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**FOLLOWING THE MONEY  
IN YEMEN AND LEBANON:  
MAXIMIZING THE EFFECTIVENESS  
OF U.S. SECURITY ASSISTANCE  
AND INTERNATIONAL FINANCIAL  
INSTITUTION LENDING**

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COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS  
FIRST SESSION

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## LETTER OF TRANSMITTAL

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC, January 5, 2010.*

DEAR COLLEAGUE: In the Fall of 2009, I directed my Senior Professional Staff Member for the Middle East, Dorothy Shea, to visit Yemen and Lebanon to gather information for two forthcoming committee reports. The first concerns security assistance, and is in follow up to the committee's 2006 report, "Embassies as Command Posts in the Anti-Terror Campaign."<sup>1</sup> The second report is the last in a series my staff have produced on lending by International Financial Institutions (IFIs). Although the circumstances facing Yemen and Lebanon differ greatly, I selected these two countries because they have both been major recipients of U.S. security assistance, particularly under Section 1206 of the National Defense Authorization Act. In addition, while both countries have received substantial IFI lending, significant structural reforms are urgently needed to tackle long-term development challenges.

The stakes in both countries are quite high. As this report was going to press, we learned about the magnitude of the threat posed by al-Qaeda in Yemen: on December 25, 2009, Umar Farouk Abdulmutallab, a Nigerian national who is believed to have received training, indoctrination, and explosives in Yemen, attempted to blow up a Detroit-bound Northwest Airlines flight. On January 3, 2010, the U.S. and British Embassies in Sanaa, followed by several other Western embassies, temporarily closed due to credible threats of planned suicide attacks by al-Qaeda operatives. Separately, Anwar al-Awlaqi, the Yemeni-American radical cleric, has been linked to numerous terrorism suspects, including Nidal Malik Hasan, charged with the November 2009 Fort Hood massacre. Many analysts assess that al-Qaeda in the Arabian Peninsula has taken advantage of the Yemeni government's preoccupation with an insurgency in the north and a secessionist movement in the south to exploit the country's large swaths of ungoverned spaces in an effort to consolidate and build capacity to launch terrorist operations.

In addition to its multiple security challenges, Yemen, already the poorest country in the Arab world, faces daunting socio-economic crises, such as the depletion of its oil and water resources. The literacy rate is a little over 50 percent and unemployment was last estimated at 35 percent. Yemen's security and socio-economic challenges are inter-related, a reality that U.S. assistance pro-

<sup>1</sup>The report can be found on the Government Printing Office's web-site—<http://www.gpo.gov/fdsys/search/home.action> insert "S. Prt. 109-52" in the search line.

grams must address urgently, creatively, and with unity of effort within the U.S. government and with like-minded donors.

Lebanon, meanwhile, is still recovering from the 2006 war between Israel and Hizballah, as well as the 2007 fighting between Lebanese Armed Forces (LAF) and Fatah al-Islam at the Nahr al-Barid Palestinian refugee camp. The United States has a strong interest in helping to further the professionalization of the Lebanese security services and their ability to counter terrorist threats. We have made substantial investments toward this end, but the work is far from over. We must also work to ensure the sustainability of U.S. assistance. In addition, the international donor community needs to do a better job of encouraging the kinds of structural reforms that will be necessary to overcome the country's long-standing economic challenges, such as the massive public debt.

While the key findings of this report will be incorporated as case studies in the broader committee reports, I wanted to share with you the entire staff trip report, which I believe provides useful insight into key issues underpinning the myriad challenges these two countries face and which U.S. security assistance, as well as IFI lending, is designed to help address. As the Congress and the Administration debate the issue of foreign assistance reform in general, and the role of security assistance in particular, as well as U.S. strategy to combat al-Qaeda in the Arabian Peninsula, I hope that you will find this information helpful.

I look forward to continuing to work with you on these issues and welcome any comments you may have on this report.

Sincerely,

RICHARD G. LUGAR,  
*Ranking Member.*

# **FOLLOWING THE MONEY IN YEMEN AND LEBANON: MAXIMIZING THE EFFECTIVENESS OF U.S. SECURITY ASSISTANCE AND INTERNATIONAL FINANCIAL INSTITUTION LENDING**

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## **EXECUTIVE SUMMARY**

During a September 27–October 2, 2009, Senate Foreign Relations Committee minority staff visit to Yemen and Lebanon, staff gathered information to contribute to two forthcoming committee reports, one on security assistance, and the other on lending by International Financial Institutions (IFIs). Although the circumstances facing Yemen and Lebanon differ greatly, the two countries were chosen because the security threats facing both have been serious; hence, they have both been major recipients of U.S. security assistance, particularly under Section 1206 of the National Defense Authorization Act. In addition, while both countries have received substantial IFI lending, significant structural reforms are urgently needed to tackle long-term development challenges.

In both Yemen and Lebanon, although some problems persist in the management of the security assistance portfolios, the country teams have made a conscious effort to learn from past mistakes, and the U.S. Chiefs of Mission were exercising appropriate leadership over U.S. security assistance efforts. In both Yemen and Lebanon, U.S. security assistance has had a qualitative impact on the ability of the armed forces of the respective countries to counter terrorist threats. At the same time, in both countries, the United States and other international donors must guard against inappropriate uses of assistance. In Yemen, for example, the government may be tempted to divert U.S.-provided counter-terrorism assistance for use in the Houthi conflict in the North; in Lebanon, foreign aid donors must be mindful that without proper safeguards and transparency, local perceptions of favoritism in the apportionment of development assistance could exacerbate sectarian tensions. Finally, both Yemen and Lebanon are believed to receive substantial off-budget financial infusions from Saudi Arabia. While such cash transfers may help meet short-term needs, over the long term the lack of transparency surrounding them is unhealthy. Moreover, they may enable the perpetuation of poor governance practices, such as patronage.

Among the key findings and recommendations are the following:

## Yemen

- Yemen is in turmoil. Recent terrorist plots emanating from Yemen against the United States and Western interests have underscored that the threats emanating from a resurgent al-Qaeda in the Arabian Peninsula (AQAP) pose a direct danger to U.S. national security. Yemen is simultaneously facing this and other security threats, as well as impending natural resource debacles, such as the depletion of its oil and water resources, and the fundamental economic development challenges of a least developed country. While the purpose of this staff visit was not to find solutions to these myriad problems, two things were clear:
  - 1) The challenges facing Yemen are inter-related and cannot be addressed in isolation. However dangerous and immediate the country's security threats, they need to be dealt with in the context of the country's deteriorating socio-economic situation and persistent governance challenges; and
  - 2) The United States lacks the leverage to resolve all of the problems facing Yemen on its own. It must work with the international community, including the IFIs, in addition to the Republic of Yemen Government (ROYG) and Yemeni civil society groups to urgently address these challenges before they spin out of control.
- The United States and the ROYG have different priorities with respect to the myriad security threats that Yemen confronts. While the USG is focused on preventing al-Qaeda from making use of the country's ungoverned spaces to recruit terrorists and launch terrorist operations, President Saleh's top priority has been to defeat the Houthi insurgency in the north. December 2009 saw a potential turning point, with Yemeni forces, supported by the United States, escalating their operations against al-Qaeda. Military airstrikes on December 17 and 24, 2009 are said to have killed scores of al-Qaeda operatives, including, reportedly, some suicide bombers who were planning attacks against Western interests in Sanaa. Prior to this campaign, the ROYG was likely diverting U.S. counter-terrorism assistance for use in the war against the Houthis, and that temptation will persist. Sustaining ROYG commitment to the fight against al-Qaeda will be critical.
- This potential misuse of security assistance underscores the importance of enhancing the current end-use monitoring regime for U.S.-provided equipment. Indeed, the existing end-use monitoring protocols in place have revealed discrepancies between U.S. records of security assistance and those that are in the possession of Yemeni defense forces. The Defense Security Cooperation Agency (DSCA), the Department of State, and Embassy's Office of Military Cooperation (OMC) should work to reconcile these differences.<sup>1</sup> In addition, they should conduct a

<sup>1</sup>For background on the respective roles and responsibilities of the various actors, see the December 4, 2009, Congressional Research Service (CRS) report prepared by Specialist in International Affairs, Nina M. Serafino: "Security Assistance Reform: Section 1206 Background and



thorough review of physical security and accountability procedures at the Yemeni Special Operations Forces (YSOF) compound.

- Civilian-military coordination at Embassy Sanaa is now excellent, with the Ambassador exercising Chief of Mission authority, as appropriate, over military local engagement efforts. Past problems resulting from a lack of coordination underscore the importance of unity of effort among all U.S. agencies. Making the most of a situation in which the military has been given a bigger role than is the norm in carrying out development work—under the banner of countering extremism—the USAID Mission in Yemen deserves credit for integrating military counterparts into its efforts, investing heavily in training and mentoring them, as appropriate.
- The Mission made the case that it would be well-served if some of the reservists deployed to Yemen for short (usually 6 months) tours could be re-deployed there for follow-on deployments. Considering the substantial investment the Mission makes in training these reservists, and the limited tours of duty for which they typically serve, this proposal is worthy of consideration.

### **Lebanon**

- Lebanon is still recovering from the 2006 war between Israel and Hizballah, which inflicted great damage around Beirut, much of southern Lebanon, and other parts of the country. The 2007 fighting between Lebanese Armed Forces and Fatah al-Islam at the Nahr al-Barid Palestinian refugee camp led to further casualties and damage. These circumstances necessitated a marked increase in U.S. assistance to Lebanon, particularly in the realm of security assistance, totaling several hundreds of millions of dollars.
- Because of these massive infusions of aid, U.S. security assistance programs in Lebanon have already come under substantial oversight. Previous oversight reports have recognized the concrete and measurable benefits that this quick-impact assistance had on the ground. They also identified some problems, many of them logistical in nature, particularly from the early days of implementation of assistance under Section 1206 of the National Defense Authorization Act. While not all of the problems have been eradicated, staff found that U.S. officials had taken steps to learn from past mistakes and avoid their duplication.
- Having received large sums of Section 1206 assistance over the past several years, the U.S. security assistance program for Lebanon is now relying on Foreign Military Financing (FMF) for the longer-term sustainment needs, with no 1206 assistance requested for FY 2010. This is in keeping with the Congressional intent that the 1206 program be limited to helping part-

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Issues for Congress,” which explains that major foreign military assistance programs have traditionally been carried out under State Department authority, oversight and guidance, while the Defense Security Cooperation Agency (DSCA) has been responsible for implementation.

ner nations confront urgent and emerging counter-terrorism threats.

- The problem of official corruption was a recurring theme during this visit, with several interlocutors pointing to an overall lack of transparency, fueled by a lack of accountability in the Government of Lebanon's budget process, including off-budget revenues and expenditures. In addition, many observers perceived an unhealthy influence of the country's confessional political system on the apportionment of state resources. The U.S. Government, the IFIs and major Western donors all have procedures in place to guard against the misuse of foreign assistance. However, in the face of real or perceived confessional biases in the allocation of foreign assistance, donors should encourage still greater transparency.
- One interlocutor argued that, in the face of a succession of crises, the Government of Lebanon has become a master at manipulating international donors, relying on hand-outs rather than taking on much-needed structural reforms. Without minimizing the seriousness of the crises that Lebanon has confronted in recent years, international donors should guard against the pitfalls associated with a crisis-driven approach. Rather, against the backdrop of Lebanon's recent political and economic difficulties, international donors should press for structural reforms to address imbalances, including, importantly, Lebanon's crippling official debt.

## INTRODUCTION

On September 27–October 2, 2009, Senate Foreign Relations Committee minority staff visited Yemen and Lebanon to gather information to contribute to two committee reports. The first concerns security assistance, and is in follow up to the 2006 report, “Embassies as Command Posts in the Anti-terror Campaign.” The second is the last in a series on lending by international financial institutions (IFIs). Although the circumstances facing Yemen and Lebanon differ greatly, the two countries were chosen for this visit because they have both been confronted with serious security threats requiring substantial amounts of U.S. security assistance, particularly under Section 1206 of the National Defense Authorization Act.<sup>2</sup> In addition, both countries will likely remain flashpoints in the foreseeable future, necessitating a long-term, sustainable, security assistance strategy. In addition, both countries have received substantial IFI lending, but significant structural reforms are urgently needed to tackle long-term development challenges.

With respect to Yemen, the purpose of the visit was not to find solutions to the myriad and urgent challenges facing that country, or the particular threat posed by al-Qaeda there, which has claimed responsibility for the December 25, 2009 attempted bombing of a Detroit-bound airplane. Background on these issues is offered below, however, to provide context for the observations and recommendations for U.S. engagement. Lebanon, meanwhile, is still recovering from the 2006 war between Hizballah and Israel, and has since been subject to prolonged periods of political gridlock. Indeed, the visit took place against the backdrop of lengthy negotiations to form a government of national unity following that country’s June 7 elections. Therefore, the report offers background on the Lebanese political climate, including the sectarian politics behind these national unity talks, to provide context for staff observations on security assistance and IFI lending. In addition to key findings on those subjects, the report has sections on “red flags” that warrant further attention. Recommendations are in italics.

## YEMEN

## BACKGROUND

Yemen is in turmoil; many analysts have characterized it as a “failing” or failed state. Its weak central government is led by President Ali Abdullah Saleh, who has been in power since the 1990 merger between North Yemen and South Yemen (and who was President of North Yemen from 1978 to 1990). There is no clear successor. Outside of the capital, the central government enjoys little legitimacy, resulting in large swaths of ungoverned spaces. The President relies on patronage to perpetuate his influence.

*Socio-economic Challenges:* The poorest country in the Arab world, Yemen faces daunting economic development challenges,

<sup>2</sup>*Ibid.* This report provides a thorough review of the evolution of Section 1206 authority. Because Lebanon and Yemen are the second and third largest recipients of Section 1206 funding to date, totaling \$105.5 million and \$97.3 million, respectively, the report goes into a fair amount of detail about the composition of the respective assistance packages.

coupled with serious security threats. On the economic front, Yemen is quickly depleting its oil, which has generated over 75 percent of its income. Water resources are also running out, largely as a result of poor resource management and a growing popular addiction to the mild narcotic qat, a water-intensive crop, the cultivation of which absorbs approximately one-third of the country's water. In addition, as a result of government subsidies, cultivation of qat has displaced that of other agricultural products, increasing the country's food insecurity.<sup>3</sup> Demographic trends are only intensifying these problems: population growth exceeds 3.4 percent per year, and more than two-thirds of the population is under the age of 24. The unemployment rate was last officially estimated (in 2003) at 35 percent, and is probably higher. Literacy rates are about 50 percent.<sup>4</sup>

*Security Threats:* The security situation is extremely worrying. The Republic of Yemen Government (ROYG) is engaged in several ongoing conflicts:

- Al-Qaeda has long been active in Yemen, as evidenced by the numerous attacks against Western targets for which it has claimed responsibility, going back to the October 2000 attack on the USS Cole. As this report was going to press, al-Qaeda claimed responsibility for the December 25, 2009 attempted bombing of Northwest Airlines flight 253 by the Nigerian-born, Yemeni-trained Umar Farouk Abdulmutallab; and on January 3, 2010, the U.S., British, and several other Western Embassies in Sanaa temporarily closed, due to credible threats of planned suicide attacks by al-Qaeda operatives. Al-Qaeda twice launched attacks on the U.S. Embassy in September 2008; the second of which resulted 16 dead, including the 6 attackers. In January 2009, al-Qaeda affiliates in Yemen and Saudi Arabia merged to form al-Qaeda in the Arabian Peninsula (AQAP). AQAP was likely responsible for the June 2009 kidnapping and murder/mutilation of nine foreign aid workers, as well as the botched suicide bombing that targeted Saudi Assistant Interior Minister Prince Mohammed bin Nayef in August 2009. Yemen is the ancestral home of Osama bin Laden, and a disproportionate number of foreign fighters in Iraq and Afghanistan are said to have been of Yemeni origin. Hundreds of these veterans may now be returning to Yemen, as al-Qaeda seeks to exploit the country's ungoverned spaces to plan and launch attacks.
- Since 2004, there have been several rounds of civil war between al-Houthi guerrillas of the Shi'a Zaidi sect in the North and ROYG forces. Fighting erupted again in August, 2009 and has resulted in thousands of casualties, and 150,000 displaced persons. The ROYG's use of aerial bombardment and artillery has contributed to the high toll of civilian casualties.

<sup>3</sup>According to State Department, only 3% of Yemen's land is arable. The country has long been a food importer. In 2009 the World Food Programme provided \$55 million in assistance to 1.6 million beneficiaries in Yemen.

<sup>4</sup>Statistics in this paragraph are widely cited in such reports as the State Department's Background Notes (<http://www.state.gov/r/pa/ei/bgn/35836.htm>); the CIA World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/geos/ym.html>); and the reports of numerous non-governmental organizations.

- Simmering resentment over perceived, and real, disenfranchisement by residents of the South has perpetuated unrest and irredentism. The latter half of 2009 has seen an uptick in clashes between southerners and the now exclusively northern soldiers deployed in the South. Recent calls for secession by former Saleh ally Sheikh Tariq al-Fadhli raise the specter of civil war.
- Finally, Yemen faces the increasing phenomenon of piracy off the Somali coast. According to a report published by the Carnegie Endowment for International Peace, 130 piracy incidents occurred in the Gulf of Aden in the first half of 2009, compared to 111 in all of 2008.<sup>5</sup>

What is the United States Government doing to help the ROYG confront these challenges, and how do we prioritize among them to best target our assistance? No doubt, the threat posed by AQAP is the most critical to U.S. national security interests, and the USG must do everything in its power to neutralize that threat. As Christopher Boucek argues in the above-mentioned Carnegie report, however, it would be a mistake to focus foreign aid—and the attention of policymakers—inordinately on seeking a military solution to Yemen’s manifold problems. There is a clear linkage between Yemen’s economic and social development challenges and its security threats. Indeed, the perceived—and real—lack of prospects for the future may be contributing to the appeal of Islamic extremism. As one Yemeni interlocutor put it: “Either we give our young people hope, or someone else will give them an illusion.”

The United States lacks the leverage to resolve the problems facing Yemen on its own. It must work urgently with ROYG and with partner civil society organizations in Yemen, and with like-minded partners in the international community, including the IFIs, and those with the most influence in Yemen, such as Saudi Arabia, urgently to address these challenges before they spin out of control.

#### U.S. SECURITY ASSISTANCE TO YEMEN

##### **Trends in U.S. Assistance to Yemen**

U.S. security assistance to the ROYG has increased dramatically in the past decade, as illustrated in the below table. Since the 2006 creation of Section 1206 authority in the National Defense Authorization Act, U.S. security assistance has been more heavily weighted to military- rather than civilian-funded programs: In FY 2006, Yemen received \$4.3 million in Section 1206; in FY 2007, it received \$26 million. In FY 2009, that figure jumped to \$66.8 million. Levels of Foreign Military Financing (FMF), administered by the State Department, have been more volatile. After zero funding in this category in FY 2001, Yemen benefited from a \$20 million spike in FY 2002, with significant variations in following years.

Economic development assistance, meanwhile, has seen a steady upward trajectory. USAID-funded development assistance has grown from zero in fiscal years 2001-2003 to \$4.9 million in FY 2008; \$11.2 million in FY 2009. USAID has also funded Global

<sup>5</sup> Christopher Boucek, Yemen: Avoiding a Downward Spiral, Carnegie Papers, Carnegie Endowment for International Peace Middle East Program Number 102: September 2009, p. 16.

Health programs in Yemen since FY 2008 at about \$3 million/year. Economic Support Funds (ESF) have also steadily increased, from zero in FY 2001 to \$15.2 million in FY 2007. After a temporary decrease in FY 2008 to \$1.5 million, ESF shot back up to almost \$20 million in FY 2009.

In FY 2009, Yemen received just over \$117 million in U.S. assistance, of which roughly \$73 million (or 62 percent) was in the security domain. The balance went to ESF, Development Assistance (DA), Section 1207 Stabilization Programs, and Global Health. Some analysts have criticized this relative proportion of security assistance as indicative of a “misallocation of priorities” in Yemen.<sup>6</sup> The reality is more complex. In fact, the U.S. military is also supporting economic development and good governance. For example, the Special Operations Command/Central Command (SOCCENT) has been engaged in rural development programs in Yemen’s tribal areas.

### **Red Flags**

*Different Priorities:* The United States and the ROYG have different priorities vis-à-vis Yemen’s security threats. While the USG is focused on preventing al-Qaeda from launching further terrorist attacks from Yemen, and has provided counter-terrorism assistance to the ROYG for this purpose, President Saleh’s top priority has been defeating the Houthi rebellion in the north. As a result of this difference in focus, there are serious concerns that U.S. counter-terrorism assistance, provided to assist the ROYG in combating al-Qaeda, has been diverted for use in the war against the Houthis.<sup>7</sup> December 2009 may mark a potential turning point in the convergence of priorities, when Yemeni forces, supported by the United States, escalated their operations against al-Qaeda. Military airstrikes on December 17 and 24, 2009 are said to have killed scores of al-Qaeda operatives, including, reportedly, some suicide bombers who were planning attacks against Western interests in Sanaa. Even so, the temptation to divert U.S. counter-terrorism assistance for use in the war against the Houthis will persist. Sustaining ROYG commitment to the fight against al-Qaeda will be critical.

- The reported use of night-time raids in Saada raises questions about whether the 1206-funded night-vision equipment has been used in these raids.<sup>8</sup>
- Likewise, concerned about the possibility of the Yemeni Air Force using propellant activated devices in aerial campaign in the North, the Embassy has put a hold on the provision of this equipment to the Yemeni Armed Forces.

<sup>6</sup> Boucek, p. 22.

<sup>7</sup> Although the ROYG often seeks to portray the war in the north as “counterterrorist” in nature and alleges that Iran is supporting and supplying weapons to the Houthis, these allegations have not been substantiated.

<sup>8</sup> It is not possible to establish whether these night-time raids were enabled by U.S.-provided NVGs. The Yemeni armed Forces have also purchased night vision equipment from Russia and other sources.

U.S. Assistance to Yemen (In Millions of Historic Dollars) <sup>9</sup>

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 Request
Development Assistance .....	0	0	0	2.0	0	0	1.5	4.9	11.2	35
Food Aid .....	38.5	0.6	29.6	38.4	0	11.5	0	2.2	0	0
Economic Support Funds .....	0	2.0	8.0	16.7	7.8	20.8	15.2	1.5	19.8	0
Foreign Military Financing .....	0	20	1.9	14.9	10.4	8.4	9.7	4.0	2.8	10.0
International Military Education Training	0.2	0.5	0.6	0.9	1.0	0.9	1.0	0.9	1.0	1.1
Nonproliferation, Antiterrorism, Demining and Related Programs .....	1.2	0.8	0.8	0.5	1.9	0.2	2.3	2.5	2.5	3.6
International Narcotics Control and Law Enforcement .....	0	0	0	0	0	0	0	0.5	0	1.0
NDAA Section 1206 .....	0	0	0	0	0	4.3	26.0	0	67	0
NDAA Section 1207 .....	0	0	0	0	0	10	0	10	10	0

<sup>9</sup> To best reflect how much money was spent (not just planned for), where possible data reflects obligations, per fiscal year. Because of different U.S. Government accounting practices, however, this is not always possible. Therefore, data for Sections 1206 and 1207 reflects allocations, with data provided by the State Department's Office of the Coordinator for Foreign Assistance and the Congressional Research Service (CRS). All other data reflects obligations per fiscal year, with data through 2007 per the U.S. Agency for International Development's Greenbook (<http://gbk.eads.usaidallnet.gov/>). Data since that time comes from CRS.

- During the visit, the Embassy's FMF Officer expressed uncertainty about whether there was a clear U.S. policy prohibiting the use of U.S. security assistance in the Houthi conflict, and, if so, how this policy was being communicated to the ROYG. When staff mentioned this officer's apparent need for guidance to Ambassador Seche, he said the policy was clear, and that the OMC Chief was aware of it, as was the Yemeni government. But, he undertook to clarify to all OMC staff that U.S. assistance should not be used against the Houthis. The Ambassador also reviewed several instances in which U.S. policy against using U.S.-provided security assistance in the Houthi conflict had been conveyed to top Yemeni leaders.

*Need for Improved End-Use Monitoring:* OMC engages in end-use monitoring, with an inspection of night-vision equipment provided to the Counter-terrorism Unit and the Yemeni Special Operations Forces (YSOF) conducted as recently as June, and July, 2009, respectively. Several USG interlocutors expressed the view that the existing system of biannual monitoring is insufficient to determine with precision how U.S. assistance is being used, however. Moreover, in the most recent round of inspections, the FMF officer found that much equipment was unaccounted for. There were also significant discrepancies between DSCA's data on the quantity that had been provided and that which was in the Yemeni forces' inventories.

*Recommendation:*

*In light of the above concerns about the Yemeni Armed Forces' use of U.S. security assistance against the Houthis, the USG should develop a more robust end-use monitoring regime for Yemen, and for any other country where there is ongoing armed conflict in which U.S.-provided CT resources could be diverted.<sup>10</sup>*

*In addition, in accordance with OMC's recommendations, DSCA, the Department of State, and OMC should conduct a thorough review of physical security and accountability procedures at the YSOF compound, making improvements a condition for further U.S. military assistance. A DSCA-appointed and -funded team should be sent to Yemen TDY to assist in this review.*

*DSCA-OMC Process Problems:* OMC reported numerous breakdowns in communications with DSCA. As OMC representatives put it, "DSCA needs to be revamped. It needs to be more accountable to Embassies." This observation tracks with findings in a recent report issued jointly by the Inspectors-General of the Departments of State and Defense on Section 1206 assistance, which pointed to numerous instances of problems in information flow between DSCA and those who are responsible for security assistance at foreign em-

<sup>10</sup> Ambassador Seche told staff on October 20, 2009 that he had already directed OMC to develop a much more rigorous system. On November 11, 2009, State Department officials confirmed that such a system is being developed.



bassies. Such problems concerned the status of assistance actually delivered, and even the quantity of materiel agreed in contracts.<sup>11</sup>

### **Pros and Cons of Increasing the Military Involvement in Foreign Assistance**

Asked for his views about the foreign policy implications of the growing military role in foreign assistance, Ambassador Seche expressed concerns about potential pitfalls if Chief of Mission authority in coordinating and overseeing such programs is circumvented. For example, the above-mentioned SOCCENT rural development program reportedly got off to a rocky start due to misperceptions on the part of tribal leaders about what the USG's intentions were. Fortunately, an embarrassing international incident was avoided. As a result of this incident, the Ambassador has more firmly asserted his primacy as Chief of Mission in approving such operations. In addition, the SOCCENT team learned some important lessons about the need to fully integrate its efforts with the Embassy's broader vision, and to take advantage of the regional expertise and cultural knowledge of their State Department and USAID colleagues.

Asked about the pros and cons of using military resources to conduct the kinds of economic development activity that traditionally has been the purview of civilian agencies, Embassy staff indicated that while USAID has the comparative advantage with respect to conceptualizing, implementing, and overseeing development assistance, in Yemen at least, the Mission has had to learn to live with a bigger military role in this field. Many Embassy officers have chosen to embrace this reality, pointing out the advantages of being able to draw on the U.S. Military's vast personnel and financial resources. In addition, because these military officers operate under the authority of their respective commands, as opposed to under Chief of Mission authority, they are allowed to travel to some areas of the country that are off-limits to civilian personnel. Due to Embassy travel restrictions for civilian employees, USAID officers have not been out to visit some USAID-funded projects in many years.

### **Civ-Mil Coordination Within the Embassy**

The need for better civilian-military coordination within the Embassy was identified in the 2006 "Embassies as Command Posts" report. Ambassador Seche clearly takes seriously the exercise of Chief of Mission authority in these matters. He chairs bi-weekly meetings of the Embassy's inter-agency Counter-terrorism Working Group. Indeed, the military assistance program in Yemen has improved, thanks to this coordination between the military and civilian sides of the Embassy. Asked to characterize internal Embassy coordination, one military officer said it was "phenomenal." The USAID Mission Director agreed, praising the "unity of purpose" pursued by the different actors on the country team.

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<sup>11</sup> See the Interagency Evaluation of the 1206 Global Train and Equip Program, Inspectors General of the U.S. Department of Defense (Report No. ID-2009-007) and U.S. Department of State (Report No. ISP-I-09-69), August 31, 2009, in particular Appendix H: Lebanon Case Study, pp. 64-66.

As evidence of the military's full integration, the USAID Mission Director pointed to the fact that military representatives had been invited to, and participated constructively in, USAID's strategic planning conference in Cairo, at which the Mission's new three-year strategy was developed. The SOCCENT Forward Lt. Col. in country said his team "wouldn't think of doing anything that had not been fully coordinated with the country team." Staff found this commitment to coordination and unity of purpose exemplary. No doubt, the personalities of the Embassy's leaders have contributed to this seamlessness, but staff found that the structures are in place to sustain it.

### **Regional Expertise and Continuity of Effort**

Another of the areas of potential pitfall identified in the "Embassies as Command Posts" report was the deployment of military personnel with limited regional or linguistic expertise for short (usually six-month) tours. This phenomenon continues to be a problem in Yemen. The USAID Mission Director said he and his team make a substantial investment in training new military arrivals with whom they must work closely in carrying out joint programs. He emphasized that USAID is prepared to make this investment. He would like to see the Mission get more return on this investment, however. He suggested that reservists who are activated for six-month tours in Yemen as Civilian Affairs Officers or with the Military Information Support Team (MIST) return to their country of assignment for a follow-on deployment.

#### *Recommendation:*

*In Yemen, where USAID has invested heavily in training these reservists in development policy management and local culture, it is understandable that the Mission would want to improve returns on this investment. Such follow-on re-deployments also merit consideration more broadly.*

USAID/Sanaa is actively seeking the redeployment of two such MIST team members, whose work has been quite well received. SOCCENT has also learned that in a country/region where local culture is built on relationships, episodic engagements will not succeed in delivering results. It has therefore embedded teams of trainers with the host government counterpart groups.

### **FMF vs. 1206**

Of the host government officials with whom staff spoke, there was little to no understanding of the differences between FMF and Section 1206-funded assistance. They did not distinguish at all between military-administered or civilian-administered programs. Their focus, understandably, was on the end result, i.e., what kind of materiel and training assistance could be provided, and how quickly.

When asked about the relative advantages of 1206, as opposed to FMF, representatives from the Office of Military Cooperation (OMC) expressed understanding for the relative slowness of the FMF process, from the Letter of Approval phase to actual delivery of materiel. Because FMF is meant for long-term sustainment, they said, long lead times (i.e., as much as three years of advance plan-

ning) can be built into the planning process. Section 1206 funds, while meant to have a quicker impact to deal with urgent needs, also suffer from delays, however, since a “pseudo-FMF” process is followed once the funds have been approved.

To help speed up the 1206 process, Embassy Sanaa’s OMC team offered the suggestion that some of the steps in the approval process should be allowed to be pursued simultaneously, rather than sequentially. In addition, to mitigate the sometimes long lead times in procurement, one OMC officer suggested that the Section 1206 authority be amended to allow for disbursement for approved projects over a two-year period.<sup>12</sup> Finally, to avoid situations in which Posts invest significant resources in developing proposals that end up not being approved, the Combatant Commands, with input from the State Department, should provide Embassies with a sense of the likelihood that their Section 1206 proposals would receive funding before the Embassies spend too much time in proposal development phase.

*Recommendation:*

*These suggestions have the potential to improve effectiveness of the 1206 program and warrant further study.*

### **Constructive Criticism from Host Government End Users**

The Chairman of the Yemeni Coast Guard (YCG) expressed gratitude for the significant materiel support and training that the USG has provided the Yemeni Coast Guard. Specifically, the initial tranche of 44-foot motorized lifeboats allowed the YCG to start operating. Asked for constructive criticism about the program, the YCG requested additional assistance, more timely delivery, and in one case, easier-to-maintain motors:

- A second tranche of Section 1206-funded boats, some 7-meters and some 13-meters, boosted the YCG’s ability in the realm of protection, search and rescue, and training. These boats have limited endurance in the sea, however. The YCG now seeks to acquire medium-sized boats to conduct anti-piracy, anti-smuggling, and anti-terror missions. Without these boats, the YCG is unable to respond to Coalition Forces’ warnings about Somali pirates in international shipping lanes. (The USG will provide two 87-foot boats funded under Section 1206, but delivery is not expected in 2011.)
- The Mercury outboard motors provided in some of the boats were deemed “too sophisticated” (with their advanced electronic systems) for the YCG to maintain. The YCG expressed preference for Yamaha equivalents, which is better understood by local mechanics and for which spare parts are more easily

<sup>12</sup>In fact, in the FY 2009 Defense Authorization Act, the Congress provided authority for Section 1206 funds to be used in consecutive fiscal years, i.e., funds for a program that begins in one fiscal year may be used for that program in the next fiscal year. It is not likely that 1206 authorities would be expanded further for multi-year funding. Although the idea may warrant consideration from the perspective of logistical effectiveness, the notion of multi-year programming may run counter to Congressional intent in creating the 1206 mechanism to help partner nations combat urgent and emerging terrorist threats. See the above-referenced CRS report on “Security Assistance Reform: Section 1206 Background and Issues for Congress” for a review of the legislative history and evolution of Section 1206 legislation.

accessible. (U.S. Marines were able to repair two out of four of these motors on a recent training exercise.)

- Approximately two years ago, the Army Corps of Engineers agreed to build a pier at the Gulf of Aden. This FMF-funded contract was opened for bidding, but no U.S. companies bid, either because of the security situation in Yemen or the relatively small size of the project. The YCG fulfilled its part of the agreement by preparing the infrastructure. The Coast Guard was concerned about the length of time that had lapsed without U.S. fulfillment of its commitment.

Specific areas for improvement cited by the Yemeni Air Force Colonel in charge of international cooperation include:

- Provision of English language labs: Through a mix-up at the port of entry, equipment and materials to create English language instruction labs, which had been designated to go to the Air Force, ended up being redirected to the YCG.
- Difficulties in Parts Repair Process: The Air Force has run into repeated problems when it sends parts back to the United States for repair. Many contractors erroneously believe that Yemen is not eligible to receive military assistance, so they disallow third-party transfers.
- A couple years ago, Yemen requested Excess Aerospace Ground Equipment (AGE). The equipment was based in Europe. Unfortunately, a contract was never let for the refurbishment of this equipment, since it was unclear which of the services would be responsible for funding it. According to OMC, DSCA recently instructed the Air Force to take responsibility for this project.

#### **An Avoidable Problem in Provision of Excess Defense Articles (EDA)**

Yemen benefited from Excess Defense Articles amounting, on paper at least, to \$36.3 million in FY 2007. According to OMC representatives, this number is artificially inflated, as Yemen is eligible to purchase EDA at drastically discounted prices. The EDA provided consisted of medical supplies, uniforms, and personal equipment. Unfortunately, the Ministry of Defense subsequently rejected some of the medical equipment provided, probably because some of it was Israeli-origin.<sup>13</sup> Because most products in the EDA catalogue are not accompanied by descriptive photographs (which in this case would have shown Hebrew writing), the origin of the equipment was not known at the time of order.

#### **1206: Consultations with Host Government vs. Managing Expectations**

Noting the recommendation in the August 31, 2009 joint report by the Inspectors General of State and Defense, OMC officials said it would not be helpful to engage in consultations with Yemeni military authorities in the 1206 proposal development phase. They expressed the opinion that the partnership is not mature enough to allow consultations prior to approval. To do so would risk raising

<sup>13</sup>Of course, the United States actively opposes the Arab League boycott of Israel. While some Arab states do not observe the boycott, Yemen does.

expectations on the part of their Yemeni counterparts. OMC representatives explained that they make judgments based on their knowledge of the Yemeni military's needs.

#### IFI LENDING

### **Overview of Development Issues and International Donor Assistance**

Yemen is beset by extreme poverty, economic stagnation, explosive population growth, deficient health and education systems, and rapidly depleting natural resources, all made worse by weak governance and endemic corruption. The country ranks 153rd on the Human Development Index. Yemen was already falling behind in its efforts to reach most Millennium Development Goals; the global economic crisis has compounded its economic woes, both from falling oil revenues and decreased remittances from Yemenis working abroad. The UN Development Program considers Yemen a least developed country (LDC), and the country's socio-economic indicators bear this out. The \$16 in per capita donor assistance it receives is well below international averages for LDCs, however. (By comparison, Benin receives \$36, and Mozambique \$51, respectively, in per capita assistance.)

Since its recent pledge of \$83 million per year in development assistance for the next five years, the United Kingdom has become Yemen's largest bilateral donor. At a November 2006 donors conference in Paris, international donors pledged \$5 billion for the period 2007-2010. Donors included: Saudi Arabia, the Arab Fund for Socio-Economic Development, Qatar, the United Arab Emirates, the World Bank Group, the Arab monetary Fund, the Islamic Development Bank, Kuwait, Netherlands, Germany, the European Union, and the United States. For a number of reasons, many of the funds pledged at Paris have not yet materialized however. First, Yemen has not met some of the reform conditions some donors tie to their aid. In addition, implementation of projects is often constrained by Yemen's absorptive and capacity issues. That said, it should also be taken into consideration that Yemen is believed to receive substantial and regular off-budget financial infusions from Saudi Arabia. Many commentators view such cash transfers as deleterious, contributing to a lack of transparency and enabling the perpetuation of poor governance practices, such as patronage.

### **The World Bank's Program**

Yemen has experienced periods of steep decline in international donor assistance, following the 1991 Gulf War, when Yemen supported Saddam Hussein; and following its own civil war in 1994. Since this latter period, Yemen has been gradually rebuilding its relationships with development partners, and in recent years a number of donors have increased their involvement in Yemen, including beyond formerly project-based assistance.

According to the World Bank Resident Representative, the Bank has about \$1 billion in existing projects in Yemen, some of which have been ongoing for 4-5 years. The Bank's annual lending is between \$120-130 million. For the past two years, Yemen has benefited from International Development Association (IDA) grants;

previously World Bank assistance took the form of credits. The Bank's assistance pledged at the 2006 Consultative Group (CG) meeting on Yemen account for about 8 percent of total pledges (compared to about 50 percent prior to the CG). The International Monetary Fund (IMF) does not have a permanent presence in Yemen but provides advisory services via the Article IV process. The last Article IV consultations took place from October 21 to November 3, 2008 in Sanaa.

The Bank's objective in Yemen is to facilitate Yemen's further progress toward the Millennium Development Goals. These goals, in turn, are in sync with the ROYG's stated goals, as articulated in the National Reform Agenda, the focus of which is on human development, including education and health; water resource management; and good governance. The Bank measures the effectiveness of its programs in accordance with institutional standards, i.e., it produces Project Completion Reports when a project closes. The Bank brings out a new team not involved in the planning or implementation of the project to assess the World Bank's role and the government's role and solicits government comments. Before the report is made public, it is subject to review by the Independent Evaluation Department at the World Bank in Washington.

#### **Need for Private Sector Investment**

Increased foreign direct investment (FDI), as well as domestic investment, will be critical if Yemen is to create needed jobs—and hope for the future—among its increasing population of young job seekers. According to the 2009 report of the UN Conference on Trade and Development, Yemen is experiencing a downward trend in FDI inflows. Gross domestic investment as a percentage of GDP has also declined for the past two years. In the face of falling oil revenues and its rapidly depleting oil sector, the ROYG had been putting its hopes in the development of the liquefied natural gas (LNG) sector. As the Country Director for the International Finance Corporation put it, however, the slump in the international market for LNG renders this strategy no longer viable. He made the case that, “If Yemen's economic development prospects are to have any success, it will be as the result of very time-consuming, hard-slogging micro-financing.” There are no quick fixes. Right now, he said, there is no coordination among donors on private sector development—a reality he intended to change. Nor were there any micro-finance banks based in Yemen, although one—al-Amal—has announced plans to open there.

#### *Recommendation:*

*To the extent that micro-finance banks need to be induced to enter the Yemeni market, international donors should provide incentives. Similarly, the international donor community in Yemen and the ROYG itself should focus more attention—and resources—on private sector development. The IFC has thus far provided business education training to 26,000 graduates, many of whom will become trainers themselves. Such activities should be expanded and built upon.*

### **World Bank Investigative Panel: Oversight Run Amuck**

On June 18, 2009, the World Bank issued a 167-page World Bank Inspection Panel Report on an Institutional Reform Development Policy Grant, in which a poorly documented complaint on the part of a Yemen-based non-governmental organization was scrutinized in minute detail.<sup>14</sup> Asked about how many staff hours had been spent on reviewing and explaining the Bank's actions in response to the group's ill-conceived accusations, the Bank's Resident Director admitted that an inordinate amount of staff time and effort, including at the executive level, had gone into this process. He explained that there had been political pressure in Washington to look into this case, since it was the first complaint ever received from the Middle East/North African region.

#### *Recommendation:*

*This case was not worthy of the substantial staff time and resources that the Bank expended in responding to it. The U.S. Executive Director to the World Bank should weigh in with Bank leadership to ensure that some threshold of credibility is established prior to commitment of Bank resources in investigative panels.*

### **Parliamentary Oversight**

While the Yemeni Parliament does not challenge the Executive Branch in exercising its oversight prerogatives, it has been more vigorous with respect to reviewing World Bank lending. In some cases, this has led to delays in project implementation, in one recent case, a 24-month delay. Nonetheless, the World Bank Resident Representative welcomed the Parliamentary role as "healthy."

### **Empowering Reform From Within**

Unhappy with the slow pace and uneven results of Yemen's reform efforts, a small group of largely Western-educated and well-connected intellectuals and technocrats, under the auspices of the President's son, developed a targeted action plan to focus the government's short- to medium-term reform efforts. This group took into consideration the Government's Third Five-Year Plan for Poverty Reduction, as well as other existing plans and strategies, but determined that these various plans sought to take on too many challenges at once. They therefore developed 10 priorities on which the ROYG should focus for the next year. Indeed, when staff asked the Vice Minister of Planning and International Cooperation to describe the ROYG's development strategy, he said that this 10-point plan was now the operating document. The 10 points are not perfect; they do not address head on the need to eliminate government subsidies for diesel, for example, relying instead on a strategy of seeking lower prices on the international market to reduce costs. That said, because this plan is "locally owned," in the words of one of its drafters, it stands a greater chance of success than reforms mandated by foreign donors.

<sup>14</sup>The Inspection Panel: Report No. 48995-YE Report and Recommendation: Yemen: Institutional Reform Development Policy Grant (Grant No. H336-YEM), June 18, 2009.

*Recommendation:*

*The international donor community should work to empower and support such locally owned reform processes.*

## LEBANON

## BACKGROUND

Lebanon and the United States have traditionally enjoyed close relations, reflecting the countries' cultural and political ties, as well as the bonds cultivated by a large Lebanese-American community. Lebanon is a democracy, but the country's democratic processes and institutions reflect entrenched confessional political affiliations. By agreement since independence in 1943, and affirmed in the 1989 Ta'if Agreement, the country's top three constitutional positions are reserved for citizens from specific religious groups: the President is Maronite Christian; the Prime Minister is Sunni Muslim; and the Speaker of Parliament is Shi'a Muslim. Confessional politics can be messy, as was seen in the lengthy period of negotiations to form a national unity government following the June 7th elections. The result was five months of inertia, as the caretaker government was not empowered to make significant decisions, including on security assistance and international financial institution lending.

Further complicating matters, the Parliament has not passed a budget for the past five years. Official guidance allows Ministries to spend 1/12 of the previous year's expenditures each month, but a widening deficit suggests that more is being spent. Moreover, the substantial off-budget aid that the GOL is believed to receive from Saudi Arabia is not accounted for, contributing to a general lack of fiscal accountability.<sup>15</sup>

It must also be taken into consideration that Lebanon is still recovering from the 2006 war between Israel and Hizballah, which left much of southern Lebanon and other parts of the country in ruins. The 2007 fighting between Lebanese Armed Forces and Fatah al-Islam at the Nahr al-Barid Palestinian refugee camp led to further casualties and damage. According to the State Department, over \$3.7 billion in civilian infrastructure was destroyed in both conflicts and thousands were displaced. Postwar donors' conferences in Stockholm in August 2006 and Paris in 2007 resulted in about \$8 billion in pledges of mostly in-kind assistance, much of which was conditioned on economic reforms. U.S. assistance to Lebanon increased markedly after the 2006 war and even more so in the aftermath of the Nahr al-Barid conflict.

Finally, no study of the impact of U.S. programs or assistance in Lebanon would be complete without taking into consideration the constraints imposed by the security situation there. Specifically, all U.S. Direct Hire employees must live on the Embassy compound. The Embassy's current facility is operating at full capacity with only very limited options for expansion. Employees' movements outside the compound must take place in armored vehicles with

<sup>15</sup>For a general discussion on the need for fiscal transparency in Lebanon, see the 2009 report on Lebanon by the e-Standards Forum of the Financial Standards Foundation: <http://estandardsforum.org/lebanon/standards/code-of-good-practices-on-transparency-in-fiscal-policy>.



bodyguard protection, for which there are finite resources. In the words of the Deputy Chief of Mission, this reality “effects everything we do—it limits everything we do.” For example, the USAID Mission is comprised of two US Direct Hires, but programs comparable in magnitude to the \$100 million it will soon be managing would be staffed by many more in other countries. All too often, requests for official visits to Lebanon end up being denied, simply because there is not sufficient space to house the visitors. The Embassy is currently engaged in negotiations to purchase a property on which to build a new Embassy compound (NEC) that would be able to meet anticipated security and infrastructure needs, and the State Department has identified funding for this construction starting in 2011.

*Recommendation:*

*Given the importance of U.S. interests in Lebanon and the constraints placed on pursuing those interests by the current infrastructure limitations, the Department should, within existing budgetary resources, make the acquisition of land and building of a NEC a high priority, applying diplomatic pressure on those in a position to influence this outcome, as appropriate.*

RED FLAGS

- The problem of official corruption was a recurring theme during this visit, with several interlocutors pointing to an overall lack of transparency, fueled by a lack of accountability in the official budget process, as well as off-budget revenues and expenditures. Many observers also perceive an unhealthy influence of the country’s confessional political system on the apportionment of state resources. Speaking to the specific problems of corruption in the management of international donor assistance, one official charged that, “The entire system is corrupt and inefficient.” He cited as examples cases in which waste water treatment plants were built with no connection to houses; roads were built before plumbing had been installed, requiring the newly constructed roads to be torn up and re-constructed. He attributed some of these problems to a “shopping list approach” to foreign aid, and the absence of national priorities or a commitment to exploiting synergies.
- Manipulation of Crises: One interlocutor argued that, in the face of a succession of crises, the GOL has become a master at manipulating international donors, relying on hand-outs rather than taking on much-needed structural reforms. “The whole international community has been blackmailed for ages. We don’t need more money. We need to change the rules of the game. We need to change the structure. We need to break our dependence on foreign aid.”

*Recommendation:*

*Without minimizing the seriousness of the crises that Lebanon has confronted in recent years, the United States Government and other international donors should guard*

*against this phenomenon. Moreover, it should be kept in mind that, while crises can be used an excuse for inaction, they can also be catalysts for addressing difficult issues.*

#### U.S. SECURITY ASSISTANCE TO LEBANON

##### **Trends in U.S. Assistance**

As documented in the chart below, U.S. assistance to Lebanon has mushroomed in recent years. As recently as FY 2004, the United States provided Lebanon with little security assistance. There was no Foreign Military Financing (FMF) program, and funds for International Military Education and Training (IMET) were limited to \$800,000. The events of 2006 changed that. Hizballah acted as an independent militia in provoking and conducting war with Israel in the summer; it later sought to topple Lebanon's elected government. Thus, the United States vastly increased its security assistance to Lebanon to help enhance the effectiveness of its armed forces and their ability to rein in Hizballah. This assistance has taken the form of FMF, which has increased dramatically; and IMET, which has increased only moderately; in addition to significant infusions of assistance under Sections 1206, of which Lebanon has been one of the biggest beneficiaries; and 1207 of the Defense Authorization Act. In addition, in recent years Lebanon has benefited from over \$60 million in International Narcotics Control and Law Enforcement Assistance (INCLE) and about \$19 million in Nonproliferation, Anti-terrorism, Demining, and related programs (NADR).

Economic Support Funds (ESF) have also increased appreciably. From a baseline of \$33.2 million in ESF in FY 2004, the figure jumped to \$61.9 million in FY 2006 and \$137.4 million in FY 2007. ESF in FY 2008 and 2009 was also substantial, but less than the 2007 peak figure. Most USAID funding in Lebanon has been provided through the Office of Transition Initiatives, which went from zero in FY 2005 for \$39.7 million in FY 2006, and \$25.7 million in FY 2007. Food aid also spiked during FY 2006.

##### **Continuing Oversight Leads to Improved Operations**

Because Lebanon has been a major recipient of security assistance, it has already come under substantial oversight.<sup>19</sup> These efforts have recognized the timeliness and effectiveness of U.S. security assistance, pointing to tactical data, such as the number of M-113 tanks that were made mission-capable as a result of Section 1206 assistance, and the number of bombing raids and medical evacuation flights flown with UH-1's in the Nahr al-Barid conflict. In addition, the Lebanese Armed Forces (LAF) earned high marks for following up on the 1206 program with FMF and FMS investment to make 1206-funded capabilities sustainable over the long

<sup>19</sup>In addition to the committee's own Embassies as Command Posts in the Anti-Terror Campaign: A Report to Members of the Committee on Foreign Relations, United States Senate, of December 15, 2006, see Interagency Evaluation of the 1206 Global Train and Equip Program, Inspectors General of the U.S. Department of Defense and U.S. Department of State, August 31, 2009; as well as Assessments of the Impact of 1206-Funded Projects in Selected Countries: Lebanon, Pakistan, Yemen, Sao Tome and Principe, by Eric Thompson and Patricio Asfura-Heim for CNA Analysis and Solutions, July 2008. The Government Accountability Office is also currently undertaking a review of Section 1206, at the conclusion of which it will publish its findings.

term. Not surprisingly, the reports also identified problems, particularly from the early days of Section 1206 implementation. The purpose of this report is not to re-hash previously published findings. However, staff did ask interlocutors in Lebanon about the extent to which they have made progress in resolving the more serious problems identified in these reports. For example:

- The DOD and State Inspectors General (IGs) identified a “lack of cost management” in one case in which the USG paid \$779,000 in fees to deliver spare parts for UH-1H helicopters valued at \$598,000. In addition, the IGs determined that over \$4 million in Section 1206 assistance had not been obligated prior to the end of the fiscal year—“a lost opportunity to provide the vetted and approved assistance.” According to representatives of Embassy Beirut’s Office of Defense Cooperation (ODC), in both cases, problems stemmed from the difficulties associated with obligating the one-year monies of Section 1206. Although such difficulties persist, they reported that the Embassy has been successful in streamlining the 1206 process.
- The ODC is working with the LAF to overcome one of the other deficiencies cited in the IGs’ report, i.e., a crippling lack of spare parts and tack shoes for the LAF’s M-113 armored personnel carriers. They have opened a new case to refurbish the M-113s, since the spare parts that had been envisioned in an earlier 1206 case ended up being obsolete.
- The IGs identified multiple discrepancies between information available to DSCA and ODC about the status of 1206 cases. In several cases, DSCA reported that assistance that had been delivered to the Lebanese Armed Forces, while ODC reported that such assistance had not been delivered. The fact that the IGs were not able to reconcile these differences was telling. DSCA and ODC/Beirut have been working to address this problem through weekly conference calls.

*Recommendation:*

*The Administration should develop a centralized information management system, with appropriate checks and balances for accuracy, to accurately track the status of all Section 1206 assistance.*

U.S. Assistance to Lebanon (In Millions of Historic Dollars) <sup>16</sup>

	2004	2005	2006	2007	2008	2009	2010 Request
Development Assistance .....	0.5	3.8	3.5	6.4	0	0	0
Food Aid .....	0	0.1	13.1	0.4	0	0	0
Economic Support Funds .....	33.2	18.7	61.9	137.4	44.6	67.5	109.0
Foreign Military Financing .....	0	0	29.7	4.8+ <sup>17</sup> 220	6.9	159.7+ 74	100
International Military Education Training .....	0.7	0.8	0.8	0.9	1.5	2.1	2.5
Nonproliferation, Antiterrorism, Demining and Related Programs .....	0.1	0.1	1.9	9.8	4.7	4.6	6.8
International Narcotics Control and Law Enforcement .....	0	0	0	0.2+ <sup>18</sup> 60	0.5	6.0	20.0
NDAA Section 1206 .....	0	0	10.5	30.6	15.1	49.3	0
NDAA Section 1207 .....	0	0	10.0	0	10.0	10.0	0

<sup>16</sup> To best reflect how much money was spent (not just planned for), where possible data reflects obligations, per fiscal year. Because of different U.S. Government accounting practices, however, this is not always possible. Therefore, data for Sections 1206 and 1207, as well as the monies appropriated in the 2007 and 2009 supplemental spending bills, reflects allocations, with data provided by the State Department's Office of the Coordinator for Foreign Assistance and CRS. All other data reflects obligations per fiscal year, with data through 2007 per the U.S. Agency for International Development's Greenbook (<http://gbkheads.usaidlnet.gov>). Data since that time comes from the Congressional Research Service (CRS).

<sup>17</sup> In supplemental funding bills for FYs 2007 and 2009, Lebanon benefited from additional allocations for FMF in the amounts of \$220 million and \$74 million, respectively.

<sup>18</sup> Similarly, supplemental funding for FY 2007 allowed for allocation of an additional \$60 million in INCLE funding.

### **Internal and External Coordination**

The Embassy demonstrated excellent internal coordination on foreign assistance, with the Ambassador and DCM actively overseeing policy and coordination on the full range of issues associated with multiple security, reconstruction, and development assistance programs. On security issues, either the Ambassador or DCM chairs an interagency core group that meets weekly. In addition, the Embassy convened a group of international donors of security assistance to coordinate plans and action in that realm. Staff had the opportunity to meet with this group, which gathers every six-eight weeks, and which has sub-groups on border security, rule of law assistance, and assistance to the LAF. The U.S. Embassy maintains a matrix to track all international security assistance that it shares with that group.

As a result of this coordination, there was widespread agreement among donors that the Lebanese Government, and the LAF in particular, needs to develop a national security strategy. In the words of a British defense official, thus far, the LAF's approach has been tactical -- built around the kinds of materiel and other assistance it has been able to receive from donors. His Spanish counterpart agreed, concluding that the contrary views sometimes expressed by the Defense Minister and the LAF Commander were reflective of the absence of a grand strategy. Donors recognized that confessional loyalties are a key factor.

### **FMF vs. 1206**

U.S. security assistance to Lebanon has made a qualitative difference in the LAF's counter-terrorism abilities. In the words of an ODC representative, "We've improved their mobility, their ability to communicate, and their ability to counter terrorist operations. We have helped prepare them for whatever the next round may hold." This self-assessment is backed up by well-documented examples cited in the above-cited oversight reports. Asked for a more recent example of a tangible impact U.S. assistance had had on the ground, Embassy officers pointed to a recent incident in which LAF troops were able to use night vision goggles provided under this program to find and capture seven terrorists affiliated with Fatah al-Islam who had escaped from Roumieh prison.

The question is: what is the best vehicle for providing security assistance? The Head of Planning for the LAF, who was well aware of the differences between the various pots of money, expressed a preference for 1206, which he perceived as "more efficient; more timely." He indicated that the LAF looks to FMF for sustainment of 1206-funded equipment. Ideally, he said, the Government of Lebanon should fund such sustainment expenses out of its own budget. The current situation in Lebanon precludes that, however; he explained that the \$30 million he has been promised for 2009 will meet only a fraction of the LAF's equipment and sustainment needs.

Asked about the comparative advantages offered by FMF and 1206, representatives from the Office of Defense Cooperation indicated that, all things being equal, they preferred FMF as a vehicle for delivering security assistance. Even though FMF processes are slower than 1206, they welcomed the predictability of FMF, which

is budgeted for each year, as opposed to 1206 which are awarded through a competitive process. Although 1206-funded assistance can be delivered more quickly, they said that the lack of certainty about whether individual 1206 program proposals will be approved detracted from the program's overall effectiveness.

ODC representatives indicated that multi-year funding for 1206 would help make the program more effective.<sup>20</sup> In the past, the lengthy lead time associated with preparing 1206 proposals and getting them approved resulted in Embassy Beirut's 1206-funded programs not being notified to Congress until May, allowing as little as three months for contracting. This kind of timeline is unrealistic, they said. In FY 2009, the Embassy resubmitted proposals that had not been approved the previous year.

*Recommendation:*

*While this re-submission resulted in a speeding up of the 1206 process at Embassy Beirut this year, the tactic of re-submitting 1206 proposals that were not funded from a previous year raises questions about immediacy and the extent of the emerging nature of the threats that those proposals were designed to help the host country confront.*

As an example of the interconnectedness that is sometimes seen between security assistance provided under Section 1206 and more traditional forms of security assistance, the ODC Chief noted that he had inquired whether 1206 funds could be used to cover Joint Combined Exercises and Training (JCET) programs in the area of counterterrorism. When ODC checked with counterparts with the Joint Chief of Staff, it was determined that JCETs, which are funded under Title X, Section 2011 funding, cannot be funded with Section 1206 monies.

*Recommendation:*

*Staff believes that this was the proper call, since JCETs, even if for the purpose of improving host countries' counterterrorism capabilities, represent a long-term training investment; whereas Section 1206 was designed to meet short-term, immediate counter-terrorism needs.*

One example of a successful and innovative 1206-funded assistance program is the provision to the LAF of the "Lebanese Armed Caravan," of up to four Cessna aircraft modified to provide close air support in counter-terrorism operations. Staff had the opportunity to make a site visit to the airfield to view the first such aircraft provided and receive a briefing on its applications. The assistance package included a significant training component. This assistance resulted in a qualitative boost in the LAF's capabilities and has been extremely well-received.

Asked if there had been cases in which 1206-or FMF-funded programs had not been well conceived, ODC representatives pointed to a 1206 case involving D9 armored bulldozers. Because the arma-

<sup>20</sup> See footnote 12. The referenced CRS report on "Security Assistance Reform: Section 1206 Background and Issues for Congress," which explains that in the FY 2009 Defense Authorization Act, the Congress provided authority for Section 1206 funds to be used in consecutive fiscal years, i.e., funds for a program that begins in one fiscal year may be used for that program in the next fiscal year.

ment had been carried out in Israel, the bulldozers would have been undesirable in Lebanon. As noted above, the United States opposes the Arab League boycott of Israel, which Lebanon observes. Fortunately, the Country Team caught the problem before the case moved forward.

### **Assistance to the Internal Security Forces**

The United States has understandably focused the bulk of its security assistance on the LAF, which is responsible for border security, counterterrorism, and national defense. In addition, however, since FY 2007, the USG has also supported Lebanon's police, or Internal Security Forces (ISF), which is responsible for maintaining public order. This assistance, funded under the International Narcotics Control and Law Enforcement (INCLE) and Section 1207, is designed to help professionalize what has been a chronically underfunded institution lacking in credibility on the Lebanese street. Staff had the opportunity to visit the INCLE-funded police training center, including newly refurbished buildings and some currently under construction. Staff observed an ongoing train-the-trainer course in community policing, and heard positive testimonials from the trainees.

According to the head of the ISF academy, the ISF started out with 7 instructors; as a result of this assistance they now have 29. The USG-provided courses include a basic training class for new recruits; a course for supervisors; a tactical training course; and a community policing program, a new concept in Lebanon that was thought to be appropriate for high-tension communities, including, ultimately, Palestinian refugee camps such as Nahr al-Barid. Police commanders expressed appreciation for this U.S. assistance, which they credited with having a positive effect, as evidenced by increased mobility for police units, which was inferred as signifying greater acceptance of the ISF on the part of local residents.

### **Reining in Contractor Expenses**

The security and infrastructure realities described above require that the Embassy rely on contractors to implement many aspects of U.S. security assistance programs. Because contractors are not U.S. direct hire employees, they do not fall under Chief of Mission authority and thus are not required to stay on the Embassy compound. The downside, according to ODC representatives, is that an inordinate proportion of U.S. assistance is devoted to contractors' expenses. "We've let the defense contractors go wild" in the words of one employee. A new Embassy compound that will be able to accommodate more official visitors will help mitigate this phenomenon.

### **Constructive Criticism from Host Government End Users**

The LAF's Head of Planning expressed gratitude for U.S. security assistance, tinged by some frustration over the long lead time required in some cases. For example, the above-mentioned need to refurbish over 1200 armored personnel carriers had taken much longer than had been anticipated. The provision of spare tires for light trucks had also been delayed. Some of the radios that had been promised in 2007 were reported to still not be in use, because

they are subject to a worldwide contract that has not yet been awarded. Uniforms that had been provided to the LAF Rangers were of the desert pattern, rather than the preferred urban design, which is more appropriate for the kind of fighting in which LAF troops are likely to engage.

## IFI LENDING

### **Economic Situation**

The political stalemate and sporadic sectarian violence that Lebanon has seen in the past several years have greatly hampered economic activity. That said, Lebanon's free market economy is often credited for its resilience in the face of adversity, and indeed many international economists have assessed that the economy has performed reasonably well in the face of the international financial crisis. Many commentators site official Government statistics, which project the 2009 GDP growth rate at 8.5 percent. Similarly, Lebanon has been able to attract substantial domestic and international investment, in spite of the international financial crisis.<sup>21</sup> Some GOL officials and economic analysts have cast doubt on the credibility of the official growth rate, however, and they point out that the increase in investment is reliant on the country's high interest rates. Moreover, the IMF has pointed out both publicly and privately that Lebanon's high public debt to GDP ratio remains a key vulnerability.<sup>22</sup>

### **Overview of International Donor Assistance**

The seeds of Lebanon's enduring public debt problem were sown in the 1990s during the massive rebuilding effort that was launched after the civil war. Although the Government committed to a variety of economic reforms as part of the November 2002 Paris II donors conference, at which \$4.4 billion in assistance was pledged, little progress was made in addressing mounting public debt, which reached a high of about 180 percent of GDP in 2006. The 2006 war between Israel and Hizballah, followed by the 2007 fighting at the Nahr al-Barid Palestinian refugee camp led to further destruction and economic pressures. GOL development priorities are outlined in a five-year action plan approved by the Cabinet. Focus areas include: water supply, waste water management, electricity, irrigation, and public infrastructure.

Donors' conferences in Stockholm in 2006 and Paris in 2007 ("Paris III") resulted in about \$8 billion in pledges, mostly concessional in nature.<sup>23</sup> The lack of budget transparency in Lebanon makes the percentage of national budget funded by foreign assistance difficult to determine. Estimates vary between 25 and 35 percent. Much of the assistance pledged at Paris III was contin-

<sup>21</sup> According to the IMF's 2009 Article IV Consultation Mission in Lebanon's Concluding Statement of March 5, 2009 (<http://www.imf.org/external/np/ms/2009/030509.htm>), Lebanon's gross reserves for 2009 were projected at over \$20 billion, 47% of which were represented as foreign currency deposits in the banking system.

<sup>22</sup> *Ibid.* IMF officials echoed this sentiment in private meetings with staff. They pointed out that, although the ratio has fallen to 160% from a high of 180% in 2006, it remained the highest in the world and is not sustainable over the long term. In a November 2009 briefing of SFRC staff, State Department officials indicated that the GOL's debt-GDP ratio had fallen further to about 150%, in part as a result of exchange rate fluctuations.

<sup>23</sup> Of the approximate \$7 billion pledged at Paris III, grants comprised about \$1.5 billion.



gent on the Government meeting agreed economic reform benchmarks, including the elimination of government subsidies for electricity and privatizations of state-owned industries, such as telecommunications. Few of those benchmarks have been met, however; in particular, Paris III reforms that required legislative action went unfulfilled as the Parliament became embroiled in a prolonged political stalemate. As a result, many pledges have not been realized.<sup>24</sup> With respect to the low rate of compliance with Paris III conditionality, one representative of an international financial institution questioned whether the international donor community should have been less ambitious.

### **The World Bank**

According to the World Bank Country Director, the Bank's current program in Lebanon is valued at \$400 million. The program is focused on infrastructure and basic services, including the provision of electricity and water outside of Beirut; social sector support, including education and health; and overall financial management, starting with Public Financial Management (PFM) reforms. The 2007-2009 Interim Strategy Note (ISN) was comprised mostly of budget support, driven by the Paris III agenda, but as Bank officials told staff, the two years of the ISN program did not allow sufficient time to bring about the kinds of structural reforms that are needed in the Lebanese economy. They reported that there is some internal debate about the right ratio between budget support for structural reforms that are not likely to materialize in the near future, versus investment lending. Bank officials reported that they were working on a new Country Partnership Strategy (CPS), but that no figure had yet been attached to it. Negotiations could not take place until a new government had been formed.

Asked about the Bank's greatest successes, Bank officials told staff that, in the absence of an environment where structural reforms could be taken on, they were pleased with the progress they have been able to make through their technical assistance programs, especially the Public Financial Management (PFM) project, the aim of which is to bring a greater degree of transparency to the budget process. They explained that Lebanon's dual budget process has inherent disconnects between the planning and execution phases and is characterized by an overall lack of accountability. Through the PFM capacity-building project, the Bank has funded the provision of advisors to work directly in the Prime Minister's office, as well as the Ministries of Finance and Social Affairs. Bank staff credited this technical assistance with helping to build a culture of transparency in the capital spending process, and with spurring debate at the societal level about energy sector reform.

Asked to comment on the obstacles to progress, one bank official pointed to the constraints of the domestic political situation: "One lesson we learn over and over again is how difficult it is to judge what will be politically feasible." For example, he said, the second tranche of the last ISN was never disbursed, because the GOL did not meet expectations with respect to energy sector reforms in the

<sup>24</sup> According to the Paris III progress report issued in December 2008, By the end of 2008, 71% (\$5.384 billion) of the Paris III pledges had been signed into agreements.

first tranche. In addition, they pointed out that all international assistance is funneled through the Council for Development and Reconstruction, which falls under the Prime Minister's office. Some interlocutors faulted the CDR for managing international assistance for the political benefit of the Prime Minister. Indeed, in a separate meeting, one GOL official asserted that the CDR-Prime Ministry relationship effectively circumvents the prerogatives of services-providing ministries, and is inconsistent with the intent of the constitution.

### **The IMF in Lebanon**

The IMF opened a regional office in Beirut in January 2008, a move that, in the words of one official, was designed to signal improved relations. According to the IMF Resident Representative, the Fund's principal objective in Lebanon has been to help the GOL reduce its debt over time, according to the framework of Paris III. The Fund began an Emergency Post-conflict Assistance (EPCA) program in 2007, which has since come to an end. The IMF Resident Director explained that, in the absence of a government of national unity with whom to partner on implementing the Paris III agenda, there was no ongoing program. According to the IMF Resident Representative, the IMF would like to negotiate a stand-by arrangement, when possible. In the meantime, cognizant that the lack of a government could become an excuse for inaction, the Fund has proposed a staff monitored program.

### **Oversight**

As stated above, the Council for Development and Reconstruction has a mandate to execute all projects that have been agreed by the Cabinet; negotiate loans to finance the Cabinet-approved development goals; and develop overall plans and programs for sustainable development. Asked about opportunities for oversight of the foreign assistance process, GOL officials cited two mechanisms. The Lebanese Parliament must approve loans over a certain threshold. Indeed, according to a CDR official, about \$1 billion in loans was awaiting Parliamentary approval at the time of this visit. After assistance is disbursed, the Lebanese Cour de Comptes (the equivalent of a Government Accountability Office) conducts audits.

#### *Recommendation:*

*As one interlocutor pointed out, the GOL would benefit from some kind of pre-disbursement audit, rather than rely on the ex post facto audits of the Cour de Comptes.*

## **APPENDIXES**

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### **APPENDIX I: INTERLOCUTORS IN YEMEN**

Ambassador Stephen Seche and DCM Angie Bryan  
Acting Political Section Chief Faith Meyers and Economic Officer  
Roland McCay  
Special Operations, Central Command Forward Lt. Col. Rick  
Prins  
Office of Military Cooperation Deputy Lt. Col. Brit Smeal and  
FMF Officer Maj. Greg Mitchell  
Representatives of Yemeni non-governmental organizations  
working on conflict resolution issues  
Representatives of international organizations working on hu-  
manitarian assistance and refugee affairs  
USAID Mission Director Dr. Jeff Ashley and Deputy Director  
Sean Jones  
Deputy Finance Minister Jallal Yaqoub  
World Bank Resident Director Benson Ateng  
International Finance Corporation Country Director Raymond  
Conway  
Vice Minister of Planning and International Cooperation Hisham  
Sharaf  
Chairman, Yemeni Coast Guard Brigadier-General Ali Rassea  
Yemeni Air Force Col. Sheing  
Members of the Embassy Sanaa Military Information Support  
Team (MIST)

## APPENDIX II: INTERLOCUTORS IN LEBANON

Ambassador Michele Sisson and DCM Tom Daughton  
Office of Defense Cooperation officials, led by Chief Lt. Col. Jeffrey Pannaman  
Meeting with international donors of security assistance  
USAID Mission Director Denise Herbol  
Internal Security Forces General Munir Chaaban  
Visit to the INL-funded Police Academy with U.S. contractor training  
Visit to the Lebanese Armed Forces' "Rangers" base.  
Regional Security Officer Paul Bauer  
Management Officer Christian Charette  
Political/Military Affairs Officer Mike Brennan  
IMF Resident Representative Eric Mottu  
World Bank Economist Sebnem Akkaya and Donor Coordination Chief Stefano Mocci  
Dr. Wafaa Charafeddine, Council for Development and Reconstruction  
Central Bank Director of Financial Operations Youssef El-Khalil  
Ministry of Finance Director General Alain Bifani  
Public Affairs Officer Ryan Gliha

## APPENDIX III: ACRONYMS

AQAP: Al-Qaeda in the Arabian Peninsula  
CG: Consultative Group  
CDR: Council for Development and Reconstruction  
CPS: Country Partnership Strategy  
DSCA: Defense Security Cooperation Agency  
DCM: Deputy Chief of Mission  
EDA: Excess Defense Articles  
EPCA: Emergency Post-conflict Assistance  
ESF: Economic Support Funds  
FDI: Foreign Direct Investment  
FMF: Foreign Military Financing  
GDP: Gross Domestic Product  
GOL: Government of Lebanon  
IFI: International Financial Institution  
IDA: International Development Association  
INCLE: International  
INL: State Department Bureau of International Narcotics and  
Law Enforcement Affairs  
IMF: International Monetary Fund  
ISN: Interim Strategy Note  
LAF: Lebanese Armed Forces  
LDC: Least Developed Country  
LNG: Liquefied Natural Gas  
MIST: Military Information Support Team  
NADR: Nonproliferation, Antiterrorism, Demining and Related  
Programs  
NEC: New Embassy Compound  
ODC or OMC: An Embassy's Office of Defense Cooperation,  
sometimes called Office of Military Cooperation  
PMF: Public Financial Management  
ROYG: Republic of Yemen Government  
SOCCENT: Special Operations Component of the U.S. Central  
Command  
YSOF: Yemeni Special Operations Forces  
USAID: U.S. Agency for International Development  
USG: U.S. Government