



# Egypt in Transition

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## Summary

On February 11, 2011, President Hosni Mubarak resigned from the presidency after 29 years in power. For 18 days, a popular peaceful uprising spread across Egypt and ultimately forced Mubarak to cede power to the military. How Egypt transitions to a more democratic system in the months ahead will have major implications for U.S. foreign policy in the Middle East and for other countries in the region ruled by monarchs and dictators.

This report provides a brief overview of the transition underway and information on U.S. foreign aid to Egypt. U.S. policy toward Egypt has long been framed as an investment in regional stability, built primarily on long-running military cooperation and sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as a moderating influence in the Middle East. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations and these debates are likely to influence consideration of appropriations and authorization legislation in the 112<sup>th</sup> Congress. The United States has provided Egypt with an annual average of \$2 billion in economic and military foreign assistance since 1979. For FY2012, the Obama Administration has requested \$1.551 billion in total aid to Egypt.

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## **Egypt in Transition**

Egypt is undergoing a historic political transition after a popular revolution which began on January 25 forced the resignation of former President Hosni Mubarak on February 11. The Supreme Council of the Egyptian Armed Forces (SCAF) has taken temporary control of the day-to-day affairs of the country and is overseeing a delicate transition to democracy, driven largely by the demands of the youth protest movement.

### **Egypt After Mubarak: New Faces, Old Problems**

Egypt's "January 25 Revolution" has not only overthrown a government, but it has remarkably reinvigorated Egyptian political life. Numerous press reports over the last six months have recounted feelings of popular empowerment and pride inspired by the exploits of Egypt's young protestors. Even after former President Hosni Mubarak's resignation on February 11, protests in Cairo's Tahrir Square have continued on issues ranging from women's rights to fair wages. Pamphlets, public service ads, bumper stickers, and posters litter Cairo with the platforms of new political parties and messages urging fellow citizens to "change." For the first time, public polling on most sensitive issues can be conducted in Egypt in a relatively free environment. One U.S. State Department opinion poll in the spring of 2011 revealed that 70% of Egyptians say their country is generally better off now compared to before the uprising, a complete reversal from pre-revolution Egypt when 71% said Egypt was headed in the wrong direction. Optimism has been in short supply for decades, and the revolution has unleashed a participatory desire that had been pent up during the stagnant years of Mubarak rule.

However, rapid political change also has heightened concerns about many of Egypt's longstanding social and economic problems, and some of those problems have been exacerbated in the chaos of the country's post revolutionary environment. The economy is now contracting, the government is hemorrhaging foreign exchange, and investment in Egypt has dropped precipitously. Crime has risen in many areas due to the dissolution of police forces, many of whom were reviled by ordinary Egyptians but are now needed to restore order. Religious conservatism and sectarian tension also has grown, and the country has experienced several deadly Coptic-Muslim clashes since February 11.

Though many Egyptians fear instability, others see a revolution that is incomplete in light of continued military rule. Others experts argue that Egypt's transition is underway, but may take years if not decades. Pessimists forecast that Egypt's emerging democracy will crumble under the weight of its socio-economic problems, believing that future governments will be burdened by high debt, a bloated welfare state and military, and a largely uneducated, unproductive workforce. On the other hand, optimists charge that though it may take time, an Egyptian democracy will create the necessary foundation for growth and that one day, the country may truly be considered a regional power and not just by Egyptians themselves. Optimists commonly point to Turkey, a Muslim-majority nation with a robust economy ruled by a moderate Islamist party, as a possible model for Egypt to emulate.

Figure I. Map of Egypt



## The Transition: From Military Rule to Elections

### *The Supreme Council of the Armed Forces (SCAF)*

Over the course of the last six months, Egyptian protestors and the country's Supreme Council of the Armed Forces (SCAF) which claims to work on their behalf, have overturned former President Hosni Mubarak's entire political order. The SCAF is a 20-man military council and has made decisions by decree in consultation with various political forces, and some believe in fear of instigating further public unrest. In order to appease public opinion and Egyptians' desire for justice, the SCAF has prosecuted many members of the old regime. The former president himself is now under house arrest and will soon stand trial for the pre-meditated killing of nearly 846 Egyptians who died during the early 2011 uprising. Former cabinet ministers, businessmen, and Mubarak family members also have been arrested and await trial. The SCAF also has dissolved the former ruling National Democratic Party (NDP) in order to allay fears of a counter revolution by former regime allies. The Protestor-Military dynamic, though it has been rife with discord and,

at times, mistrust, has nonetheless worked to rid the country of many of the symbols of the former regime.

Still, by its own admission, the SCAF has emphasized that it has no desire to rule Egypt permanently, as some officers may fear that public good will may turn against them the longer they remain in control. The SCAF also has emphasized that Egypt will adhere to all international treaties and obligations, a reference to its plans to uphold the 1979 peace treaty with Israel. SCAF spokespeople have reiterated that the military has no plans to field a favored candidate for presidential elections. Critics charge that though the SCAF has listened to demonstrator demands, it has drawn its own red lines over its survival as a favored institution and has no interest in transparency over its budget and vast economic interests. The SCAF has warned news organizations that it is illegal to criticize the military in the press. A military court sentenced a blogger (Maikel Nabil) to three years in prison for insulting the military. Others have criticized the SCAF over press reports that female detainees in military custody were subject to “virginity tests” by doctors. Military police occasionally have clashed with protestors leading to one death on April 8 and hundreds of arrests.

Amidst the contentious but peaceful wrangling over Egypt’s future, the SCAF is working to transition Egypt to a democracy by

- **Dismantling the Mubarak Regime.** Since February 11, the SCAF has shuffled the cabinet twice, most recently in early March when it fired three holdovers from the Mubarak era: Prime Minister Ahmed Shafiq, Foreign Minister Ahmed Aboul Gheit, and Justice Minister Mamdouh Marei. In addition, a number of former regime officials and businessmen have been either dismissed, arrested, or placed under investigation, including Habib al Adly, the former interior minister, and Ahmed Ezz, the former chairman of the national assembly’s budget committee and the owner of Ezz Steel. President Mubarak is under house arrest, and Egypt’s Ministry of Justice is investigating his family’s finances. Although the former president has been confined to Sharm el-Sheikh Hospital due to continued reports of ill health, his sons have been detained and interrogated in Egypt’s notorious Tora prison, an ironic twist of fate due to the facility’s previous role in incarcerating democracy activists and dissidents.<sup>1</sup> To date, all of the Mubaraks’ identifiable assets inside Egypt have been frozen and some of their foreign accounts also have been frozen. In early May 2011, Swiss authorities announced that over \$460 million in frozen bank deposits has been identified as belonging to the Mubarak family. The SCAF also has pledged to dismantle and then reconstitute the reviled state security force run by the Ministry of the Interior. Formerly, this agency had been involved in suppressing political dissent. In its place, a new agency would focus only on countering domestic terrorism threats, though many employees of the previous agency would be retained.
- **Amending the Constitution.** On March 19, the country held a national referendum on the passage of eight amendments to the constitution that would, among other things, institute presidential term limits, restore judicial oversight of elections, and—perhaps most importantly—ease the eligibility requirements for presidential candidacy. Despite protestors calling for a “no” vote, the referendum

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<sup>1</sup> Other former regime officials jailed at Tora Prison include Ahmed Nazif (former PM), Habib el Adly (former Min of Interior), Ahmed Ezz (NDP official), Safwat el Sherif (Head of NDP), and Zakariya Azmi (Mubarak’s Chief of Staff).

passed with 77.2% approval amidst a 41% voter turnout, the highest on record in recent years.

- **Holding Elections.** The SCAF has scheduled parliamentary elections for September 2011. Elections had been previously set for June, and the SCAF may have moved the timetable back to give Egypt's young revolutionaries more time to organize politically. No date has been set for presidential elections. Some Egyptians, including Coptic Christians, want to rewrite the constitution entirely before holding any election, charging that there are still many non-democratic provisions that could be abused by a democratically elected government.<sup>2</sup> On March 28, the SCAF announced that the Emergency Law will be lifted before parliamentary elections are held. It also issued a decree easing conditions for the formation of political parties. Under the decree, new parties must have at least 5,000 members across 10 provinces, with at least 300 members in each province, in order to gain recognition.<sup>3</sup>

For a country that has experienced political stasis for several decades, events over the past two months have been unprecedented, and it appears that while the transition will be swift, the SCAF has somewhat compromised in recent weeks with the protest movement by allowing for more time before holding elections. The Muslim Brotherhood actively campaigned for a "yes" vote prior to the March 19 referendum, and its success may have helped to slow the process.

### ***Political Parties, Parliamentary, and Presidential Elections***

An estimated two dozen parties have been formed since February 11, including the recently recognized Freedom and Justice Party (FJP), the party of the Muslim Brotherhood. The FJP has an Egyptian Copt, Rafiq Habib, as its vice president and plans to contest between 45-49% of parliamentary seats. According to a public opinion poll conducted by the Pew Research Center, only 17 % of respondents (surveyed 1,000) said they would like to see the Muslim Brotherhood lead the next government, though the same poll revealed that 50 % of respondents also said it was "very important" for religious parties to be part of a future government and 37% have a "very favorable" view of the Muslim Brotherhood. Other notable parties include the Free Egyptians Party (FEP), founded by Egyptian billionaire businessman and Coptic Christian Naguib Sawiris, and the Al Adl Party (Justice) party founded by supporters of Egyptian activist and former International Atomic Energy Association Chief Mohammad El Baradei. Most analysts anticipate that over the course of the next few months, parties with similar platforms will either merge or form coalitions, particularly secular parties wishing to compensate for their relative anonymity and organizational weakness and counter the influence of the Muslim Brotherhood. In mid June, the FJP surprised many by forming a coalition with the Wafd Party, Egypt's oldest nationalist party and sometimes political rival of the Muslim Brotherhood.

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<sup>2</sup> Some Coptic Christians want to change Article 2, which states that the official religion of Egypt is Islam, and the principles of *Sharia* (Islamic law) are the main source of legislation.

<sup>3</sup> Under the old political parties law, a committee comprised of pro-Mubarak allies subjectively determined which new parties to legalize. The new law would, according to one report, "give citizens the right to establish parties by notifying a newly established judicial committee. A party would be recognized 30 days after sending the notification, if the committee has not issued objections. There are restrictions, though. The council banned the formation of political parties on religious grounds and those discriminating against citizens based on race or faith." See, "Egypt to Lift Emergency Law Before Vote for Parliament," *Washington Post*, March 29, 2011.

The composition of parliament will be crucial due to its lead role in writing a new constitution (most likely starting in 2012). The outcome of the election will be determined in part by the type of electoral law adopted by the SCAF. A draft law circulated in May featured a mixed individual candidate (66% of seats) and party list system (33% of seats) and retained an old provision of Egyptian law setting aside half of all seats for “workers and farmers,” a vestige of Egyptian socialism that helps tribal leaders and rural landowning families retain influence in Cairo and dispense patronage back home. Many of these regional figures were supporters of the NDP, and, under the draft law, could enjoy success as individual independent candidates, limiting the number of seats secured by parties.

The Egyptian presidential election will follow parliamentary elections and it has yet to be officially scheduled. To date, possible candidates include Amr Moussa, a former foreign minister and head of the Arab League, Ayman Nour, the runner up to former President Hosni Mubarak in 2005 before he was imprisoned by Mubarak for three and half years, Mohammad El Baradei who is rated less favorably than other potential candidates possibly due to his lack of a mass constituency, Ms. Bothaina Kamel, a television anchor and activist who is the first woman to run for president, and Dr. Abdel Moneim Abul Fotouh, a moderate leader in the Muslim Brotherhood who has rebuffed calls from his organization to not run and plans on running as an independent candidate. Some observers suggest that Abul Fotouh commands the support of many younger Muslim Brotherhood leaders who espouse more liberal views than their elders, though other experts suggest that he only commands elite support.

## **A More Independent Egyptian Foreign Policy**

In order to align the country’s foreign policy more closely to public opinion during this delicate transition, the SCAF and Egyptian Foreign Ministry have charted a somewhat more confrontational regional policy toward Israel. The SCAF and some Egyptian officials underscore that Egypt has no intention of revisiting or rescinding the peace treaty with Israel. Nevertheless, in recent months, Egyptian officials have abandoned the Mubarak regime’s aggressive stance toward Hamas, a move that enabled the Egyptian mediators to reengage Palestinian factions in unity talks and broker a settlement. This breakthrough also led Egypt and Hamas to reach a new border agreement at the Rafah crossing. Though various media reports indicated that the Rafah border crossing would be completely open to Gazans, subsequent reports suggest that while the terms of the opening have been liberalized, some Egyptian restrictions remain, such as requiring Gazan men between ages 18 and 40 who wish to cross to obtain security clearances beforehand and limiting the daily passenger traffic to between 500 and 550 people. Although commercial goods still cannot enter Gaza from Egypt, Israelis officials have expressed consternation over the change in Egyptian policy after having benefitted from several years of Egyptian cooperation in isolating and containing Hamas by tacitly enforcing Israel’s blockade of Gaza. Israelis remain concerned that smuggled weapons will continue to flow into Gaza from the Sinai Peninsula and beyond.

In addition to smuggling weapons, Bedouin Arabs in the Sinai Peninsula also are believed to be behind several acts of sabotage to a gas pipeline running from Egypt to Israel and Jordan. Since the revolution, it has been bombed three times. The supply of Egyptian gas to Israel was a sensitive issue even before the revolution, though since then Egyptian businessmen with close ties to Mubarak, including the former energy minister, have been accused of selling Egyptian gas to Israel at steep discounts, costing the treasury approximately \$714 million in lost revenue had the gas been sold at market prices. Egyptian authorities continue to investigate the deal, which may



become a campaign issue in the Egypt's upcoming presidential election, as some candidates such as Amr Moussa have expressed their opposition to selling Israel natural gas.

## **The Economy**

Egypt's economy has contracted since unrest began in January 2011, leading some Egyptians to refer to the toppling of Mubarak as the "Revolution of the Hungry." Net international reserves have fallen from \$36 billion in December to \$28 billion in April 2011. The economy is forecasted to grow less than 2% this year. Tourism is down 40% in 2011, and many factories have stopped producing goods due to worker strikes. Government deficit spending (nearly 10% of GDP and climbing) has increased in order to support the lower and middle classes by raising subsidies due to higher commodity prices and raising the minimum wage and compensation for state employees. The Finance Ministry is seeking between \$10 and \$12 billion through June 2012 from the international community in order to address its balance of payments gap. A spring diesel shortage may produce food shortages during the summer months, and electricity shortages that grabbed headlines in 2010 are expected to recur.

Experts believe that post revolutionary Egypt will reflect the population's long-standing rejection of unfettered capitalism, as neoliberal economic policies had become synonymous with corruption and the crony capitalism that flourished during the Mubarak era. Revolutionary activists echoed popular criticism of the fact that politically well-connected persons often received generous bank financing and reaped the rewards of privatization deals, foreign franchise distribution rights, government contracts, and land deals. Nonetheless, few observers believe that Egypt can afford to return to its socialist days, and leaders face the challenge of disentangling liberalizing reforms from Mubarak-era corruption.

## **U.S. Policy, Aid, and International Financial Support**

Between February and May 2011, U.S. policy toward post revolutionary Egypt was primarily concerned with developing contacts with new political forces and working with the SCAF to ensure that the transition struck a balance between the need for the military to quickly relinquish power while at the same time provide adequate time for secular reformers and young revolutionaries to formally organize themselves politically in time for elections. The Administration also announced that between \$150 and \$165 million in existing Economic Support Funds (ESF) would be reprogrammed to support, among other things, economic recovery and democracy promotion to support nascent political parties and new elections. In addition, the U.S. Export-Import Bank has approved \$80 million in insurance cover to support letters of credit issued by Egyptian financial institutions. The Administration also has instructed the Overseas Private Investment Corporation (OPIC) to provide financial support to encourage private sector investment in Egypt.

On May 19 at his address on U.S. policy toward the Middle East at the State Department, President Obama announced a new package of aid to Egypt which included \$1 billion in bilateral debt relief<sup>4</sup>, and \$1 billion in U.S.-backed loan guarantees. The President also promised to work

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<sup>4</sup> U.S. debt relief requires an act of Congress to pass, as it did when the United States forgave \$6.7 billion in Egypt's military debt in gratitude for Egypt's participation in Operation Desert Storm in 1990. Egypt's debt to the United States is approximately \$3 billion. Debt service payments to the United States cost the Egyptian treasury an estimated \$330 to (continued...)

with Congress to create a U.S.-Egyptian Enterprise Fund and to expand trade to the Middle East region, possibly by expanding the Qualified Industrial Zone (QIZ) program that allows goods produced in 13 industrial zones in Egypt to be shipped to the United States duty free.

Although the Egyptian government has expressed its gratitude for U.S. support, some analysts and Egyptians believe that the Administration's aid package for Egypt is insufficient based on current need. According to Steven A. Cook, a senior fellow at the Council on Foreign Relations, "This is obviously a very small amount.... But it's what the political freight these days will bear." Some lawmakers have expressed hesitation over appropriating new funds for Egypt given overall Congressional efforts to trim the deficit. Other Members have called for renewed negotiations for a U.S.-Egyptian Free Trade Agreement. In Congress, Section 2123 of P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, stipulates that no later than 45 days after the passage of the bill (the deadline was May 30), the Secretary of State shall submit a report to the Committees on Appropriations detailing whether a transparent, political transition is occurring in Egypt, if laws restricting human rights have been abrogated, and legal and constitutional impediments to free and fair elections are being removed. Other bills and resolutions concerning Egypt under congressional consideration are H.Res. 88 (commending Egypt on the revolution), H.R. 1514 (Limiting aid to Egypt unless it is honoring its commitments under the 1979 peace treaty), S. 618 (a bill to promote the strengthening of the private sector in Egypt and Tunisia).<sup>5</sup>

Despite some criticism aimed at the United States for not allocating more resources toward Egypt, U.S. officials have worked at the international level to garner support for Egypt. The International Monetary Fund has indicated it would provide a \$3 billion, 12 month standby arrangement expected to be approved in mid-July. The World Bank has pledged up to \$1 billion in each of the next two years if the government meets certain economic reform conditions. The Bank also may provide \$2.5 billion in loans for development projects. Saudi Arabia has already deposited \$1 billion in the Central Bank of Egypt and has pledged an additional \$3 billion, while Qatar has promised to inject between \$5 billion and \$10 billion in various projects, though no specific projects have been announced yet. The G8 countries also have promised loans through development banks and have said after their latest meeting that they are willing to provide \$5 billion for Egypt and through 2013.

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\$350 million per year. The country's total external debt is \$34.99 billion. Egypt pays the European Union approximately \$1 billion a year for its debt service payment.

<sup>5</sup> S. 618, a bill "To Promote the Strengthening of the Private Sector in Egypt and Tunisia" would, among other things, establish an Egyptian-American Enterprise Fund to "promote policies and practices conducive to strengthening the private sector in Egypt through measures including loans, microloans, equity investments, insurance, guarantees, grants, feasibility studies, technical assistance, training for businesses receiving investment capital, and other measures."

## U.S. Foreign Assistance to Egypt

The following information is background on U.S. aid to Egypt before its recent revolution.

### Overview

The revolution of January 2011 suggests that the terms of recent debate over U.S. assistance to Egypt may change significantly in the coming months. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. foreign assistance. In FY2010, Egypt was the fifth-largest aid recipient behind Afghanistan, Israel, Pakistan, and Haiti, respectively. In the past decade, overall U.S. assistance to Egypt has declined from \$2.1 billion in FY1998 to \$1.55 billion in FY2010 owing to a gradual reduction in economic aid. In July 2007, the Bush Administration signed a 10-year Memorandum of Understanding (MOU) with Israel to increase U.S. military assistance from \$2.4 billion in FY2008 to over \$3 billion by 2018. Egypt received no corresponding increase in U.S. military aid; instead, the Bush Administration pledged to continue to provide Egypt with \$1.3 billion in military aid annually, the same amount it has received annually since 1987. Unlike with Israel and Jordan, the Bush Administration did not sign a bilateral MOU with the Egyptian government.<sup>6</sup> Congress typically earmarks foreign assistance for Egypt in the foreign operations appropriations bill. For FY2012, the Obama Administration has requested \$1.551 billion in total U.S. aid to Egypt.

### Economic Aid

The United States has significantly reduced economic aid to Egypt over the last decade. There are several reasons for the reduction in U.S. assistance. Overall, U.S. economic aid to Egypt has been trending downward due to a 10-year agreement reached in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3:2 ratio that long prevailed in the overall levels of U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40 million reduction for Egypt), but Egypt did not receive an increase in military assistance. Thus, the United States reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008.<sup>7</sup> For FY2012, the Administration is requesting \$250 million in ESF for Egypt.

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<sup>6</sup> A year after the 2007 U.S.-Israel Memorandum of Understanding (MOU), the U.S. and Jordanian governments reached an agreement whereby the United States will provide a total of \$660 million in annual foreign assistance to Jordan over a five-year period. Under the terms their non-binding MOU, this first-of-its-kind deal commits the United States, subject to future congressional appropriations and availability of funds, to providing Jordan with \$360 million per year in Economic Support Funds (ESF) and \$300 million per year in Foreign Military Financing (FMF).

<sup>7</sup> In FY2003, Egypt, along with Israel and several other governments in the region, received supplemental assistance as part of the FY2003 Iraq Emergency Supplemental Appropriations Act (P.L. 108-11). It included \$300 million in ESF for Egypt, which could have been used to cover the costs of up to \$2 billion in loan guarantees. The loan guarantees were to be issued over three years.

## Funding for Democracy Promotion

Each year, a portion of USAID-managed economic aid is spent on democracy promotion programs in Egypt, a policy that has been a lightning rod for controversy over the last seven years. On principle, the Mubarak government had rejected U.S. assistance for democracy promotion activities, though it had grudgingly accepted a certain degree of programming. On the other hand, democracy activists believe that the U.S. government, particularly during the Obama Administration and before the revolution, had not been aggressive enough in supporting political reform in Egypt.

The degree of U.S. direct support for civil society groups had been a major issue. The Mubarak government had staunchly opposed foreign support to independent civic groups that demand government accountability, as well as civic groups that have not received government approval. During the Bush Administration, policymakers and Members of Congress directed some amounts of Economic Support Funds toward direct support to Egyptian non-governmental organizations (NGOs). However, some experts note that only a small proportion of USAID's democracy and governance (D&G) funds are spent on independent Egyptian groups and an even smaller proportion to groups that do not receive approval from the Egyptian government. The vast majority of USAID D&G assistance goes to Government of Egypt-approved consensual, government-to-government projects.<sup>8</sup>

Most importantly, in FY2005, Congress directed that "democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]," language which remained in annual foreign operations appropriations legislation until FY2009 (see below).<sup>9</sup> Egypt claims that U.S. assistance programs must be jointly negotiated and cannot be unilaterally dictated by the United States. P.L. 111-117, Consolidated Appropriations Act, FY2010, contains general legislative language on the use of U.S. funds to NGOs, stating in section 7034:

With respect to the provision of assistance for democracy, human rights and governance activities in this Act, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the government of any foreign country.<sup>10</sup>

As overall ESF aid to Egypt has decreased, so too has U.S. democracy assistance. For FY2009, the Bush Administration unilaterally cut overall economic aid to Egypt by more than half, requesting \$200 million in ESF. Therefore, because U.S. economic assistance is divided among several sectors (health, education, economic development, and democracy promotion), fewer funds were available in FY2009 for D&G aid (\$20 million instead of previous appropriations of

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<sup>8</sup> CRS conversation with Tamara Cofman Wittes, Director, Middle East Democracy and Development Project, Brookings Institution, September 1, 2009.

<sup>9</sup> Congress sought to ensure that U.S. foreign assistance for Egypt was being appropriately used to promote reform. In conference report (H.Rept. 108-792) language accompanying P.L. 108-447, the FY2005 Consolidated Appropriations Act, conferees specified that "democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]. The managers intend this language to include NGOs and other segments of civil society that may not be registered with, or officially recognized by, the GoE. However, the managers understand that the GoE should be kept informed of funding provided pursuant to these activities."

<sup>10</sup> P.L. 111-117. The conference report accompanying the act notes, "the requirements of section 7034(m)(4) of this Act shall apply with respect to the provision of assistance to Egyptian NGOs."

up to \$50 million). P.L. 111-117, the Consolidated Appropriations Act, FY2010, provided \$25 million in economic aid for democracy promotion (or 10% of total economic aid).

Perhaps in order to ease tension with the Egyptian government, the Obama Administration has reduced funding for U.S.-based NGOs operating in Egypt while increasing funding for state-approved and unregistered Egyptian NGOs (see **Table 1** below). Since FY2009, the Administration has used other State Department aid accounts, such as the Middle East Partnership Initiative (MEPI) and the Human Rights and Democracy Fund (HRDF), to support Egyptian and international NGOs. In October 2009, USAID's Inspector General issued an audit of the agency's democracy and governance activities in Egypt. Among other findings, the audit concluded that

The impact of USAID/Egypt's democracy and governance activities has been limited based on the programs reviewed. In published reports, independent nongovernmental organizations ranked Egypt unfavorably in indexes of media freedom, corruption, civil liberties, political rights, and democracy. Egypt's ranking remained unchanged or declined for the past 2 years, and the impact of USAID/Egypt's democracy and governance programs was unnoticeable in indexes (sic) describing the country's democratic environment.... The Government of Egypt signed a bilateral agreement to support democracy and governance activities (page 5), but it has shown reluctance to support many of USAID's democracy and governance programs and has impeded implementers' activities. Despite the spirit with which the U.S. Congress espoused the civil society direct grants program, the Government of Egypt's lack of cooperation hindered implementers' efforts to begin projects and activities through delays and cancellations.<sup>11</sup>

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<sup>11</sup> USAID, *Audit of USAID/Egypt's Democracy and Governance Activities (Audit Report No. 6-263-10-001-P)*, October 27, 2009.

**Table I. U.S. Direct Funding to International and Egyptian NGOs**  
(Amounts in U.S. dollars)

	FY2008	FY2009	FY2010	FY2011 Request
<b>Democracy and Governance</b>				
<b>Total</b>	<b>54,850,315</b>	<b>23,539,643</b>	<b>29,000,000</b>	<b>25,000,000</b>
USAID	54,800,000	20,000,000	25,000,000	25,000,000
DRL	0	2,057,000	2,000,000	n/a
MEPI	50,315	1,482,643	2,000,000	n/a
<b>Civil Society</b>				
<b>Total</b>	<b>27,900,315</b>	<b>9,539,643</b>	<b>25,000,000</b>	<b>21,000,000</b>
USAID	27,850,000	6,000,000	21,000,000	21,000,000
DRL	0	2,057,000	2,000,000	n/a
MEPI	50,315	1,482,643	2,000,000	n/a
<b>Egyptian unregistered orgs</b>	<b>925,286</b>	<b>1,482,643</b>	<b>2,000,000</b>	<b>n/a</b>
USAID	925,286	0	0	n/a
MEPI	0	1,482,643	2,000,000	n/a
<b>Egyptian registered orgs</b>	<b>5,669,529</b>	<b>5,000,000</b>	<b>10,000,000</b>	<b>n/a</b>
USAID	5,619,214	5,000,000	10,000,000	n/a
MEPI	50,315	0	0	
<b>U.S. registered groups</b>	<b>5,801,846</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>TBD</b>
USAID	5,801,846	1,000,000	1,000,000	
<b>U.S. unregistered groups</b>	<b>15,503,654</b>	<b>2,057,000</b>	<b>2,000,000</b>	<b>TBD</b>
USAID	15,503,654	0	0	

Source: U.S. State Department, Bureau of Near Eastern Affairs.

## U.S.-Egyptian Science, Business, and Technological Cooperation

President Obama's 2009 speech in Cairo envisioned greater U.S. collaboration with Middle Eastern and Muslim-majority nations. As a result, the Administration has created several new small-scale initiatives, dubbed the Cairo Initiatives, to promote science, business, and technical cooperation with certain countries in the region, notably Egypt. In December 2010, the United States launched the President's Global Innovation through Science and Technology (GIST) program in Alexandria, Egypt. Egypt also is a significant participant in the Administration's Global Entrepreneurship program (GEP), a USAID-funded program designed to assist entrepreneurs in Muslim communities around the world. Several GEP pilot programs have been launched in Egypt to train entrepreneurs and assist them with access to foreign investment. In January 2011, a GEP delegation traveled to Egypt to meet with Egyptian businessmen and learn of new investment opportunities. According to the U.S. State Department's Senior Advisor for

Global Entrepreneurship Steven Koltai, “regional investments in economic reform and human and capital infrastructure in Egypt provide a strong foundation for entrepreneurs and investors, both local and international.”

In 2010, the Overseas Private Investment Corporation (OPIC) invested \$100 million in a fund managed by a subsidiary of Egyptian private equity firm Citadel Capital. The investment was touted by the Administration as part of President Obama’s outreach to the Muslim world and U.S. efforts to spur entrepreneurship.

In addition, the Administration has proclaimed that 2011 is the year of U.S.-Egypt science. One of President Obama’s science envoys, Dr. Ahmed Zewail, a Nobel prize-winning Egyptian American, has visited Egypt several times. In May 2010, the United States announced that the U.S.-Egypt Science and Technology Joint Fund will double its annual grants (from \$4 million to \$8 million) for Egyptian and American scientific collaboration.

## **Military Aid**

The Administration has requested \$1.3 billion in FMF for Egypt in FY2012. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts.<sup>12</sup> According to U.S. and Egyptian defense officials, approximately 30% of annual FMF aid to Egypt is spent on new weapons systems, as Egypt’s defense modernization plan is designed to gradually replace most of Egypt’s older Soviet weaponry with U.S. equipment.<sup>13</sup> That figure is expected to decline over the long term due to the rising costs associated with follow-on maintenance contracts. Egyptian military officials have repeatedly sought additional FMF funds to offset the escalating costs of follow-on support. They point out that as costs rise, static aid appropriations amount to a reduction in net assistance.

U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank is one of the cornerstones of U.S. military assistance to Egypt. A coproduction program began in 1988. Egypt plans to acquire a total of 1,200 tanks. Under the terms of the program, a percentage of the tank’s components are manufactured in Egypt at a facility on the outskirts of Cairo and the remaining parts are produced in the United States and then shipped to Egypt for final assembly. General Dynamics of Sterling Heights, MI, is the prime contractor for the program. Although there are no verifiable figures on total Egyptian military spending, it is estimated that U.S. military aid covers as much as 80% of the Defense Ministry’s weapons procurement costs.<sup>14</sup>

Egypt also receives Excess Defense Articles (EDA) worth hundreds of millions of dollars annually from the Pentagon.<sup>15</sup> Egyptian officers participate in the International Military and

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<sup>12</sup> According to U.S. defense officials, Egypt only allocates the minimum amount of FMF funds necessary for follow-on maintenance, resulting in inadequate support for weapon system sustainment.

<sup>13</sup> According to a 2006 Government Accountability Office report, over the life of Egypt’s FMF program, through August 2005, Egypt had purchased 36 Apache helicopters, 220 F-16 aircraft, 880 M1A1 tanks, and the accompanying training and maintenance to support these systems, among other items. See Government Accountability Office, “Security Assistance: State and DOD Need to Assess How the Foreign Military Financing Program for Egypt Achieves U.S. Foreign Policy and Security Goals,” GAO-06-437, April 2006.

<sup>14</sup> According to one source, U.S. military assistance pays for about a third of Egypt’s overall defense budget each year. See, “Three Decades of Weapons, Training for Egypt Keep U.S. in Loop,” *Bloomberg*, February 2, 2011.

<sup>15</sup> According to the Defense Security Cooperation Agency (DSCA), past EDA sales and grant transfers have included two PERRY class and two KNOX frigates, numerous HAWK parts, mine rakes, helicopter spare parts, assorted (continued...)

Education Training (IMET) program<sup>16</sup> (\$1.4 million requested for FY2011) in order to facilitate U.S.-Egyptian military cooperation over the long term. IMET assistance makes Egypt eligible to purchase training at a reduced rate. Bright Star is a multinational training exercise co-hosted by the United States and Egypt that helps foster the interoperability of U.S. and Egyptian forces and provides specialized training opportunities for U.S. Central Command Forces (CENTCOM) in the Middle East. Eagle Salute is a U.S.-Egyptian joint maritime training exercise conducted annually in the Red Sea.

In addition to large amounts of annual U.S. military assistance, Egypt benefits from certain aid provisions that are available to only a few other countries. Since 2000, Egypt's FMF funds have been deposited in an interest bearing account in the Federal Reserve Bank of New York and have remained there until they are obligated. By law (P.L. 106-280), Congress must be notified if any of the interest accrued in this account is obligated. Most importantly, Egypt is allowed to set aside FMF funds for current year payments only, rather than set aside the full amount needed to meet the full cost of multi-year purchases. Cash flow financing allows Egypt to negotiate major arms purchases with U.S. defense suppliers.

## Recent Arms Sales Notifications

In FY2010, the Defense Security Cooperation Agency (DSCA) notified Congress of the following proposed arms sales to Egypt using FMF funds:

- July 2, 2010—40 Skyguard AMOUN Solid-State Transmitters to support the upgrade of the Skyguard-SPARROW Launcher/Illuminator System; prime contractor is Raytheon Integrated Defense Systems in Tewksbury, MA; estimated value: \$77 million.
- July 2, 2010—Continuation of technical services in support of four OLIVER HAZARD PERRY and two KNOX CLASS Frigates; prime contractor is VSE Global in Alexandria, VA; estimated value: \$210 million.

## U.S.-Egyptian Trade

Egypt is the 46<sup>th</sup>-largest trading partner of the United States, which has an annual trade surplus with Egypt amounting to \$4.5 billion in 2010. The United States is Egypt's largest bilateral trading partner. Egypt is one of the largest single markets worldwide for American wheat and corn and is a significant importer of other agricultural commodities, machinery, and equipment. The United States also is the second-largest foreign investor in Egypt, primarily in the oil and gas sector. Since the mid-1990s, Egyptian officials have sought to negotiate a Free Trade Agreement (FTA) with the United States, claiming that an Egyptian-American FTA could significantly boost Egypt's economy. However, due to an array of concerns both Egypt-specific (human rights, intellectual property) and macroeconomic, an Egyptian-American FTA has not moved forward.

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(...continued)

armored vehicles (M60 tanks and M113 APCs) and various types of munitions.

<sup>16</sup> Egyptian officers participating in IMET study and train at the Naval War College in Newport, Rhode Island, and National Defense University at Fort McNair in Washington, DC.



In 1996, Congress authorized the creation of Qualified Industrial Zones (QIZ) in order to entitle goods jointly produced by Israel and either Jordan or Egypt to enter the United States duty free. In December 2004, Egypt finally reached an agreement with Israel to designate several QIZs in Egypt under the mandate of the U.S.-Israeli Free Trade Agreement. Goods produced in Egyptian QIZs allow Egyptian-made products to be exported to the United States duty-free if the products contain at least 10.5% input from Israel. Egypt would like to see this percentage reduced to around 8%, which is the case with the U.S.-Jordanian-Israeli QIZ agreement. Most products exported from Egyptian QIZs are textiles, and products manufactured in QIZs now account for one-third of Egyptian exports to the United States.

**Table 2. Recent U.S. Foreign Assistance to Egypt**

(\$ in millions)

Fiscal Year	Economic	Military	IMET	Total
1948-1997	23,288.6	22,353.5	27.3	45,669.4
1998	815.0	1,300.0	1.0	2,116.0
1999	775.0	1,300.0	1.0	2,076.0
2000	727.3	1,300.0	1.0	2,028.3
2001	695.0	1,300.0	1.0	1,996.0
2002	655.0	1,300.0	1.0	1,956.0
2003	911.0	1,300.0	1.2	2,212.2
2004	571.6	1,292.3	1.4	1,865.3
2005	530.7	1,289.6	1.2	1,821.5
2006	490.0	1,287.0	1.2	1,778.2
2007	450.0	1,300.0	1.3	1,751.3
2008	411.6	1,289.4	1.2	1,702.2
2009	250.0	1,300.0	1.3	1,551.3
2010	250.0	1,300.0	1.9	1,551.9
2011 Request	250.0	1,300.0	1.4	1,551.4
<b>Total</b>	<b>30,820.8</b>	<b>39,211.8</b>	<b>43.0</b>	<b>70,075.6</b>

**Table 3. U.S. Foreign Assistance to Egypt, 1946-1997**

(millions of dollars)

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167.3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1
1981	1,681.2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.3	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9
1983	2,332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
<b>Total</b>	<b>45,669.4</b>	<b>4,550</b>	<b>17,803.5</b>	<b>27.3.0</b>	<b>11.2</b>	<b>80.7</b>	<b>82.8</b>	<b>2,620.7</b>	<b>15,923.8</b>	<b>4,114.3</b>	<b>455.1</b>

**Notes:** Totals may not add due to rounding. No U.S. aid programs for years 1947, 1949, 1950, 1968, 1969, 1970, and 1971. P.L. 480 II Grant for 1993 includes \$2.1 million in Sec. 416 food donations.

TQ = Transition Quarter; change from June to September fiscal year

\* = less than \$100,000

I.M.E.T. = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

D. A. = Development Assistance

ESF = Economic Support Funds

P.L. 480 I = Public Law 480 (Food for Peace), Title I Loan

P.L. 480 II = Public Law 480 (Food for Peace), Title II Grant

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