



Egypt: Transition under Military Rule

Jeremy M. Sharp
Specialist in Middle Eastern Affairs

June 21, 2012

Congressional Research Service

7-5700

www.crs.gov

RL33003

Summary

On January 25, 2011, Egyptians began 18 days of mass protests that eventually drove President Hosni Mubarak to resign from the presidency after 29 years in power. In the wake of Mubarak's resignation, a Supreme Council of the Armed Forces (SCAF)—made up entirely of military officers who enjoyed leading positions under Mubarak—has exercised executive authority directly and via an interim cabinet. The SCAF oversaw a March 2011 referendum that approved amendments to Egypt's constitution, and also issued new laws on the formation of political parties and the conduct of parliamentary elections. The amended constitution laid out a transitional framework in which the elected People's Assembly and Shura Council, in conjunction with the SCAF, were to select members for a 100-person Constituent Assembly to draft a new constitution subject to a referendum.

Legislative elections held in late 2011 and early 2012 granted significant majorities to Islamist political parties, including the Muslim Brotherhood's Freedom and Justice party. The SCAF and various non-Islamist forces challenged the legislature's efforts to select members for the Constituent Assembly, and a court ruling found the legislative electoral law unconstitutional, putting the recent election results and the future of the Islamist-dominated parliament in doubt. As polls closed for the final round of Egypt's June 2012 presidential election, the SCAF issued further amendments to the transitional constitution, granting itself sweeping powers to appoint members of the Constituent Assembly, enforce martial law, and remain immune from oversight by the newly elected president. Muslim Brotherhood candidate Mohammed Morsi has claimed victory in the poll.

This report provides a brief overview of the transition thus far and information on U.S. foreign aid to Egypt. The United States has provided significant military and economic assistance to Egypt since the late 1970s. U.S. policy makers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running military cooperation and on sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as generally influencing developments in the Middle East in line with U.S. interests. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations, and these debates and events in Egypt are shaping consideration of appropriations and authorization legislation in the 112th Congress.

Contents

Overview: Egypt's Military Retains Control	1
Latest Developments.....	4
Issues for Congress.....	7
Egyptian-Israeli Relations	7
The 1979 Peace Treaty	7
The Economy and Possible IMF Loan	9
U.S.-Egyptian Relations	12
The NGO Case	13
U.S. Foreign Aid to Egypt.....	15
Military Aid.....	15
Economic Aid.....	16
U.S. Foreign Aid to Egypt Since February 2011	18
The Consolidated Appropriations Act, FY2012	19
FY2013 State and Foreign Operations Appropriations Bills.....	19

Figures

Figure 1. Map of Egypt.....	7
Figure 2. Egyptian Opposition to U.S. Aid.....	13

Tables

Table 1. U.S. Assistance to Egypt, FY2010-FY2013 Request.....	16
Table 2. Top 10 recipients of U.S. Foreign Assistance, FY2012 and FY2013 Req.	22
Table 3. U.S. Foreign Assistance to Egypt.....	22
Table 4. U.S. Foreign Assistance to Egypt, 1946-1997	23

Contacts

Author Contact Information.....	24
---------------------------------	----

Overview: Egypt's Military Retains Control

Egypt's first truly competitive presidential election appears to have been won by the Muslim Brotherhood's candidate, Mohammed Morsi, although a final announcement of the results is still pending.¹ Ahmed Shafik, Morsi's opponent, also has declared himself the winner. On June 20, the Presidential Electoral Commission announced that final results, which were to be released on June 21, would be delayed in order to evaluate charges of electoral abuse. The delay has created a tense atmosphere in Egypt, raising suspicions that the electoral process could be manipulated in favor of Shafik.

As polls closed, the Supreme Council of the Armed Forces (SCAF), with the aid of courts dominated by judges appointed under former President Hosni Mubarak, took significant steps to limit presidential authority. A court ruling leading to the dissolution of parliament may take away Morsi's key base of support in the government, while the SCAF has exempted itself from oversight and asserted broad powers through last-minute changes to the transitional constitution.² The developments have led some Egyptian activists and outside observers to conclude that Egypt is no longer in "transition." It remains to be seen if full civilian rule can be achieved or if the demands of the January 25 revolution for democracy and substantive constitutional reform will remain unfulfilled.

While many analysts had anticipated that the SCAF would seek to limit the incoming president's powers in the absence of a permanent constitution, few observers anticipated the degree to which the SCAF would be willing to manipulate Egypt's transition to preserve its primacy and privileges. Apparently, the SCAF is calculating that the support of many Egyptians within the secular elite—the military, the private sector, and the Coptic Christian community—will mitigate public protest against its final-hour maneuvers, and that the Brotherhood will consider accepting the outcome if it secures the presidency. The Brotherhood, despite its victories at the polls, had its reputation suffer somewhat in recent months as it sought more power by deciding to field a candidate in presidential elections—backtracking on its previous promise not to. The SCAF also may calculate that the protest movement is exhausted and that it can contain whatever public backlash it may face in the weeks ahead. Finally, the SCAF also may be betting on the resignation of the international community to accepting its *fait accompli*, as foreign nations fearing the spread of instability in an already volatile region may choose what they perceive as the lesser of two evils by supporting Egypt's government rather than seeing it fail.

In the end, after 16 months of a messy transition, the military, which perceives itself as the guardian of the Egyptian state, appears unwilling to abandon the reins of power to the Muslim Brotherhood. The Brotherhood, for its part, may not seek to foment instability as a result of this reverse, perhaps considering this latest episode a lost battle in a decades-long struggle for power

¹ According to a running tally on the Al Ahram website, Morsi leads Shafiq by 900,000 votes. Available online at <http://english.ahram.org.eg/ui/front/townvotes.aspx>

² An English translation of the new June 17, 2012, annex to the amended March 2011 constitution is available online at <http://english.ahram.org.eg/NewsContent/1/64/45350/Egypt/Politics-/English-text-of-SCAF-amended-Egypt-Constitutional-.aspx>. On June 18, SCAF also announced that it would appoint General Abdel Momen Abdel Baseer to be the new president's chief of staff. It also re-constituted the National Defense Council to handle national security affairs. The council is headed by the president and has 17 members, 12 of whom belong to the military. SCAF has said that it will officially transfer power to the president on June 30.

with Egypt's "deep state." According to this perspective, even a weakened presidency represents a gain. According to one Brotherhood official, "It is not easy to uproot the military's grip on the state.... We are planning for a 7- or 10-year process." Egypt's transition had, at times, been guided by agreements reached in SCAF-Brotherhood negotiations, much to the consternation of liberal political forces. However, as presidential elections approached and the Muslim Brotherhood-dominated parliament became more confrontational toward the military, the two sides drifted apart and Egyptian politics became a zero-sum game.

Secretary of State Hillary Clinton stated days before the presidential election that "There can be no going back on the democratic transition called for by the Egyptian people." Recent events suggest otherwise. For the United States, there are most likely negative implications to the SCAF's recent moves. In spite of broader efforts to engage with the Brotherhood and other political actors in Egypt, U.S. relations remain closest with the Egyptian military, supported by an annual \$1.3 billion military aid package. On June 18, a Defense Department spokesman said that Secretary of Defense Leon Panetta, who spoke to the head of SCAF, Field Marshal Mohamed Hussein Tantawi, on June 15, was not told by Tantawi of SCAF's intentions to amend the interim constitution.³ Many Egyptians will most likely blame the United States government for the SCAF's authoritarian behavior. Moreover, U.S. policymakers will be faced with the quandary of accepting imperfect results while being asked to support international efforts to lend Egypt funds to help with its severe budgetary shortfalls. Some Members of Congress have already threatened to withhold foreign aid. On June 19, former President Jimmy Carter, who monitored the presidential election, stated that he was "deeply troubled by the undemocratic turn that Egypt has taken."

³ "'Deeply Concerned' about Egypt Decree: Pentagon," *Reuters*, June 18, 2012.

Key Egyptian Movements, Institutions, and Religious Communities

The Military—Since the resignation of former President Hosni Mubarak in February 2011, Egypt has been ruled by a military council known as the SCAF—The Supreme Council of the Egyptian Armed Forces. Since 1952, the military has been the strongest government entity, comprising nearly half a million personnel and possessing vast land holdings and businesses. It plays a key social role, providing employment and a sense of national identity to many Egyptians. The military is led by 77-year-old Field Marshal Mohamed Hussein Tantawi.

The Muslim Brotherhood—Since its founding in 1928, the Muslim Brotherhood (MB) has been one of Egypt's strongest political movements. Its purpose is to turn Egypt away from secularism and toward an Islamic government based on sharia (religious) law and Islamic principles. Over the years, the Egyptian government has alternated between tolerating and suppressing the Muslim Brotherhood, sometimes arresting and jailing its members, and other times allowing them to operate almost without hindrance. After the February 2011 revolution, the political party arm of the movement, the Freedom and Justice Party (FJP), was legalized, and the FJP secured 45% of all seats in the lower house of parliament following parliamentary elections in 2011-2012. Many foreign observers agree that the organization renounced its former policy of using violence as a political tactic decades ago, and point out that the former Brotherhood members most committed to violence largely gravitated toward organizations that formed the basis for Al Qaeda. The U.S. State Department does not list the MB as a Foreign Terrorist Organization.

The “Remnants” of the Old Regime—Known colloquially in Egyptian Arabic as *feloul*, there are many former supporters of the old order who wish to see their power restored. Mubarak's former ruling party was known as the National Democratic Party (NDP) before it was disbanded in 2011 and its headquarters burned by protestors. The party had been a symbol of a corrupt system to many, yet in recent months it had slowly returned, led by former Minister of Civil Aviation and Prime Minister Ahmed Shafik. Shafik appears to have narrowly lost the presidential election to the Muslim Brotherhood candidate Mohammed Morsi.

Revolutionary Youth—Youth activists are widely credited with sparking and leading the uprising that led to the dissolution of the Mubarak regime. Like many Arab countries, Egypt has experienced a youth bulge in recent years, though its economy is unable to produce adequate employment for college-educated youth, leading to high youth unemployment, delayed marriage rates, and frustration with the status quo. For the last several years, youth activists have organized themselves into non-party movements, such as April 6 Youth Movement and the National Association for Change. However, young revolutionaries were not able to translate their successful protests into post-revolutionary politics and have subsequently been marginalized by more established forces during Egypt's transition.

Salafis—After the February 2011 revolution, Salafis (conservative Muslims who endorse strict interpretations and implementation of Islamic law) began organizing themselves politically. The Al Nour Party is the largest Salafi political party, having secured 21% of the seats in the last parliamentary election.

Coptic Christians—Coptic Christians comprise an estimated 8% to 12% of the population. They are largely absent from high level government and military positions, though Copts play a prominent role in the private sector. Copts may face discrimination, and the community is subject to occasional instances of sectarian attacks, to which both the government and the Coptic Orthodox Church rapidly respond to ease communal tensions. However, more often than not, the Egyptian government only acts to redress the immediate symptoms of violence rather than the underlying causes.

Judiciary⁴—In recent months, Egyptian judges have ruled on cases with enormous implications for Egyptian political life. Historically, Egyptians have had great respect for judges, in spite of state attempts to coerce the judiciary. In general, the civilian court system is well regarded and operates independently of the executive branch. Judges also supervise polling stations during elections. Recent statements and decisions may change the courts' reputation.

⁴ For a complete list of Egypt's various courts, see <http://egyptelections.carnegieendowment.org/2012/06/06/a-guide-through-the-egyptian-maze-of-justice>

Latest Developments

- **Presidential Election**—Mohammed Morsi, the Muslim Brotherhood’s candidate for the presidency, has claimed victory in Egypt’s first truly competitive presidential election, facing Mubarak regime stalwart Ahmed Shafik in a run-off. According to unofficial election results, he received 51.89% of the vote. Anecdotal reports noted that some voters were dispirited by their choices.⁵ Shafik also is claiming victory and final results have been delayed.

- **SCAF Issues Supplementary Constitutional Declaration**—The June 17, 2012 constitutional annex grants the SCAF legislative powers, oversight of the defense budget, the authority to appoint Army commanders and the minister of defense, and legal consent over any declaration of war. It also grants the SCAF the ability to form a new Constituent Assembly if the previous one fails to complete its work. A new Assembly must complete its work within three months of formation and must be approved in a public referendum within 15 days from the date of its preparation. Under the June document, new parliamentary elections are to be held within a month of the approval of a new constitution. The June Annex grants the president the power to form and fire a government and ratify and reject laws. According to Nathan Brown at the Carnegie Endowment for International Peace, “The full extent of the SCAF’s authority is not always clear. Its executive authority is strong but not absolute under the emerging system, and it will turn over some significant authority to the president, especially in administrative and domestic affairs. It is likely that true clarity will come only in practice.”⁶

- **Parliament Disbanded**—On June 14, the Supreme Constitutional Court ruled that a third of the parliament was elected illegally, upholding an earlier lower court’s ruling that the electoral law governing parliamentary elections was unconstitutional.⁷ The court enforced the provisions of a 2011 electoral law⁸ that

Egyptian Presidential Candidate Mohammed Morsi

Born in 1951 in a rural Nile Delta village, Mohammed Morsi rose through the ranks of the Muslim Brotherhood to become the chairman of the movement’s political party, the Freedom and Justice Party, having previously served as an independent in parliament between 2000 and 2005. He was the Brotherhood’s backup candidate and was not nominated as a candidate until April 7. As a candidate, Morsi pledged to launch the Brotherhood’s “Renaissance Project,” an economic development plan that seeks to launch a number of large infrastructure projects with a goal of attaining an average rate of annual growth that ranges between 6.5% and 7%. Morsi also is known for being pragmatic and, during the Mubarak regime, maintained dialogue with internal security in order to ensure that suppression of the Brotherhood was kept to a minimum. Morsi is a U.S.-educated engineering professor and received a PhD from the University of Southern California in 1982. He is married with four children.

⁵ On May 29, Egyptian officials announced the results of the first round of presidential elections. No single candidate won an outright majority of votes, triggering a run-off between the top two vote-getters, Muslim Brotherhood candidate Mohammed Morsi, who received 25% of all votes, and former Prime Minister Ahmad Shafik, who finished second with 24% of all votes. The run-off vote was held on June 16 and 17. The turnout for the first round was a disappointing 46%.

⁶ See, “The Egyptian Political System in Disarray,” Carnegie Endowment for International Peace, June 19, 2012.

⁷ It also ruled that presidential candidate Ahmed Shafik was not disqualified from running for president under a parliamentary-approved disenfranchisement law designed to bar former regime officials who had served during the last 10 years from returning to high public office.

created a complicated dual vote system reserving two-thirds of seats for a party list vote and the remaining third for individual candidates. Article V of the electoral law banned political parties from running candidates in the individual seat system. However, in the run-up to the 2011 elections, political parties, including the Muslim Brotherhood, protested the electoral law and demanded that party members be allowed to run for individual seats. Islamists and others threatened to boycott parliamentary elections, thereby depriving any legitimacy to the military-led transition. In response, the SCAF permitted parties to run candidates in the individual seat system, but SCAF did not actually amend Article V of the law. A lawsuit challenging the validity of the elections subsequently was referred to the Supreme Constitutional Court. The court's June 2012 ruling had legal validity,⁹ but many observers believed that the Court and the SCAF would uphold the election results to ensure political stability on the eve of presidential elections. The court ruling cannot be appealed. With 166 of Egypt's 498 (total of 508 but the other 10 are appointed by the head of state) parliamentary members now having been elected illegally, the SCAF declared the entire lower house of parliament invalid and dissolved it on June 15. The SCAF then assumed legislative powers. The leadership of the lower house has refused to recognize the dissolution order, and security forces have surrounded the parliament building, prompting fears of confrontation.

- **SCAF Re-authorizes Military Detainment of Civilians**—Nearly two weeks after the expiration of the decades-old Emergency Law, the Ministry of Justice decreed on June 13 that officers may legally detain civilians involved in criminal activity and refer them to military tribunals. The move was widely condemned by liberal and human rights activists. Article 53 of the newly amended transitional constitution appears to endorse these changes as well.
- **Constituent Assembly in Peril**—On June 12, parliament voted to approve the 100-person membership of the Constituent Assembly, the body tasked with drafting a new constitution. The Assembly's composition has been a source of acrimony between secularists and Islamists for months. After Islamists were victorious in parliamentary elections, they packed the Assembly in March 2012 with sympathizers, drawing the ire of non-Islamist members who refused to participate in order to deny the Assembly broad-based legitimacy. Negotiations over the reform of the Assembly ensued, and the SCAF threatened to unilaterally appoint members if a compromise was not reached. All parties finally agreed on its composition, which was subsequently approved by parliament; however, now that parliament has been disbanded, the military has invalidated the existing Constituent Assembly and assumed authority to govern the country and select a new Assembly to write a permanent constitution. Nevertheless, the existing

(...continued)

⁸ In 2011, the electoral law was amended several times in response to outcries from liberals and Islamists who wished to thwart the return of former regime elements. As originally proposed by the SCAF, the electoral law would have set aside half the seats for single member districts and the other half for party lists.

⁹ According to one source, the Constitutional Court ruled that allowing party members to compete on the individual lists violates the principles of equal opportunity because it gives party members two chances to compete for all the seats while independent candidates don't have the same opportunity. In 1987 and 1990, the SCC invalidated electoral laws on similar legal ground leading to the dissolution of various parliaments. U.S. Open Source Center (OSC) Report GMP20120615966026, "What to know on Egypt's new political drama," *Al Ahran Online* (Cairo), June 15, 2012.

Assembly continues to meet and appointed the head of Egypt's judiciary, Hussam El Ghuriyany, as its chief.

- **Impartiality of Judges Questioned**—In the past several weeks, many observers suggested that high level judges had grown more critical of the Muslim Brotherhood and had begun indirectly advocating the election of presidential candidate Ahmed Shafik.¹⁰ On June 7, the president of the Judges Club, the professional association for all Egyptian judges, remarked that “We used to stand at the edge of the judiciary and not go near politics.... But now Egypt is falling. We won't leave matters for those who can't manage them, with the excuse that we're not people of politics. No, we are people of politics.”¹¹
- **Mubarak Sentenced**—On June 2, 2012, a three-judge panel sentenced former president Hosni Mubarak and his interior minister, Habib el Adly, to life in prison for failing to protect hundreds of unarmed protesters during the January 2011 demonstrations. Citing lack of evidence that either President Mubarak or his top aides had expressly ordered the killing of protesters, the panel found that Mubarak was an “accessory to murder,” which did not merit a murder conviction under either Egyptian or international law. The court also acquitted Mubarak and his two sons, Alaa and Gamal, of all corruption charges, citing that the statute of limitations had expired. Similarly, six top security officers accused of a participatory role in the government's violent response to protesters were acquitted.

¹⁰ “Mara Revkin, Egypt's Injudicious Judges,” *Atlantic Council's Egypt Source*, June 11, 2012.

¹¹ “Egyptian Judge Speaks Against Islamist Victory Before Presidential Runoff,” *New York Times*, June 7, 2012.

Figure I. Map of Egypt



Source: Map Resources, adapted by CRS.

Issues for Congress

Egyptian-Israeli Relations

The 1979 Peace Treaty

For the United States, the maintenance of the 1979 Israeli-Egyptian peace treaty is a major regional foreign policy priority, and there is concern that instability in Egypt will disrupt the “cold peace” that Israel and Egypt have maintained for over 30 years. In the period since the resignation of former President Mubarak, Egyptian-Israeli relations have been tense, culminating in the September 2011 siege of the Israeli Embassy in Cairo by protestors,¹² in which Israeli diplomats

¹² This followed the events described in footnote 14.

holed up inside their compound came perilously close to being confronted by rioters before Egyptian commandos rescued the diplomats at the urging of the Obama Administration. Since then, Israel has maintained a minimal diplomatic presence in Egypt, having moved most of its staff from Cairo to offices in Maadi, New Cairo, and near the Cairo International Airport. Yaakov Amitai is the Israeli ambassador to Egypt, and Egypt's Ambassador to Israel is Yasser Reda.

The peace treaty remains intact. Most observers assert that despite widespread Egyptian anger toward Israel, most Egyptian politicians and party leaders—especially the military—understand the importance of maintaining peace. However, with growing lawlessness in the Sinai Peninsula on Egypt's side of the border following Mubarak's departure, and restrictions against additional Egyptian troop and armored unit deployment there per the terms of the treaty's first annex,¹³ questions abound over the possible amending of the 1979 agreement. Some Egyptian leaders have made public comments suggesting that the treaty is "open to changes." In September 2011, just weeks after clashes in the Sinai between Israeli forces and Palestinian terrorists which led to the accidental killing of several Egyptian soldiers,¹⁴ former Egyptian Prime Minister Essam Sharaf said "the Camp David agreement is not a sacred thing and is always open to discussion with what would benefit the region and the case of fair peace and we could make a change if needed."¹⁵ That same month, unnamed Israeli military officials said that Israel was looking to launch a strategic dialogue with Egypt in which it would conduct a comprehensive review of the ties between the countries and make necessary changes to the military appendix of the peace treaty.¹⁶ Overall, however, some analysts suggest that Israel would prefer to continue the practice of negotiating changes to Egyptian deployments in the Sinai as circumstances necessitate.¹⁷

Egypt's Role as a Mediator in the Arab-Israeli Conflict

Since Mubarak's resignation, there has been much speculation over whether Egypt would continue to play a consequential role in brokering Israeli-Palestinian peace talks and containing Hamas in the Gaza Strip. Many analysts suggested that when Israel completed an October 2011 prisoner exchange with Hamas to return Gilad Shalit from captivity, it did so partly in anticipation that Egypt would not be willing or able to broker such deals in the future due to Egyptian Islamist support for Hamas. For the United States, the possible loss of Egypt as a reliable broker limits its options when trying to corral regional support for renewed negotiations. Some observers assert that a Hamas-sympathetic Egypt could help advance negotiations by facilitating a unified Palestinian stance, but such unity might be objectionable to Israel.

Under military rule, Egypt has been an active player in mediating between Israelis and Palestinians and between the Palestinian Authority in the West Bank and Hamas in the Gaza Strip. In addition to the Shalit deal, Egypt helped broker a cease-fire between Israel and Palestinian

¹³ Available online at http://www.jewishvirtuallibrary.org/jsource/Peace/egypt-israel_treaty.html

¹⁴ On August 18, 2011, a Gazan terrorist cell traversed the Sinai into Israel and attacked both civilian and military targets—killing 8 and injuring 31. In hot pursuit of the perpetrators across the border, Israeli and Egyptian forces reportedly killed 7 attackers, but an Israeli aircraft also killed 5 Egyptian police officers, apparently by mistake. The incident further heightened Israeli-Egyptian tensions as thousands of Egyptians demonstrated at the Israeli Embassy a month later. Israeli Defense Minister Ehud Barak issued a statement of regret for the Egyptian deaths on August 20.

¹⁵ "Israel Summons Egypt Envoy over PM Comments," *Al Jazeera, English*, September 16, 2011.

¹⁶ "Israel May Amend Military Appendix of Egypt Peace Treaty," *Jerusalem Post*, September 1, 2011.

¹⁷ Policy Forum Report Sinai: The New Frontier Of Conflict? *Policywatch* #1872, The Washington Institute for Near East Policy, November 21, 2011.

militants in the Gaza Strip in March 2012. In May 2012, Egyptian intelligence mediated a deal between Palestinian prisoners and Israeli authorities in which 2,000 prisoners had been on a hunger strike for weeks in protest of Israeli incarceration policies. In return for an end to their strike, Israel agreed to limit solitary confinement and expand visits from Gazan relatives who had previously been denied travel.

Security in the Sinai Peninsula

Most analysts believe that the deterioration in security in the Sinai Peninsula is perhaps the biggest threat to Israeli-Egyptian peace. Though the area has never been fully under Egyptian control, Bedouin Arab tribes in the area have lashed out at state authorities since the revolution for perceived injustices and lack of development in the area.¹⁸ Moreover, Palestinian militant groups based in Gaza have reportedly operated more freely in the area and are equipping themselves with weapons from looted Libyan stockpiles sold on the black market. With the national police forces in disarray, Bedouin criminal networks appear to have taken advantage of the security vacuum to increase human trafficking of African migrants into Israel, drug and weapons smuggling, and armed robbery and kidnapping of foreign tourists. In addition, terrorist organizations based in the Sinai have taken advantage of relatively lax security to conduct operations against Israeli, Egyptian, and foreign targets. Such groups have bombed gas pipelines¹⁹ and raided tourist resorts. Militants also have fired rockets from the Peninsula into Israel, alarming Israeli officials in nearby cities such as Eilat, which may be a terrorist target due to its proximity to Egypt and destination as a tourist attraction. In response, Israeli officials continue to insist that information sharing between Israel and Egypt continues. In April 2012, Defense Minister Ehud Barak remarked that “Israel, Egypt and Jordan have tasted the fruits of peace, and even during these uncertain times, the crucial communication channels between the Israeli and Egypt security establishments remain both open and effective.”²⁰ Israel also is accelerating construction of a 17-foot tall, 150-mile long, \$400 million “security fence” along its border with Egypt. On June 18, unidentified militants attacked Israeli construction workers building that security fence. One worker and two gunmen were killed. The attackers had crossed into Israel and planted a roadside bomb, which destroyed a vehicle carrying workers to the border fence.

The Economy and Possible IMF Loan

As a result of over a year of political unrest, Egypt’s economy has stagnated (GDP has grown at just 2% from July 2011 to present), and the interim military-led government has boosted social spending, leading to spiraling fiscal deficits. Though certain aspects of the economy have started to recover (such as revenues from Suez Canal receipts, oil and gas exports, and expatriate

¹⁸ Bedouins in the Sinai have long resented state investment directed toward beach tourism while tribal villages were neglected. Some tribes, such as the Azazna in northern Sinai, have many members that are not recognized as Egyptian citizens, with identity cards reading “nationality unknown.” See, “Sinai Seethes,” *Al Ahran Weekly Online*, 17 - 23 May 2012, Issue No. 1098.

¹⁹ Gas pipelines supplying Israel and Jordan with Egyptian natural gas have been struck at least 14 times since February 2011. In April 2012, Egypt terminated its controversial 20-year gas supply deal with Israel reached in 2005 due to so-called “contractual violations.” The arrangement had supplied Israel with 40% of its natural gas needs. However, the deal was unpopular in Egypt not only because it involved Israel, but because it involved corrupt dealing between former President Mubarak and his associates. One partner in the deal, Hussein Salem, is awaiting extradition in Spain. Salem is under investigation for corruption for receiving a no-bid contract for the supply of gas to Israel.

²⁰ “Israel Challenges Egypt over Sinai Security Chaos,” *Agence France Presse*, April 30, 2012.

workers' remittances), foreign direct investment and tourism receipts remain below their previous levels. Moreover, many economists are concerned that the financial crisis in Europe will lower demand for Egyptian exports and further reduce foreign investment in the months ahead.

With a bleak short-term economic outlook and Egyptian leaders sensitive to further domestic instability, public expenditures have increased dramatically in order to reassure the population. Spending on public sector salaries (there are over 6 million Egyptian state employees) and energy and food subsidies has soared, leading to a predicted deficit for this year's state budget of \$23 billion. Since February 2011, authorities have been financing the deficit by borrowing from domestic banks and using the country's foreign exchange reserves, which have gone from nearly \$36 billion in early 2011 to \$15.5 billion (including \$4 billion in gold bullion) in June 2012. In the last few months, reserves have somewhat stabilized, and Saudi Arabia²¹ also provided Egypt \$1 billion, though it had pledged even more last year (up to \$4 billion) to support the transition.

At present, it is unclear how a future Egyptian government will finance its fiscal deficit. Currently, the government is paying nearly 16% interest on one-year debt. Spending cuts may prove dramatically unpopular, as would inflationary policies that increase prices on basic commodities. If foreign exchange reserves continue to dwindle, it is unclear whether officials will be forced to depreciate the Egyptian Pound, a move that could boost interest rates and reduce asset values, potentially stalling any recovery. Many analysts suggest that Egypt may have no choice but to increase foreign borrowing, particularly from foreign governments and international financial institutions, since private foreign investors may be unwilling to take the investment risk and domestic banks are overstretched. Credit rating agencies such as Moody's, Fitch, and Standard & Poor's have downgraded Egypt's sovereign credit rating over the past year.²²

The International Monetary Fund may be a key foreign lender for Egypt, as it has offered the country \$3.2 billion in financing over 18 months to three years at a minimal interest rate. More importantly, an IMF loan would ensure other investors that Egypt was on a path toward economic reform, thereby paving the way for additional foreign lending (the country's current external debt is \$33.7 billion). However, the IMF deal may have drawbacks for the Egyptian government, as it may be conditioned upon Egypt undertaking certain reforms and unpopular austerity measures, such as reducing food and fuel subsidies. Early indications are that officials may propose changing the country's sales tax to a value-added tax (VAT) and targeting energy subsidies by instituting a direct-payment program for poor Egyptians.

To date, Egypt's lack of acceptance of an IMF loan has been largely based on political factors. According to one source,

“Lack of internal political consensus over the loan (a condition set by the IMF) is said to be delaying the final approval. The inability to arrive at an agreement seems to be a result of party politics rather than of divergent views on the nature of the constraints facing the

²¹ Saudi Arabia is a key player in the Egyptian economy. According to one report, Saudi Arabia is one of Egypt's biggest foreign investors and more than 1.5 million Egyptians work in Saudi Arabia. Their remittances represent half the value of all Egyptian remittances worldwide. The overall value of Saudi investments in Egypt amounts to \$45 billion, while trade between the two countries adds up to \$10 billion. Saudi investors also are the biggest investors in the Egyptian stock market and the most frequent visitors to Egypt's tourist destinations. See, Sherine Abdel-Razek “Economic Ruptures,” *Al Ahram Weekly Online*, 3 - 9 May 2012, Issue No. 1096.

²² “Egypt Faces Hard Economic Challenges,” *Daily Star* (Beirut), June 12, 2012.

country's public finances. Apparently, the Islamist Freedom and Justice Party did not want an interim government to negotiate a loan deal."²³

Members of the Muslim Brotherhood may have desired to lead negotiations with the IMF in order to take credit for the deal and shape an agreement according to its own party priorities. It is unclear whether IMF negotiations will proceed more expeditiously following the presidential election and the recent SCAF- and judiciary-driven action.

Chronology: Egyptian Transition Timeline: January 2011-Present

January 25, 2011	Large protests begin in major cities. Over 18 days, protesters clash with the police, who withdraw, as military forces are deployed to keep order. Hundreds are wounded in clashes and 848 are killed.
February 11, 2011	After daily protests, President Hosni Mubarak resigns after 30 years and hands power to the military, led by Field Marshal Hussein Tantawi.
March 2011	The Supreme Council of the Armed Forces proposes a series of amendments to the Egyptian constitution and, on March 19, 77.2% of voters approve the amendments in a public referendum. Several groups boycott the referendum.
April 8, 2011	More than 100,000 protesters gather in Tahrir Square to pressure the Supreme Council of the Armed Forces (SCAF) to meet the demands of the public, chief among them the prosecution of Hosni Mubarak.
May 2011	Mubarak is officially charged with the abuse of public office and with ordering the killing of protesters during the demonstrations.
June 2011	On June 6, the Muslim Brotherhood's Freedom and Justice Party is declared legal.
July 2011	On July 13, the SCAF announces a new electoral law and delays parliamentary elections until November 2011, amplifying tension between the SCAF and the protesters who feel their revolution is being betrayed. Mass protests erupt in Tahrir Square and parliament buildings. In response to the protests, Prime Minister Sharaf dismisses the ministers of finance, industry, and foreign affairs.
August 2011	The Mubarak trial begins. Israel kills 5 Egyptian soldiers while in pursuit of Palestinian terrorists in the Sinai Peninsula. Israeli Defense Minister Barak issues statement of regret.
September 2011	Protestors storm the Israeli embassy in Cairo, and Israeli diplomats are rescued by Egyptian commandos. At least 3 Egyptians are killed in the clashes, and more than 100 are wounded. The SCAF amends the electoral law under pressure, reducing the proportion of non-party list candidates.
October 2011	Security forces forcefully disperse a mass demonstration by Coptic Christians angry about attacks on churches, killing 24 people and wounding over 200. The demonstration further exacerbates tensions between Muslims and Coptic Christians.
November-December 2011	The Egyptian supreme court rules that former members of Mubarak's now defunct party, the National Democratic Party, are eligible to run for office in the upcoming elections. Ensuing protests leave about 40 dead and hundreds wounded. In the first post-revolution parliamentary election, Islamist parties win approximately 75% of the seats. They state that ending "military rule" is their first priority.

²³ *Daily Star*, op. cit.

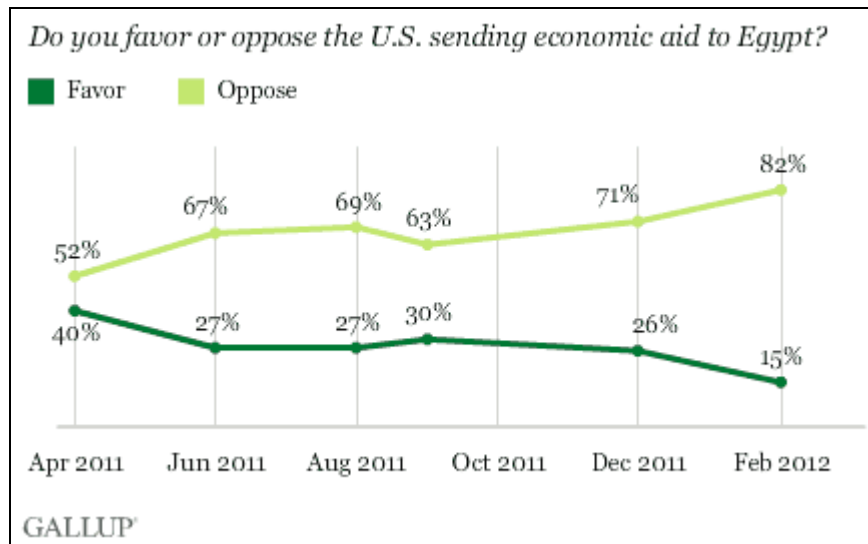
February 2012	Riots kill 74 people after a Port Said soccer match, adding to public criticism of the SCAF and its ability to maintain law and order.
April 2012	Amidst a boycott by liberals, moderate Muslims, and the Coptic Church, the Administrative Judicial Court suspends the Islamist-dominated commission in charge of drafting a new constitution. The electoral commission bars 10 candidates from the presidential race, including 2 Islamists and Mubarak's ex-intelligence chief.
May 2012	Egypt holds its first post-revolution presidential election, and the state of emergency imposed in 1981 ends.
June 2012	<p>Hosni Mubarak and former Minister of Interior Habib el-Adly are sentenced to life in prison for the death of demonstrators in the 2011 protests. Six police commanders are acquitted of the same charge. The court drops corruption charges against Mubarak and his two sons, citing an expired statute of limitations. Protesters stage various angry demonstrations.</p> <p>The Supreme Constitutional Court invalidates elements of the parliamentary election law, undercutting one-third of the members elected to the Islamist-dominated parliament. The Court also overturns a law that would have barred former Prime Minister Ahmed Shafik from the imminent presidential election runoff. In response, the SCAF moves to enforce the ruling, prevent the parliament from reconvening, and claims the right to appoint representatives of Egypt's constitutional commission.</p> <p>Mohamed Morsi claims victory in presidential election, while the SCAF issues constitutional decrees limiting presidential powers.</p>

U.S.-Egyptian Relations

U.S. policymakers have long confronted difficulties in balancing the pursuit of U.S. national security interests vis-à-vis Egypt and the promotion of American values and universal human rights. Such tensions, which are common in foreign policy, are likely to continue and perhaps increase in the post-Mubarak era. The bilateral crisis (discussed below) over the arrest of U.S. employees of non-governmental organizations working in Egypt starkly illustrated this tension.

Egypt's transitional government and new Islamist lawmakers, like previous governments, have resorted to blaming the country's ills on outside forces, namely the United States and Israel. This time, however, the inclusion of anti-U.S. and -Israeli sentiment in political debates is much greater, as various politicians attempt to channel public frustration with the economy and slow political transition and a renewed national sense of "dignity" toward those elements, both foreign and domestic, associated with the *ancien régime*. In March, for example, the People's Assembly called for a vote to end U.S. military aid to Egypt after many Egyptian politicians were angered over the release of American NGO employees. Also in March, the People's Assembly voted to expel the Israeli ambassador from Cairo, recall Egypt's envoy from Tel Aviv, and halt all natural gas shipments to Israel in response to a new round of fighting in the Gaza Strip between Israel and Palestinian militants.

Figure 2. Egyptian Opposition to U.S. Aid
A Gallup Survey in February 2012



Source: Gallup, Mohamed Younis and Ahmed Younis, March 29, 2012

The NGO Case

Egypt's ongoing prosecution of Americans and others employed by U.S.-based democracy promotion organizations led to widespread calls for cuts to, or suspension of, U.S. aid to Egypt. On December 29, 2011, Egyptian police raided the offices of U.S.-based international non-governmental organizations working on election monitoring, political party training, and government transparency in Egypt, including the International Republican Institute (IRI), National Democratic Institute (NDI), and Freedom House, as part of a criminal investigation commissioned by Minister of International Cooperation Fayza Abul Naga²⁴ into foreign funding of NGOs. Some of the U.S. entities had long ago applied for but had not yet received registration and approval by the Egyptian government, an issue of long-running bilateral dispute.²⁵ Police seized laptop computers and interrogated employees, accusing various organizations of operating illegally without a license. As a result of the raids, many NGOs were forced to close their local offices.

The U.S. government protested the raids, and the SCAF promised that equipment would be returned and that NGO operations would return to normal. However, these pledges were not fulfilled. On the contrary, two weeks later, Egypt barred at least six American NGO employees

²⁴ Abul Naga is the only remaining cabinet holdover from the Mubarak era and has served since 2001.

²⁵ Under Egypt's NGO law (Association Law 84-2002), passed during the Mubarak era, NGOs are required to apply for legal status and must be registered with the Ministry of Social Affairs and report all foreign donations to the government. According to Article 17 of the law, "associations may not accept foreign funding without explicit authorization from the Ministry of Social Affairs." For an NGO seeking legal status during the Mubarak era, in some cases it took years before the ministry ruled on an application, and many groups were routinely rejected. Often, no response was given to the application, which left an organization in legal limbo; this was the case of NDI, which has attempted to register since 2005. If an NGO's application was rejected, it had few legal rights and could be shut down. Successive U.S. Administrations and Congress have sought to provide aid to Egyptian civil society organizations without the prior approval of the Egyptian government. See NDI factsheet, at <http://www.ndi.org/facts-on-ndi-egypt>

from leaving the country. On February 6, Egyptian authorities charged 43 people, including the Egypt country directors of NDI and IRI, with spending money from organizations that were operating in Egypt without a license. 19 Americans, including Sam LaHood of IRI, the son of U.S. Transportation Secretary Ray LaHood, face criminal charges. Most of the accused American employees were nonetheless able to leave Egypt with the exception of six or seven individuals who had fled to the U.S. Embassy in Cairo.

Throughout February and early March, U.S. and Egyptian officials negotiated to (at the very least) have the travel ban on the Americans who remained at the U.S. Embassy in Cairo lifted. Reportedly, U.S. officials and lawmakers threatened not only to withhold bilateral aid, but to obstruct the IMF loan to Egypt if the situation was not resolved.²⁶ Finally, on March 1, days after three Egyptian judges recused themselves from the NGO case (reportedly because they refused orders to overturn the travel ban due to U.S. pressure and had refused to do so), Egyptian authorities lifted the travel ban, and NDI and IRI were forced to pay a combined \$4 million bail. Almost all of the accused Americans are now outside Egypt, but the legal case against them and the other civil society workers continues.

Although in the short term some bilateral tensions have abated, many analysts assert that the case (along with earlier Egyptian campaigns against U.S. democracy promotion activities)²⁷ has succeeded in tarnishing Egypt's NGO sector in general and, perhaps more worrisome, the perception that the United States supports Egypt's transition. The dispute has engulfed the bilateral relationship at a time when many other issues of interest to the United States are being adjudicated. According to U.S. Assistant Secretary of State for Near Eastern Affairs Jeffrey Feltman,

Because of the focus on the NGO issue, that sort of basic message has been lost, which is that we are impressed with what the Egyptian people are trying to do, we are fully supportive of their efforts to build a democratic system.... Now we have had to spend a lot of time, for example, talking to people on Capitol Hill to remind people of the long-term interest that we have in Egypt and the long-term benefits that we think that both countries have.

Opportunistic Egyptian politicians, epitomized by Minister Abul Naga, who eagerly sought a foreign scapegoat and distraction from the country's economic woes, not only diverted the United States from engaging more broadly with new Egyptian leaders, but also created a public backlash against U.S. aid of any kind. According to Egyptian-born scholar Michael Wahid Hanna, "The demands for dignity that were part of the protest movement also implicated what many perceive to be Egypt's undignified dependency on the United States." As a result of the NGO dispute, some Egyptian politicians have started a national campaign to raise funds that would replace U.S. assistance. Prominent Egyptians, the military, and Islamist groups are supporting the campaign, called the Fund for Dignity and Pride, which has so far raised \$10 million.

At present, 2 Americans (the remaining 14 defendants are out of the country), 1 German national, and 14 Egyptian NGO employees are on trial inside Egypt. Their colleagues who were allowed to leave the country are on trial in absentia. If convicted, the NGO workers could face up to six years in prison. According to Robert Becker, an employee of NDI who remained in Egypt to face

²⁶ "U.S. Defendants Leave Egypt Amid Growing Backlash," *New York Times*, March 1, 2012.

²⁷ Since the revolution, Egyptian cabinet ministers and Islamist politicians have decried against continued U.S. foreign aid. A December 2011 Gallup survey found that about seven in 10 Egyptians oppose U.S. economic aid to Egypt, and a similar percentage opposes U.S. direct aid to civil society groups.

trial, “Of the four Egyptians charged from NDI, three of them worked for me. At every turn when I was pressured to leave, I couldn't stomach it.... You don't walk away from your colleagues.”²⁸

U.S. Foreign Aid to Egypt

Between 1948 and 2011, the United States provided Egypt with \$71.6 billion in bilateral foreign aid, including \$1.3 billion a year in military aid from 1987 to the present. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. bilateral foreign assistance.²⁹ In July 2007, the George W. 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, separately, with Jordan, the Bush Administration's pledge did not involve signing a bilateral MOU with the Egyptian government. Congress typically specifies a precise allocation of foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).³⁰

Military Aid

In FY2011, Egypt received almost a quarter of all U.S. FMF funds, and Israel received nearly 60%. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts. U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank, which began in 1988, is one of the cornerstones of U.S. military assistance to Egypt. 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.³¹ Egypt also receives Excess Defense Articles (EDA) worth hundreds of

²⁸ “In Egypt, American NGO workers head to court in civil society trial,” *Christian Science Monitor*, June 5, 2012.

²⁹ The 1979 Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In two separate memoranda accompanying the treaty, the United States outlined commitments to Israel and Egypt, respectively. In its letter to Israel, the Carter Administration pledged to “endeavor to take into account and will endeavor to be responsive to military and economic assistance requirements of Israel.” In his letter to Egypt, former U.S. Secretary of Defense Harold Brown wrote that “the United States is prepared to enter into an expanded security relationship with Egypt with regard to the sales of military equipment and services and the financing of, at least a portion of those sales.” Ultimately, the United States provided a total of \$7.3 billion to both parties in 1979. The Special International Security Assistance Act of 1979 (P.L. 96-35) provided both military and economic grants to Israel and Egypt at a ratio of 3 to 2, respectively, though this ratio was not enshrined in the treaty as Egypt would later claim.

³⁰ Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement.

³¹ 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.

millions of dollars annually from the U.S. Defense Department. The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term. IMET assistance also makes Egypt eligible to purchase training at a reduced rate.

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 significantly, 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.

Table 1. U.S. Assistance to Egypt, FY2010-FY2013 Request
(Regular and Supplemental Appropriations; Current Year \$ in Millions)

Account	FY2010	FY2011	FY2012	FY2013 Request
ESF	250.0	249.5	250.0	250.0
FMF	1,300.0	1,297.4	1,300.0	1,300.0
IMET	1.900	1.400	1.400	1.800
INCLE	1.000	1.000	.250	7.900
NADR	2.800	4.600	5.600	—
Total	1,555.7	1,553.9	1,557.25	1,559.7

Economic Aid

During the 1980s and 1990s, Egypt received large amounts of annual economic loans and grants, mainly to support large-scale USAID infrastructure projects in sanitation, education, and telecommunications.³² By the late 1990s, Congress began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials, sensing that their economic growth had obviated the need for that type of U.S. aid at a time when Congress sought to reduce foreign assistance expenditures, 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, Congress reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008. The Bush Administration, whose relations with then-President Hosni Mubarak suffered over the latter's reaction to the Administration's democracy agenda in the Arab world, then requested that Congress cut ESF aid by half in FY2009 to \$200 million. Congress appropriated the President's request. Upon taking office in 2009, President Obama sought a \$50 million increase in economic aid to Egypt for FY2010, which Congress then passed.

³² According to the U.S. State Department, U.S. economic aid has helped provide clean drinking water and sanitation to the city of Cairo, build more than 2,000 schools and double literacy levels, and decrease in the maternal mortality rate by over 50% and the child mortality rate by over 70%. See, U.S. State Department, Assistance to Egypt Fact Sheet, Office of the Spokesman, Washington, DC, May 19, 2011.

In prior years, ESF funds were divided into two categories: USAID projects and cash transfers.³³ ESF funds are allocated to a variety of sectors, including health, education, economic growth, and democracy and governance. U.S. funding for the latter has been a source of acrimony between the United States and Egypt for years, culminating in the current dispute over U.S. funding for non-governmental organizations.

U.S. Funding for Democracy Promotion in Egypt

Each year, a small portion of USAID-managed bilateral economic aid is spent on democracy promotion programs. On principle, the Mubarak government rejected U.S. assistance for democracy promotion activities, though it grudgingly accepted certain programming. On the other hand, democracy activists believe that the U.S. government, particularly during the Obama Administration and before the January 2011 popular uprising, had not been aggressive enough in supporting political reform in Egypt.

The Mubarak government staunchly opposed foreign support to independent civic groups that demanded government accountability, as well as civic groups that had not received government approval. During the Bush Administration, executive branch policymakers and Members of Congress directed some ESF toward direct support for Egyptian non-governmental organizations (NGOs).

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 FY2010 (see below).³⁴ Under Mubarak, Egypt had claimed that U.S. assistance programs must be jointly negotiated and could not be unilaterally dictated by the United States. P.L. 111-117, the Consolidated Appropriations Act, FY2010, contained 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.³⁵

P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, became law on April 15, 2011, after the resignation of former Egyptian President Hosni Mubarak, and did not contain language addressing the NGO issue.³⁶ Appropriations for FY2012 contain multiple conditions on all types of assistance to Egypt (discussed below).

³³ It is unclear if USAID is still operating the cash transfer program, as it had been scheduled to be phased out by 2011.

³⁴ 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.”

³⁵ 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.”

³⁶ The FY2011 Act did contain the following provisions on economic aid to Egypt: “That of the funds appropriated under this heading, up to \$250,000,000 shall be made available for assistance for Egypt for activities that support democratic elections, promote representative and accountable governance, protect human rights, strengthen civil (continued...)”

U.S. Foreign Aid to Egypt Since February 2011

After Mubarak's resignation in February 2011, the Administration made several aid proposals for Egypt. In the weeks following the resignation, the Obama Administration reprogrammed \$165 million in already appropriated ESF for support to Egypt's economy (\$100 million) and political transition (\$65 million). In a speech delivered at the State Department on May 19, 2011, President Obama outlined a new plan for U.S. engagement with Arab countries undergoing political transitions, such as Egypt. Major components of that plan include the following:

- Launch a \$2 billion facility in the Overseas Private Investment Corporation (OPIC) to support private investment across the region.
- Provide up to \$1 billion in bilateral debt relief to Egypt, working with the Egyptian government to invest these resources to foster growth and entrepreneurship.
- Help Egypt regain access to capital markets by providing \$1 billion in U.S.-backed loan guarantees to finance infrastructure and job creation.
- Work with Congress to create enterprise funds to invest in Tunisia and Egypt, modeled after funds that supported the transitions in Eastern Europe after the fall of the Berlin Wall. Enterprise funds are to focus on making loans to, or investments in, small- and medium-sized (SME) businesses in the fund's host country that other financial institutions are reluctant to invest in.
- Refocus the European Bank for Reconstruction and Development (EBRD) so that it may provide similar support for democratic transitions and economic modernization in the Middle East and North Africa as it has in Europe.
- Launch a comprehensive Trade and Investment Partnership Initiative in the Middle East, working with the European Union (EU), to encourage more trade within the region; build on existing agreements to promote integration with U.S. and European markets; and open the door to freer trade for countries that adopt high standards of reform and trade liberalization to construct a regional trade arrangement.

(...continued)

society and the rule of law, reduce poverty, promote equitable economic development, and expand educational opportunities for disadvantaged Egyptian youth, including through scholarship programs: Provided further, That the Secretary of State shall submit a spending plan, including a comprehensive strategy to promote democracy and development, to the Committees on Appropriations for funds provided for Egypt under this heading: Provided further, That such plan shall not be considered as meeting the notification requirements under Section 7015 of division F of P.L. 111-117 or under Section 634A of the Foreign Assistance Act of 1961: Provided further, That such funds shall be subject to the regular notification procedures of the Committees on Appropriations: Provided further, That funds appropriated under this heading shall be made available to support democratic transitions in the Middle East and North Africa, including assistance for civil society organizations and the development of democratic political parties: (b) Not later than 45 days after enactment of this Act, the Secretary of State shall submit to the Committees on Appropriations a report on Egypt detailing whether—(1) a transparent, political transition is occurring that includes the participation of a wide range of democratic opposition and civil society leaders and is responsive to their views; (2) the emergency law and other laws restricting human rights have been abrogated; protesters, political and social activists and journalists are not being arrested, detained or prosecuted for the peaceful exercise of their rights; and the government is respecting freedoms of expression, assembly and association; and (3) legal and constitutional impediments to free and fair presidential and parliamentary elections are being removed.”

The Consolidated Appropriations Act, FY2012

Overall, Congress has supported new Obama Administration proposals for Egypt but with conditions. P.L. 112-74, the Consolidated Appropriations Act, 2012, provides the full request for Egypt (\$1.55 billion), authorizes debt relief, and authorizes and appropriates funding for the creation of an enterprise fund to promote private sector investment. However, Section 7041 of P.L. 112-74 specifies that no funds may be made available to Egypt until the Secretary of State certifies that Egypt is meeting its obligations under the 1979 Egypt-Israel Peace Treaty. It further specifies that no military funds be provided until the Administration certifies that Egypt is supporting the transition to civilian government, including by holding free and fair elections and by implementing policies to protect freedom of expression, association, and religion, and due process of law. The Administration may waive these certifications under certain conditions. In addition, conferees directed the Secretary of State to submit a report to the Committees on Appropriations, not later than 60 days after enactment of the act, outlining steps that the Government of Egypt is taking to protect religious minorities, including Coptic Christians; prevent sectarian and gender-based violence; and hold accountable those who commit such acts.

On March 15, the *New York Times* reported that the Administration intends to obligate FY2012 military aid to Egypt by exercising the waiver authority Congress granted it in Section 7041 (c) of P.L. 112-74, the Consolidated Appropriations Act 2012.³⁷ That section would waive a provision of law requiring the Secretary of State to certify to the Committees on Appropriations that the Government of Egypt is supporting the transition to civilian government before FY2012 Foreign Military Financing to Egypt is obligated. According to the *New York Times* report, some Administration officials have argued that the certification should wait until the presidential election. However, existing FMF funding previously appropriated by Congress may be dwindling, and the Egyptian military may be at risk of missing defense contract payments.³⁸

The Secretary of State exercised the waiver on March 23. In an accompanying statement, a State Department spokesperson said that “the secretary’s decision to waive is also designed to demonstrate our strong support for Egypt’s enduring role as a security partner and leader in promoting regional stability and peace.”

FY2013 State and Foreign Operations Appropriations Bills

House (H.R. 5857)—The House bill provides the full Administration request for Egypt of \$250 million in ESF and \$1.3 billion in FMF. It includes a number of specific directives, including:

- Section 7042 of the bill contains a certification that no funds may be made available for Egypt unless the Secretary of State certifies to the Committees on Appropriations that Egypt’s central government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.
- The bill also contains a requirement stating that prior to obligations of ESF and FMF, the Secretary of State shall certify that the Government of Egypt has (1) completed the transition to civilian government, including holding free and fair elections; and (2) is implementing policies to protect freedom of expression,

³⁷ “Despite Rights Concerns, U.S. Plans to Resume Egypt Aid,” *New York Times*, March 15, 2012.

³⁸ *op.cit.*

association, and religion, and due process of law. The Secretary of State may waive these requirements if the Secretary determines and reports to the Committees on Appropriations that to do so is in the national security interest of the United States. The bill states that such a determination and report shall include a detailed justification for such waiver and that the Secretary of State shall consult with the Committees on Appropriations prior to waiving such requirements.

- In addition, the Committee on Appropriations must be consulted prior to the transfer of FMF funds to an interest-bearing account for Egypt. The committee also must be notified 15 days in advance of the obligation of funds for Egypt.
- The committee also directs the Secretary of State to submit a report to the Committees on Appropriations, not later than 90 days after enactment of this act, detailing the status of human rights within Egypt. The report should include whether the Government of Egypt is providing adequate protection for religious minorities, including protection of Coptic Christians, their property, and places of worship.
- The committee directs the Secretary of State to report to the Committees on Appropriations, not later than 90 days after enactment of this act, on all assistance provided under this heading for Egypt from fiscal year 2008 through 2012. The report should include the following: (1) the ministries, agencies, or instrumentalities of the Government of Egypt that received funding; (2) United States, international, or Egyptian organizations that received funding; (3) a description of the purpose of each program, project, or activity; (4) whether each program, project, or activity complied with mandatory audit requirements; and (5) a description of whether each program, project, or activity fulfilled its stated purpose.
- Section 7032 of the bill contains a passage stating that “None of the funds appropriated or otherwise made available by title III of this Act may be obligated for direct Government-to-Government assistance if such assistance is to a government that is actively and significantly interfering with the operation of civil society organizations.” This restriction does not specifically refer to Egypt but could possibly apply to some economic aid to Egypt should its government obstruct operations of non-governmental organizations.

Senate (S. 3241)—The Senate bill also contains most of the Administration request for Egypt, though it “reduces assistance for Egypt under ESF by an amount equal to the amount posted as bail in February 2012 for members of United States NGOs operating in Egypt.” The Senate bill includes the following provisions:

- “None of the funds appropriated under titles III and IV of this Act and in prior Acts making appropriations for the Department of State, foreign operations, and related programs may be made available for assistance for the Government of Egypt unless the Secretary of State certifies to the Committees on Appropriations that such government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.”
- “The President shall submit to the Committees on Appropriations, concurrent with the fiscal year 2014 budget request, a comprehensive review of United States assistance for Egypt, including the strategic purposes and mechanisms for

disbursing such assistance, and specific programs to be conducted in furtherance of security sector and other reforms.”

- “Funds appropriated by this act under the heading ‘Foreign Military Financing Program’ for assistance for Egypt shall be made available for border security programs in the Sinai, and for purposes related to peacekeeping and disaster response: Provided, That a portion of such funds estimated to be outlayed during fiscal year 2013 may, following consultation with the Committees on Appropriations, be transferred to an interest bearing account for Egypt in the Federal Reserve Bank of New York: Provided further, That funds appropriated by this Act under the heading ‘Economic Support Fund’ shall be made available to promote security sector reform in Egypt, in accordance with section 7034(r) of this Act.”
- “Prior to the initial obligation of funds appropriated by this Act for assistance for Egypt under the heading ‘Foreign Military Financing Program’, the Secretary of State shall certify to the Committees on Appropriations that the Government of Egypt is a democratically elected civilian government that is implementing policies to—(A) provide civilian control over, and public disclosure of, the military and police budgets; (B) fully repeal the Emergency Law; and (C) protect judicial independence; freedom of expression, association, assembly, and religion; the right of political opposition parties, civil society organizations, and journalists to operate without harassment or interference; and due process of law. The Secretary of State, after consultation with the Committees on Appropriations, may waive the requirements of paragraphs (1) and (4) if the Secretary determines and reports to the Committees on Appropriations that to do so is important to the national security interest of the United States: Provided, That such determination and report shall include a detailed justification for such waiver.”

Table 2. Top 10 recipients of U.S. Foreign Assistance, FY2012 and FY2013 Req.
(in millions)

FY2012		FY2013 Req.	
1. Israel	\$3,075	1. Israel	\$3,100
2. Afghanistan	\$2,327	2. Afghanistan	\$2,505
3. Pakistan	\$2,102	3. Pakistan	\$2,228
4. Iraq	\$1,683	4. Iraq	\$2,045
5. Egypt	\$1,557	5. Egypt	\$1,563
6. Jordan	\$676	6. Jordan	\$671
7. Kenya	\$652	7. Nigeria	\$599
8. Nigeria	\$625	8. Tanzania	\$571
9. Ethiopia	\$580	9. South Africa	\$489
10. Tanzania	\$531	10. Kenya	\$460

Source: Allocation tables provided to CRS by the Department of State, F Bureau. Does not include funding from independent agencies such as MCC, which, if included, could change the ranking of Tanzania.

Table 3. 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	249.5	1,297.4	1.4	1,548.3
Total	31,070.3	40,509.2	43.14	71,623.9

Table 4. U.S. Foreign Assistance to Egypt, 1946-1997

(\$ in millions)

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
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	2332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8

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
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	—
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	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

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

Author Contact Information

Jeremy M. Sharp
Specialist in Middle Eastern Affairs
jsharp@crs.loc.gov, 7-8687