the CPA and have gone to pay part of the costs for repair of Iraq's oil infrastructure, for training of the Iraqi army, and towards the Commanders

Emergency Response Program (CERP). In addition to drawing from the IRRF, USAID has used its own funds to pay for humanitarian programs in Iraq. The FY2005 Defense Appropriations, signed into law (P.L. 108-287, H.R. 4613) on August 5, makes available up to $300 million in additional funding for the CERP.

U.S. Aid Policy Structure on Iraq

On June 28, 2004, the Coalition Provisional Authority (CPA), the agency established to temporarily rule Iraq and implement reconstruction programs, was dissolved as Iraq regained its sovereignty. The United States is continuing to provide an assistance program and, to the extent possible, policy guidance to the Iraqi government through its U.S. embassy under Ambassador John Negroponte. The embassy is expected to employ about 1,000 U.S. and 700 Iraqi staff. A temporary Iraq Reconstruction Management Office (IRMO) has been created within the U.S. embassy to supplant CPA assistance efforts. It is being headed by Ambassador William B. Taylor, Jr., the former Coordinator of U.S. Assistance to Afghanistan and, before that, Europe and Eurasia. The CPA's Program Management Office (PMO), although changing its name to the Project and Contracting Office (PCO), continues to be responsible for program management and contracts and remains within the Department of Defense, but will report to the Department of State as well as to the Department of the Army. It is now headed by Charles Hess, the former PCO deputy.[10]

Immediate overall responsibility for management of U.S. military activity in Iraq belongs to General George Casey, Jr.. As commander of the multinational forces in Iraq, Casey is responsible for establishing a new relationship between coalition forces and the new Iraqi government and providing training and support to Iraqi security forces. He also serves as principal military adviser to the U.S. Ambassador.

With the dissolution of the CPA which was under the Secretary of Defense, the Secretary of State assumes responsibility for assistance. Within the State Department, Robin Raphel is the coordinator for Iraq reconstruction.

The post of CPA Inspector General, created under the FY2004 Emergency Supplemental legislation, has been redesignated the Special Inspector General for Iraq Reconstruction (SIGIR) by the recently enacted DOD Authorization for FY2005 (P.L. 108-375). The SIGIR is currently Stuart Bowen, Jr. The SIGIR office has about 83 employees examining a range of issues, including the extent and use of competition in contracting; efficient and effective contract management practices; and charges of criminal misconduct. The SIGIR issued his first report to Congress on March 30, 2004.[11] The DOD Authorization extends the SIGIR beyond its originally mandated December 2004 expiration and grants operational authority until 10 months after 80% of the reconstruction funds have been obligated. The SIGIR reports to both the Secretary of Defense and State.[12]

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[10] The PCO and IRMO were established by a National Security Presidential Directive of May 11, 2004. PCO website at http://www.rebuilding-iraq.net/portal/page?_pageid=35,62867&_dad=portal&_schema=PORTAL .

[11] See http://www.cpa-ig.org/ for a copy and for subsequent reports and audits.

[12] Inspector General Report to Congress, October 30, 2004.

U.S. Reconstruction Assistance

Among the key policy objectives laid out by the Bush Administration in conjunction with the war in Iraq was the economic and political reconstruction of the country. Discussion and debate within the United States government and abroad have been ongoing regarding the strategy to reach these ends utilizing reconstruction aid funds and the effectiveness of aid implementation.

With the dissolution of the CPA, U.S. influence in post-occupation Iraq is no longer based on dictate, but on persuasion by Ambassador Negroponte with leverage provided by the security support of the U.S. military and billions of dollars in reconstruction aid. U.S. efforts to "remake" Iraq have been facilitated in part by the presence of U.S. advisers attached to each of the Iraqi ministries to provide technical expertise. With ministries now sovereign, U.S. advisers, in the words of one Iraqi government official, have become "consultants." Reportedly, about 150 Americans remain attached to Iraqi ministries.[13]

Reconstruction Priorities

Reconstruction priorities have changed over time. The CPA's reconstruction priorities were reflected in the FY2004 supplemental appropriation approved by Congress in October 2003. By the time of the transition, about 22% of total funds were targeted on improving the security capabilities of the Iraqi government, including training and equipment for police, army, and customs personnel. About 67% of funds were aimed at improvements in infrastructure—including electricity, oil production, water and sewerage, transportation, and telecommunications—in order to stabilize the country by creating jobs and stimulating the economy. Technical assistance and small-scale grants in such areas as democratization, civil society, microenterprise, education, economic policy, and health account for the remainder of the appropriated FY2004 funds (about 10%).

The November 2003 agreement to accelerate the hand-over of sovereignty to Iraqis led the Administration to revise plans in January 2004 for the use of appropriations. With the exception of the oil sector where emergency supply efforts were cut by nearly $200 million, the broad categories of assistance were largely unaffected. However, a number of funding changes were made within sectors. The most significant change was an increase in the democratization effort—from $100 million to $458 million—reflecting the more intensive plan to prepare Iraqis to take over. Increases were made as well in funding for border enforcement (from $150 to $300 million) and the civil defense corps (from $76 to $200 million). In addition, roughly a third of the total appropriation—$5.8 billion, mostly intended for electric power and water and sanitation rehabilitation—was extended out to FY2005. By April 2004, the CPA had slightly revised its allocations, including adding $184 million for administrative expenses for operating costs of the post-June 28 U.S. Mission in Iraq (taken from the water resources sector) and estimating a more rapid spending plan, now leaving $4.6 billion for FY2005. The main July 2004 allocation was a restoration of some water funding, and a decision to prorate all sectors equally to derive funding to cover each agency's program implementation costs.

[13] "Iraqis Start to Exercise Power Even Before Date for Turnover," *New York Times*, June 13, 2004. "U.S. Has Leverage, But Wants to Show Iraqis are in Charge," *New York Times*, June 29, 2004.

Table 16. Iraq Relief and Reconstruction Fund: Obligations, Expenditures, and Re-Allocations

(in millions of dollars)

Sector	P.L. 108-106	Allocation (7/22/04)	Obligations (10/12/04)	Expend. (10/12/04)	Re-Allocation
Security and Law Enforcement	3,243	3,235	2,235	826	5,045
Justice, Public Safety & Democracy	1,318	1,484	908	134	1,953
Electricity	5,560	5,465	2,184	340	4,350
Oil Infrastructure	1,890	1,701	723	50	1,701
Water and Sanitation	4,332	4,246	752	24	2,311
Transport & Telecommunications	500	500	173	13	499
Roads, Bridges, & Construction	370	367	145	15	359
Health	793	786	453	4	786
Private Sector	153	183	140	47	483
Education, Refugees, Human Rights	280	259	137	28	379
Administrative Expenses	0	213	29	26	213
Debt Reduction	—	—	—	—	360
Total	**18,439**	**18,439**	**7,879**	**1,507**	**18,439**

Source: Section 2207 Report, October 2004. Department of State, Working Papers: Iraq Weekly Status, October 13, 2004.

The September 14, 2004 Administration-proposed re-allocation of resources, approved by Congress on September 29 in P.L. 108-309, reflects a review conducted by the Iraq Reconstruction and Management Office and the U.S. Embassy country team after the State Department took charge of Iraq non-military policy on June 28. The review identified security needs, increased oil production, greater employment, and democracy as the highest priorities, while suggesting that many large-scale infrastructure projects were too slow and dependent on an improved security situation to have an immediate impact. Security—mostly training and equipping Iraqi forces—increases by $1.8 billion. Efforts to increase oil production capacity gains $450 million. Employment creation—a combination of USAID labor-intensive projects and increased funding for the CERP—receives an additional $280 million. Democracy programs geared toward assisting the pending elections grow by $180 million. General development programs—mostly conducted by USAID in the areas of economic reform, private sector development, and agriculture—increase by $380 million. Presumably to demonstrate U.S. commitment to debt reduction prior to a Paris Club discussion of the Iraq issue, the re-allocation draws on $360 million to subsidize U.S. forgiveness of as much as $4 billion in bilateral Iraqi debt to the United States.

In all, these sectors gained $3.46 billion of the $18.44 billion FY2004 supplemental appropriation. That amount was drawn from three sectors to which the funds had originally been allocated—purchases of already refined imported oil (-$450 million), water and sewerage (-$1.935 billion), and electricity (-$1.074 billion). Most of the re-allocated funds—$2.7 billion—came out of amounts that had been set aside for obligation in FY2005. Therefore, existing contracts are not affected by the re-allocation.

Following this re-allocation, reconstruction aid priorities in Iraq, as determined by the State Department, puts 33% of total FY2004 funds into security (versus 22% previously), 16% into democratization and traditional development sectors (10% before), and 51% into economic infrastructure (67% previously). As shown in **Table 17** above, Congress, in H.J.Res. 107, the FY2005 Continuing Resolution, approved the Administration's re-allocation request.

Reconstruction Programs

A wide range of reconstruction project work is underway. For a variety of reasons, not least of which is the poor security situation, these efforts have produced a somewhat mixed picture. The Iraqi government appears to be a functioning concern, with ministries restocked with equipment following the massive looting that occurred after the initial invasion. Health facilities are being rehabilitated, healthcare providers trained, and children immunized. Neighborhood councils have been established in 445 locations throughout the country. More than 2,000 grassroots projects have been conducted through USAID grants ($151 million) provided to hundreds of community action groups. School materials have been provided, schools inventoried, and thousands of schools renovated. A broad range of economic policy reform efforts have been initiated. Business centers have been set up throughout the country and a micro-loan program established. A registration process for the January elections is moving forward.[14]

Positive claims for the success of reconstruction programs during the past 20 months, however, have been countered by reports of slow and ineffective implementation. Few of the 2,300 construction projects identified by the Project and Contracting Office appear to have been completed. Objectives in critical sectors, such as oil production and electric power generation, have not been met. Electric power in September hovered just above the 100,000 Megawatt Hour level compared to 95,600 MW before the war (it is currently at 79,000 due to Fall maintenance needs)—the goal has been 120,000. Oil production reached a post-war peak in late September at 2.67 million barrels/day—2.5 million barrels/day is the rate before the war—and the goal is 2.8-3.0 million by December. Most of the Iraqi police have not yet been trained. The one consistent bright spot among reconstruction claims—a successful health program—is now marred by reports that acute malnutrition among children has nearly doubled since the coalition invasion in 2003.[15]

A particular congressional concern has been the rate of implementation.[16] One Administration argument for the $18.4 billion appropriated in November 2003 was the need to demonstrate progress so as to employ Iraqis and win their hearts and minds. However, as of end of March 2004, only about $2.2 billion of that $18.4 billion had been obligated, let alone expended. As of

[14] Department of State, Working Papers: Iraq Status, November 17, 2004. USAID, *Iraq Reconstruction Weekly Update*, November 12, 2004.

[15] Department of State, Working Papers: Iraq Status, November 17, 2004. "Children Pay Cost of Iraq's Chaos," *Washington Post*, November 21, 2004. Anthony Cordesman, "Figures Indicate Challenging Transition Ahead in Iraq," Scholar Statement, June 25, 2004, and "Cleaning up the Mess," July 7, 2004, Center for Strategic and International Studies. "U.S. Handing Over An Unfulfilled Iraq," *Chicago Tribune*, June 27, 2004. "Reality Intrudes on Promises in Rebuilding of Iraq," *New York Times*, June 30, 2004. "Death Stalks an Experiment in Democracy," *Washington Post*, June 22, 2004. "An Educator Learns the Hard Way," *Washington Post*, June 21, 2004. "In Race to Give Power to Iraqis, Electricity Lags," *New York Times*, June 14, 2004. "To Many, Mission Not Accomplished," *Washington Post*, June 3, 2004.

[16] For example, see hearing on security assistance by House Foreign Operations Subcommittee, Committee on Appropriations, April 29, 2004 and hearing on reconstruction assistance, Senate Foreign Relations Committee, September 15, 2004.

November 17, $8.9 billion (48%) had been obligated, and $1.8 billion (10%) expended.[17] Among reasons for the slow progress were pressures to employ open and competitive bidding for most of the new reconstruction contracts, last year's inter-agency disputes over control of the funds, and a variety of federal regulations. Security concerns, however, have been chiefly responsible for delaying reconstruction further.[18] To speed up the reconstruction process, in April CPA Ambassador Bremer initiated the Accelerated Iraqi Reconstruction Program (AIRP) which utilizes Iraqi DFI funds ($383 million) to get work underway in ten cities. The AIRP effort is coordinated with the use of CERP funds (see below).[19] The recent re-allocation of reconstruction funds is, in part, intended to speed up implementation, including the expanded use of smaller projects.[20] Further, Ambassador Negroponte has argued for greater flexibility in the application of federal acquisition regulations.[21] The FY2004 Defense Authorization (P.L. 108-375) would permit such regulations to be waived for the CERP program (sec. 1201 (c)).

While most reconstruction activities provide needed infrastructure and services, some far-reaching economic and political policy reforms promoted by the CPA stirred controversy in Iraq, especially as they were viewed as imposed by an occupying administration. For example, in a move to establish an open and free market economy and obtain revenue to meet development needs, Ambassador Bremer approved new laws in September 2003 abolishing all curbs on foreign direct investment except in natural resources. According to the *Financial Times*, the reforms were "near universally unpopular," Iraqi businessmen and unions fearing they would be unable to compete.[22] Such laws and regulations could face resistance and reversal under the new sovereign government, although the interim constitution requires approval of a majority of the government's ministers, president, and vice-presidents to overturn existing laws. According to the press, CPA Administrator Bremer issued 97 legal orders in the last two weeks of the occupation.[23]

On the other hand, as a result of the continuing instability and the accelerated agreement to turn over sovereignty, some controversial positions which were favored by Ambassador Bremer and his staff—privatization of state-owned business, elimination of crop subsidies, and an end to the Oil for Food program's free food baskets—were put off entirely. Iraqi government officials would, reportedly, have preferred that the CPA bear the burden of such potentially destabilizing decisions rather than leave them to a new Iraqi government.[24]

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[17] Department of State, Working Papers: Iraq Status, November 17, 2004. Of the original $2.475 billion appropriated for the Iraq Relief and Reconstruction Fund in April 2003, only $1.504 billion, or 61%, had been disbursed by end of February 2004. The same percentage had been expended ($1.522 billion) by June 30. Nearly all had been obligated by then. Currently, 69% has been spent. [CPA Inspector General Report to Congress, July 30, 2004.]

[18] "Inching Along, One More Piece to Rebuild Iraq," *New York Times*, October 17, 2004.

[19] "Accelerated Iraq Reconstruction Effort Exceeds Goals and Schedules," PCO, Iraq, July 4, 2004. CPA-IG Report to Congress, October 30, 2004.

[20] "U.S. Seeks to Provide More Jobs and Speed Rebuilding in Iraq," *New York Times*, July 27, 2004.

[21] "Iraq Commanders Warn that Delays in Civil Projects Undermine Military Mission," *New York Times*, October 17, 2004.

[22] "Free-Market Iraq? Not So Fast," *New York Times*, January 10, 2004. "Business Deals May be Invalid, Experts Say," *Financial Times*, October 29, 2003. "Governing Council Hits at Minister Over Business Reform," *Financial Times*, September 25, 2003. "Iraq Offering Laws to Spur Investment From Abroad," *New York Times*, September 21, 2003. "Economic Overhaul for Iraq," *Washington Post*, September 22, 2003.

[23] "U.S. Edicts Curb Power of Iraq's Leadership," *Washington Post*, June 27, 2004.

[24] "Attacks Force Retreat From Wide-Ranging Plans for Iraq," *Washington Post*, December 28, 2003. "Iraqis Face Tough Transition to Market-Based Agriculture," *Washington Post*, January 22, 2004. "Iraq Privatization Postponed for Now," *Dow Jones Newswires*, October 27, 2003.

A new reconstruction concern is the effort to rapidly rehabilitate areas, such as Fallujah, which have been the scene of intense military operations against insurgent forces. U.S. officials argue that the post-battle reconstruction effort is as important as the military effort to insure long-term Iraqi government control of these cities. Nevertheless, some observers have criticized the glacial pace of the rehabilitation effort in Najaf. In the case of Fallujah, according to State Department officials, humanitarian supplies were pre-positioned and assessments were made of how to restore essential services—electric power and water—prior to the completion of the military operation. These basic assistance efforts will be followed by small projects to repair clinics and schools. Then larger projects—many already planned but put on hold during the long period of insurgent domination in the city—will be implemented. Officials estimated a combined Iraqi-U.S. aid effort of perhaps $100 million to reconstruct Fallujah.[25]

Commanders Emergency Response Program (CERP)

Drawn from DFI Iraqi seized assets and oil profits and Department of Defense operational funds rather than reconstruction appropriations, the CERP contributes to the reconstruction effort by providing "walking around money" for the roughly 1,600 U.S. military civil affairs officers throughout Iraq. Until the recent FY2005 DOD appropriation of up to $300 million in additional funds for the CERP, roughly $685 million—$546 million from Iraqi resources—had been made available for this purpose. Provided in the form of small grants—over 34,512 such projects totaling $578 million as of early October—the CERP supports a wide variety of reconstruction activities at the village level from renovating health clinics to digging wells to painting schools. In lieu of civilian government or NGO aid personnel, who are not present in most of the country, commanders identify local needs and dispense aid with few bureaucratic encumbrances. The grants have been credited with helping the military better exercise their security missions, while at the same time meeting immediate neighborhood development needs.[26] In an effort to stimulate employment, the State Department re-allocation of assistance increases CERP funding by $86 million.

Reconstruction Contract Issues

Dozens of U.S. and international companies and NGOs are participating in the reconstruction of Iraq. (Many contractors are also participating in military support operations—these are not discussed in this report). In connection with implementation of the FY2004 Supplemental, the CPA set up an Iraq Program Management Office (PMO). In post-occupation Iraq, it is now called the Project and Contracting Office (PCO). The PCO coordinates infrastructure construction and monitors contracting and expenditures in six sectors—transport and communications; electricity; buildings/health; security/justice; public works/water resources; and oil. It more generally manages and oversees use of the non-construction funds as well.

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[25] Department of Defense, News Briefing, Charles Hess and Bill Taylor, November 19, 2004. "Rebuilding What the Assault Turns to Rubble," *Washington Post*, November 10, 2004. "Pace of Rebuilding Najaf Causes Friction," *New York Times*, October 18, 2004.

[26] OMB, Section 2207 Report, July 2, 2004. "Soldiering On to Rebuild Iraq," *Washington Post*, February 21, 2004. "The GI's Weapon of Choice in Iraq: Dollars," *Christian Science Monitor*, January 29, 2004. "$126 Million Spent So Far by U.S. Military on Iraq Reconstruction," Department of Defense Transcript, CPA Briefing, January 14, 2004. "A Different Street Fight in Iraq," *Washington Post*, May 27, 2004.

The PCO has largely supplanted government agencies traditionally responsible for reconstruction program contracting as it implements the bulk of the FY2004-funded programs. The main contracting agencies implementing FY2003 programs are the Army Corps of Engineers, responsible for oil well repair and maintenance; the Department of State, handling police training; and the Agency for International Development (USAID), managing the widest range of economic, social, and political development programs. Using FY2003 funds, USAID has awarded $1.8 billion in contracts and grants in seaport and airport administration, capital construction, theater logistical support, public health, primary and secondary education, personnel support, local governance, agricultural development, and higher education. Utilizing FY2004 funding, it is responsible for $2.3 billion to date, including a $1.8 billion construction project contracted to Bechtel. USAID will continue to be responsible for most activities related to social services, civil society, and policy reform.

Continuing security concerns in the unpredictable Iraqi environment pose problems for firms interested in reconstruction work. A firm's security plans are a factor in awarding contracts. As noted earlier, a substantial proportion of contract costs are being diverted to providing security to employees. One concern of contractors has been the legal status of workers in the post-occupation period, especially with regard to efforts to protect themselves from attack. Prior to the turn-over of sovereignty, CPA Administrator Bremer signed an order providing legal immunity to contractors while they are in the course of performing work in support of Iraq reconstruction efforts.[27]

Seeking to encourage economic growth and decrease unemployment, the CPA made special efforts to insure that Iraqi business had an opportunity to participate in contracts, including putting contract solicitations on its website and appointing business liaison representatives. The extent to which firms plan to utilize Iraqi services has been a factor in the awarding of new contracts. Although U.S. government requirements could be waived for Iraqi contractors, most work for Iraqi business has come in the form of subcontracts. The PCO claims that over 315 Iraqi firms are currently working on U.S.-funded reconstruction projects, and that roughly 73,000 Iraqis are employed.[28]

An Administration decision applied to the FY2003 reconstruction contracts to waive the normal competitive bidding requirements and request bids from specific companies which were seen to have preexisting qualifications received considerable attention by the business community in 2003. U.S. officials explained then that only a few select firms possessed the particular skills that would qualify them for the job specifications for Iraq reconstruction, and that time and security clearances were also critical factors. Other U.S. firms and foreign entities potentially excluded by "buy America" provisions of law, they noted, could participate as sub-contractors to the selected American firms.

Most FY2004-funded contracts are being competitively solicited, and the FY2004 supplemental contains a provision requiring notification and justification to Congress of any waiver of competitive rules. On December 5, 2003, Deputy Secretary of Defense Paul Wolfowitz issued a determination and findings report, essentially limiting eligibility for prime contracts using FY2004 funds to U.S. firms and those of 62 countries—including Iraq, coalition partner, and force contributing nations. His rationale for barring other countries' firms, including Germany

[27] "Immunity Provision Extended for U.S. Firms with Reconstruction Contracts, *Washington Post*, June 29, 2004.

[28] Department of State, Working Papers: Iraq Weekly Status, November 17, 2004.

and France, was that it was "necessary for the protection of the essential security interests of the United States." Countries excluded from prime contracts could still participate as sub-contractors. In what has been interpreted as an effort to gain greater international cooperation on Iraq as well as a mark of State Department control over Iraq policy following the June 28 transition, Administration officials indicated in mid-2004 that the limitation on country eligibility would be reversed.[29]

The closed bidding and lack of transparency in early contracting and later reports suggesting that U.S. and Iraqi funds are being squandered disturbed a number of legislators. The FY2004 supplemental established an Inspector General for the CPA. The CPA Inspector General has issued a number of audits and launched dozens of investigations.[30]

In particular, it was the sole source contract for oil well repair ("Restore Iraqi Oil"—RIO project) provided to Kellogg Brown and Root (KBR), a subsidiary of Halliburton, whose former chief executive is Vice-President Cheney, that was the focus of media attention, raising concerns of favoritism and reinforcing suspicions that the war was fought for oil. The repair work for this contract, conducted by KBR for the Army Corps of Engineers, was valued at $2.5 billion to March 2004.[31] In summer 2003, the Corps announced that remaining oil repair work would be competitively bid. However, KBR continued to carry out work orders on a non-competitive basis pending a decision, finally reached on January 16, 2004, on two new contracts collectively worth up to $2.0 billion.[32] One of the new contracts—worth up to $1.2 billion—was awarded to KBR.

KBR has also been the focus of two DOD audits—one related to its work providing logistics support to the U.S. military under its competitively-bid LOGCAP contract and the other for the importation of fuel for use by Iraqis under the RIO project. In the latter case, KBR is suspected of overcharging by $61 million.[33] Former KBR staff have come forward with accusations of wasteful spending.[34] State Department documents reportedly suggest that U.S. diplomats pressured KBR to use the more expensive Kuwaiti contractor for fuel imports.[35]

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[29] "U.S. to End Ban on War Opponents From Getting Iraq Contracts," *Bloomberg*, September 8, 2004. "Wider Support Prompts U.S. Rethink on Contracts," *Financial Times*, July 21, 2004. "Pentagon Bars Three Nations From Iraqi Bids," *New York Times*, December 10, 2003. "U.S. Pressed Over Iraq Contracts Ban," *Financial Times*, December 12, 2003. "Iraq Contracts Open to Canadians," *Washington Post*, January 14, 2004.

[30] CPA Inspector General Report to Congress, July 30, 2004. See CPA-IG website http://www.cpa-ig.org/ for audit reports to date.

[31] $815 million of this sum is Iraqi resources; $1.7 billion is from U.S. appropriations. The figure does not include its profit margin of between 2% and 7%. U.S. Army Corps of Engineers, March 2003 Contract Obligation Status, http://www.hq.usace.army.mil/cepa/iraq/oilfires.htm.

[32] Jane Mayer, "Contract Sport," *The New Yorker*, February 16, 2004. "Iraq Contract Award Delayed Again," *Houston Chronicle*, December 2, 2003. "U.S. Delays Awarding 2 Iraq Repair Contracts," *Washington Post*, October 30, 2003. "Bush Seeks $2.1 Billion More for Iraqi Oil Industry," *New York Times*, September 13, 2003. "Halliburton's Deals Greater Than Thought," *Washington Post*, August 28, 2003. "Halliburton's Iraq Role is Expanded to Oil Products Distribution," *Financial Times*, May 8, 2003, "Halliburton Contracts Total $50 million," *Financial Times*, April 12, 2003, "U.S. to Request Bids for Work on Oil Fields," *Washington Post*, April 15, 2003."Halliburton's Links Sharpen Bids Dispute," *Financial Times*, March 27, 2003

[33] In the former case, Halliburton is repaying the government $27.4 million in overcharges. "Halliburton Will Repay U.S. Excess Charges for Troops' Meals," *New York Times*, February 3, 2004. "Pentagon Asks for Probe of KBR Oil Deal," *Washington Post*, January 16, 2004.

[34] "Halliburton Staff Called to Testify on Wasteful Spending," *Financial Times*, June 16, 2004.

[35] "Halliburton May Have Been Pressured by U.S. Diplomats to Disregard High Fuel Prices," *New York Times*, November 11, 2004.

Recent Assessments of Reconstruction

There have been dozens of reports and articles during the past year that have sought to analyze, criticize, and recommend action regarding the progress of reconstruction aid. Two of the most recent ones are indicative of the others. *Reconstructing Iraq*, a September 2004 report from the International Crisis Group, examines the gamut of mistakes that many agree were made prior to and during the occupation. These include the lack of a reconstruction plan; the failure to adequately fund reconstruction early on; unrealistic application of U.S. views to Iraqi conditions by, for example, emphasizing privatization policy; the organizational incompetence of the CPA; shifting deadlines, such as the November decision to end the occupation seven months later; and the inadequate utilization of Iraqis both in making policy and in implementing reconstruction projects. The report draws on these failures to inform its recommendations for the future. Recommendations for the U.S. government include the suggestion that staff with expertise in post-conflict situations be utilized and encouraged to serve in Iraq longer than six months; that Iraqis representing a range of views participate in design and implementation of U.S. reconstruction projects; that development of the Iraqi private sector be emphasized through greater use of Iraqis as subcontractors; and that prime contractors be required to employ Iraqis as much as possible.[36]

Progress or Peril? Measuring Iraq's Reconstruction from the Center for Strategic and International Studies (September 2004 and updated on November 12) uses polling and personal interviews to attempt to measure the status of reconstruction from the Iraqi point of view. It finds that security is the predominant issue in Iraqi minds, and that governance is a largely negative picture. It suggests that U.S. efforts are too focused on national level politics and that efforts to support local political bodies are not backed by sufficient funding. A lack of economic opportunity fuels anger and security problems, and the level of social services is also undermining public confidence. An improvement in social well-being—health and education—the only bright spot that the original report highlights, is less positively portrayed in the update. The healthcare system is now viewed as deteriorating. Recommendations include accelerating training of security forces, increasing more direct assistance to Iraqis, giving priority to Iraq's employment crisis, supporting the return of the U.N. to provide election assistance, giving precedence to aid for Iraq's judicial sector, supporting the development of more responsive Kurdish regional governments, mobilizing the Iraqi silent majority to counter the insurgents, and giving Iraqis a stake in the country's oil wealth.[37]

Congressional Action

H.R. 4818, passed by the House on July 15, did not include additional Iraq reconstruction funding, consistent with Administration plans. The House measure, however, addressed several other Iraq reconstruction issues:

- provided authority for the United States to take the lead in a multilateral effort to cancel a significant amount of Iraq's outstanding debt. H.R. 4818 further permits the

[36] International Crisis Group, *Reconstructing Iraq*, September 2, 2004.

[37] Center for Strategic and International Studies, Post-Conflict Reconstruction Project, Frederick Barton and Bathsheba Crocker, Co-Directors, *Progress or Peril? Measuring Iraq's Reconstruction*, September 2004 and the November 12 update.

Administration to draw on the $18.439 billion Iraq Relief and Reconstruction Fund, appropriated last year, to cover U.S. costs of canceling Iraq's debt.

- reconstituted the Coalition Provisional Authority Inspector's General office that has been monitoring Iraq reconstruction resources as a separate unit within the State Department. The CPA IG expired with the transfer of authority in Iraq on June 28 and the Administration had planned on merging these oversight responsibilities into the State Department's Office of Inspector General. The House measure would have placed the Iraq reconstruction IG in the Department of State, but as an entity reporting directly to the Secretary of State.

- transferred from OMB to the Secretary of State responsibility for preparing and submitting to Congress the Section 2207 quarterly reports on the status of Iraq reconstruction activities.

- expressed disappointment over the slow pace of World Bank project disbursement in Iraq and directed the Treasury Secretary to report by January 1, 2005, on the status of such disbursements and the deployment of personnel to staff the Bank's offices in Iraq.

The Administration, in its Statement of Administration Policy on H.R. 4818, expressed several concerns regarding Iraq reconstruction provisions in the bill. The letter from OMB said the Administration opposes placement of the CPA IG responsibility under the direction of the Secretary of State. It noted that the Departments of State and Defense, USAID, and the CPA IG had reached an agreement that would assure effective oversight of the reconstruction funds, and that the House language would not be consistent with that arrangement. The Administration further expressed concern that its proposal to permit greater flexibility in the use of the reconstruction funds—to shift resources from one purpose to another in larger degrees than allowed in the FY2004 supplemental appropriation—was not included in H.R. 4818.

The Senate measure, S. 2812, reported after the Administration submitted its re-allocation proposal on September 14, approved the use of $360 million for cancelling roughly $4 billion (or 90%) of Iraqi debt owed to the United States. The measure also allowed greater flexibility in transferring funds among program sectors, although not to the extent necessary to fully implement Administration re-allocation recommendations.

In several ways, Iraq reconstruction provisions approved in House and Senate versions of H.R. 4818 were overtaken by more recent legislative action. On September 29, Congress cleared H.J.Res. 107, a Continuing Resolution for FY2005. The measure enacted into law some elements included in H.R. 4818 and proposed by the Administration. Specifically, H.J.Res. 107:

- approved sector funding re-allocations, as proposed by the Administration on September 14 (see **Table 16**, above for details);

- authorized $360 million for the costs of canceling roughly $4 billion in Iraqi debt owed to the United States; and

- transferred responsibility for submitting a quarterly report ("section 2207 report") on the use of Iraq reconstruction funds from OMB to the Department of State.

Also, in the Defense Department Authorization bill for FY2005 (Sec. 1059B of H.R. 4200, as cleared by Congress on October 9), Congress extended CPA-IG by re-designating the office as the Special Inspector General for Iraq Reconstruction and granting operational authority until 10 months after 80% of the reconstruction funds have been obligated.

For Additional Reading

Overview

CRS Report 98-916. *Foreign Aid: An Introductory Overview of U.S. Programs and Policy*, by (name redacted) and (name redacted).

CRS Report RL31959, *Foreign Assistance Authorization Act, FY2005*, by (name redacted).

CRS Report RL32090, *FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations & Reconstruction Assistance*, by (name redacted) et al.

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CRS Report RS20329, *African Development Bank and Fund*, by (name redacted).

CRS Issue Brief IB10050. *AIDS in Africa*, by Raymond Copson.

CRS Report RL32252, *AIDS Orphans and Vulnerable Children (OVC): Problems, Responses, and Issues for Congress*, by (name redacted).

CRS Report RS21437, *The Asian Development Bank*, by (name redacted).

CRS Issue Brief IB88093. *Drug Control: International Policy and Approaches*, by Raphael Perl.

CRS Report 98-568, *Export-Import Bank: Background and Legislative Issues*, by Shayerah Ilias.

CRS Report RL31712, *The Global Fund to Fight AIDS, Tuberculosis, and Malaria: Background*, by (name redacted).

CRS Report RL33485, *U.S. International HIV/AIDS, Tuberculosis, and Malaria Spending: FY2004-FY2008*, by (name redacted).

CRS Report RL32714. *International Disasters and Humanitarian Assistance: U.S. Governmental Response*, by (name redacted).

CRS Report RL30830, *International Family Planning: The "Mexico City" Policy*, by (name redacted).

CRS Report RL30932, *Microenterprise and U.S. Foreign Assistance*, by (name redacted).

CRS Report 98-567, *The Overseas Private Investment Corporation: Background and Legislative Issues*, by (name redacted).

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CRS Issue Brief IB96026. *U.S. International Population Assistance: Issues for Congress*, by (name redacted).

CRS Report RL31689, *U.S. International Refugee Assistance: Issues for Congress*, by (name redacted).

CRS Report RL31433, *U.S. Global Health Priorities: USAID's Global Health FY2003 Budget*, by (name redacted).

Country and Regional Issues

CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by (name redacted).

CRS Report RL32489, *Africa: Development Issues and Policy Options*, by (name redacted).

CRS Issue Brief IB95052. *Africa: U.S. Foreign Assistance Issues,* by Raymond Copson.

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by (name redacted).

CRS Report RS21865, *Assistance to Afghan and Iraqi Women: Issues for Congress*, by (name redacted) and (name redacted).

CRS Report RL33479, *Burma-U.S. Relations*, by (name redacted).

CRS Report RL32250, *Colombia: Issues for Congress*, by (name redacted) and (name re dacted).

CRS Report RS21686, *Conditions on U.S. Aid to Serbia*, by (name redacted).

CRS Issue Brief IB93087. *Egypt-United States Relations*, by Clyde Mark.

CRS Report RL32407. *The Greater Middle East Initiative: An Overview,* by Jeremy Sharp.

CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by (name redacted) and (name redacted).

CRS Report RS21751, *Humanitarian Crisis in Haiti: 2004*, by (name redacted).

CRS Report RL33376, *Iraq's Debt Relief: Procedure and Potential Implications for International Debt Relief*, by (name redacted).

CRS Report RL31833, *Iraq: Reconstruction Assistance*, by (name redacted).

CRS Issue Brief IB85066. *Israel: U.S. Foreign Assistance,* by Clyde Mark.

CRS Issue Brief IB93085. *Jordan: U.S. Relations and Bilateral Issues,* by Alfred Prados.

CRS Report RS21457, *The Middle East Partnership Initiative: An Overview*, by (name reda cted).

CRS Report RS21353, *New Partnership for Africa's Development (NEPAD)*, by (name redacted).

CRS Report RS20895. *Palestinians: U.S. Assistance,* by Clyde Mark.

CRS Report RL31759, *Reconstruction Assistance in Afghanistan: Goals, Priorities, and Issues for Congress,* by (name redacted) and (name redacted).

CRS Issue Brief IB98043. *Sudan: Humanitarian Crisis, Peace Talks, Terrorism and U.S. Policy*, by (name redacted).

CRS Report RS22370, *U.S. Foreign Aid to the Palestinians*, by (name redacted).

CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request*, by (name redacted).

CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean*, by (name r edacted), (name redacted), and (name redacted).

CRS Report RL31785, *Foreign Assistance to North Korea*, by (name redacted).

CRS Report RS21834. *U.S. Assistance to North Korea: Fact Sheet*, by Mark Manyin.

CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Recipients*, by (name r edacted).

CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request*, by (name redacted).

Selected Websites

African Development Bank

http://www.afdb.org/

African Development Foundation

http://www.adf.gov/

Asian Development Bank

http://www.adb.org/

CRS Current Legislative Issues: Foreign Affairs http://www.crs.gov/products/browse/is-foreignaffairs.shtml

Export-Import Bank

http://www.exim.gov/

Global Fund to Fight AIDS, Tuberculosis, and Malaria

http://www.theglobalfund.org/en/

Inter-American Development Bank

http://www.iadb.org/

Inter-American Foundation

http://www.iaf.gov/index/index_en.asp

International Fund for Agricultural Development

http://www.ifad.org

International Monetary Fund

http://www.imf.org/

Overseas Private Investment Corporation

http://www.opic.gov/

Peace Corps

http://www.peacecorps.gov/

Trade and Development Agency

http://www.tda.gov/

United Nations Children's Fund (UNICEF)

http://www.unicef.org/

United Nations Development Program (UNDP)

http://www.undp.org/

United Nations Population Fund (UNFPA)

http://www.unfpa.org/

United Nations Program on HIV/AIDS (UNAIDS) http://www.unaids.org/en/default.asp

U.S. Agency for International Development—Home Page

http://www.usaid.gov/

U.S. Agency for International Development—Congressional Budget Justification

http://www.usaid.gov/policy/budget/

U.S. Agency for International Development—Emergency Situation Reports

http://www.usaid.gov/our_work/humanitarian_assistance/disaster_assistance/countries/fy2003_index.html

U.S. Agency for International Development—Foreign Aid Data ("Greenbook")

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U.S. Department of State—Home Page

http://www.state.gov/

U.S. Department of State—Foreign Operations Budget Justification, FY2004

http://www.state.gov/m/rm/rls/cbj/2004/

U.S. Department of State—International Affairs Budget Request, FY2004

http://www.state.gov/m/rm/rls/iab/2004/

U.S. Department of State—International Topics and Issues

http://www.state.gov/interntl/

U.S. Department of the Treasury—Office of International Affairs

http://www.ustreas.gov/offices/international-affairs/index.html

World Bank

http://www.worldbank.org/

World Bank HIPC website

http://www.worldbank.org/hipc/

Table 17. Foreign Operations: Discretionary Budget Authority

(millions of current dollars)

Program	FY2003 Total[a]	FY2004 Regular[b]	FY2004 Supp[b]	FY2004 Total[b]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conference[c]
Title I - Export and Investment Assistance:								
Export-Import Bank	564.4	38.5	—	38.5	167.0	165.9	157.0	99.2
Overseas Private Invest Corp	(242.5)	(211.0)	—	(211.0)	(211.1)	(211.1)	(211.1)	(211.6)
Trade and Development Agency	46.7	49.7	—	49.7	50.0	51.5	49.0	51.1
Total, Title I - Export Aid	**368.6**	**(122.8)**	**0.0**	**(122.8)**	**5.9**	**6.3**	**(5.1)**	**(61.3)**
Title II - Bilateral Economic:								
Development Assistance:								
Child Survival & Health (CS/H)	1,794.6[d]	1,824.2	—	1,824.2	1,420.0	1,648.5	1,550.0	1,537.6
Child Survival & Health - AIDS Emergency	—	—	—	—	—	—	[e] 150.0	—
Global AIDS Initiative	—	488.1	—	488.1	1,450.0	1,260.0	1,450.0	1,373.9
Development Assistance Fund (DA)	1,380.0	1,376.8	—	1,376.8	1,329.0	1,429.0	1,460.0	1,448.3
Subtotal, CS/H, AIDS, & DA	**3,174.6**	**3,689.1**	**0.0**	**3,689.1**	**4,199.0**	**4,337.5**	**4,610.0**	**4,359.8**
Intl Disaster & Famine Aid	431.9	254.0	290.0[f]	544.0	385.5	355.5	385.5	[g]370.0
Intl Disaster & Famine Aid - Sudan Emergency	—	—	—	—	—	—	—	[e] 17.9
Transition Initiatives	49.7	54.7	—	54.7	62.8	47.5	50.0	48.6
Development Credit Programs	7.5	8.0	—	8.0	8.0	8.0	8.0	7.9
Subtotal, Development Aid	**3,663.7**	**4,005.8**	**290.0**	**4,295.8**	**4,655.3**	**4,748.5**	**5,053.5**	**4,804.2**
USAID Operating Expenses	592.8	600.5	40.0	640.5	623.4	618.0	618.0	613.1
USAID Inspector General	33.1	34.8	—	34.8	35.0	35.0	35.0	34.7
USAID Capital Investment Fund	42.7	81.7	16.6	98.3	64.8	64.8	59.0	58.5
Subtotal, Development Aid & USAID	**4,332.3**	**4,722.8**	**346.6**	**5,069.4**	**5,378.5**	**5,466.3**	**5,765.5**	**5,510.5**
Economic Support Fund (ESF)	4,677.2	2,119.9	972.0[h]	3,091.9	2,520.0	2,450.0	2,470.0	2,462.6

Program	FY2003 Total[a]	FY2004 Regular[b]	FY2004 Supp[b]	FY2004 Total[b]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conference[c]
International Fund for Ireland	24.8	18.4	—	18.4	[i]	18.5	—	18.4
Eastern Europe/Baltic States	521.6	442.4	—	442.4	410.0	375.0	410.0	393.4
Former Soviet Union	755.1	584.5	—	584.5	550.0	550.0	560.0	555.5
Emergency Fund for Complex Crises	—	0.0	0.0	0.0	100.0	0.0	20.0	0.0
Iraq Relief and Reconstruction Fund	2,475.0	—	18,439.0[j]	18,439.0	—	—	—	—
Coalition Provisional Authority OE	—	—	983.0	983.0	—	—	—	—
Inter-American Foundation	16.1	16.2	—	16.2	15.2	16.2	19.0	17.9
African Development Foundation	18.6	18.6	—	18.6	17.0	18.6	20.0	18.8
Peace Corps	295.1	308.2	—	308.2	401.0	330.0	310.0	317.4
Millennium Challenge Corporation	—	994.1[k]	—	994.1[k]	2,500.0	1,250.0	1,120.0	1,488.0
Intl Narcotics/Law Enforcement	220.7	240.3	170.0	410.3	358.8	328.8	328.8	326.2
Intl Narcotics—Andean Initiative	729.5	726.7	—	726.7	731.0	731.0	731.0	725.2
Migration & Refugee Assistance	781.9	755.7	25.0[l]	780.7	729.8	756.0	775.0	763.8
Emergency Refugee Fund (ERMA)	105.8	29.8	—	29.8	20.0	20.0	50.0	29.8
Non-Proliferation/anti-terrorism	332.4	351.4	35.0	386.4	415.2	382.0	415.2	398.8
Treasury Dept. Technical Assistance	10.7	18.9	—	18.9	17.5	19.0	17.5	18.8
Debt reduction	—	94.4	—	94.4	200.0	105.0	95.0	99.2
Total Title II-Bilateral Economic	**15,296.8**	**11,442.3**	**20,970.6**	**32,412.9**	**14,364.0**	**12,816.4**	**13,107.0**	**13,144.3**
Title III - Military Assistance:								
Intl Military Ed. & Training	79.5	91.2	—	91.2	89.7	89.7	89.7	89.0
Foreign Mil Financing (FMF)	6,104.6	4,268.7	287.0	4,555.7	4,957.5	4,777.5	4,777.5	4,745.2
Czech FMF loan	—	19.9	—	19.9	—	—	—	—
Peacekeeping Operations	214.3	74.5	50.0	124.5	104.0	104.0	104.0	103.2
Peacekeeping Operations - Darfur emergency	—	—	—	—	—	—	75.0[e]	74.4[e]
Total, Title III-Military Aid	**6,398.4**	**4,454.2**	**337.0**	**4,791.2**	**5,151.2**	**4,971.2**	**5,046.2**	**5,011.8**

Program	FY2003 Total[a]	FY2004 Regular[b]	FY2004 Supp[b]	FY2004 Total[b]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conference[c]
Title IV - Multilateral Economic Aid:								
World Bank - Intl Develop. Assn	844.5	907.8	—	907.8	1,061.3	850.0	820.0	843.2
World Bank Environment Facility	146.9	138.4	—	138.4	120.7	107.5	120.7	106.6
World Bank-Mult Invst Guaranty	1.6	1.1	—	1.1	—	—	—	—
Inter-Amer. Development Bank	42.7	24.9	—	24.9	25.0	25.0	15.0	10.9
Asian Development Bank	97.3	143.5	—	143.5	112.2	112.2	59.7	99.2
African Development Fund	107.4	112.0	—	112.0	118.0	118.0	67.0	105.2
African Development Bank	5.1	5.1	—	5.1	5.1	5.1	1.1	4.1
European Bank for R & D	35.6	35.2	—	35.2	35.4	35.4	35.4	35.1
Intl Fund for Ag Development	14.9	14.9	—	14.9	15.0	15.0	15.0	14.9
Intl Organizations & Programs	313.9[d]	319.8	—	319.8	304.5	323.5	328.9	325.8
Total, Title IV - Multilateral	**1,609.9**	**1,702.7**	**0.0**	**1,702.7**	**1,797.2**	**1,591.7**	**1,462.8**	**1,545.0**
TOTAL, Foreign Operations	**23,673.7**	**17,476.3**	**21,307.6**	**38,783.9**	**21,318.3**	**19,385.6**	**9,610.9**[m]	**19,639.8**
Caribbean hurricane relief in P.L. 108-324	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**100.0**
TOTAL, Foreign Operations and P.L. 108-324	**23,673.7**	**17,476.3**	**21,307.6**	**38,783.9**	**21,318.3**	**19,385.6**	**19,610.9**[m]	**19,739.8**

Program	FY2003 Total[a]	FY2004 Regular[b]	FY2004 Supp[b]	FY2004 Total[b]	FY2005 Request	FY2005 House	FY2005 Senate	FY2005 Conference[c]
TOTAL, without Iraq Reconstruction	**21,198.7**	**17,476.3**	**1,885.6**	**19,361.9**	**21,318.3**	**9,385.6**	**9,610.9**[m]	**19,739.8**

Sources: House and Senate Appropriations Committee and CRS adjustments.

a. FY2003 includes "regular" and supplemental appropriations.

b. Amounts shown in the column for FY2004 "regular" include Foreign Operations funds provided in P.L. 108-199, the Consolidated Appropriations Act, 2004. Figures for each account in the column for regular FY2004 Foreign Operations include a 0.59% across-the-board rescission, as required by P.L. 108-199. The 0.59% rescission represented a $103.6 million reduction for regular FY2004 Foreign Operations from pre-rescission level of $17.564 billion approved in P.L. 108-199. The FY2004 supplemental amounts reflect those provided in P.L. 108-106, mainly for reconstruction in Iraq and Afghanistan. The supplemental column also includes $95 million for Darfur humanitarian relief provided in P.L. 108-287, the Defense Department appropriations for FY2005. The FY2004 Total column represents the sum of the FY2004 regular and the FY2004 supplemental.

c. Sec. 122, Division J of P.L. 108-447 requires a 0.8% across-the-board rescission for each account. Amounts in this column are adjusted to reflect the required reduction for each account. In total, Foreign Operations funds were reduced by $158.4 million due to rescission requirement.

d. The FY2003 level for Child Survival and Health (CSH) *excludes* a $120 million contribution to UNICEF. In FY2004 and FY2005, UNICEF funds are included in the International Organizations and Programs account in title IV. The FY2003 figure has been adjusted to be consistent with the FY2004 and FY2005 account structure.

e. Designated as an "emergency" appropriation that does not count against the bill's total allocation.

f. Includes $110 million transferred from the Iraq Relief and Reconstruction Fund for Liberia ($100 million) and Sudan ($10 million), and an additional $70 million in emergency International Disaster aid for the crisis in the Darfur region of Sudan and in Chad provided in P.L. 108-287, the FY2005 DOD Appropriation bill.

g. P.L. 108-324, the FY2005 Military Construction appropriation, included an additional $100 million for emergency relief for hurricane victims in the Caribbean region and is not reflected in this total. The $100 million is added at the end of this table.

h. Includes $100 million transferred from the Iraq Relief and Reconstruction Fund for Jordan.

i. The Administration's FY2005 request included $12 million for the Ireland Fund and the Irish Visa Program as part of the Economic Support Fund.

j. Excludes $210 million transferred to the International Disaster and Famine Aid account for Liberia ($100 million) and Sudan ($10 million), and to the Economic Support Fund for Jordan ($100 million).

k. Of this amount, P.L. 108-199 provided $650 million for the Millennium Challenge Account in Division D, plus $350 million more in Division H, for a total MCA appropriation of $1 billion. The 0.59% across-the-board rescission reduced the total to $994.1 million.

l. P.L. 108-287, the FY2005 DOD Appropriation bill, included an additional $25 million in FY2004 emergency Migration and Refugee aid for the crisis in the Darfur region of Sudan and in Chad.

m. The Senate total included $150 million in "emergency" appropriations for HIV/AIDS under title II and $75 million for Peacekeeping under title III. Without the emergency funds, the Senate Foreign Operations funding total was $19.386 billion, identical to the Committee allocation for Foreign Operations.

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