

Egypt: Background and U.S. Relations

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Summary

This report provides an overview of the key issues for Congress related to Egypt and U.S. foreign aid to Egypt.

Historically, Egypt has been an important country for U.S. national security interests based on its geography, demography, and diplomatic posture. The United States has provided significant military and economic assistance to Egypt since the late 1970s. Successive U.S. administrations have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running cooperation with the Egyptian military and on sustaining the 1979 Egyptian-Israeli peace treaty.

Egypt's role in the "Arab Spring" of 2011 briefly elevated the country toward the top of the U.S. foreign policy agenda, as officials tried to navigate a delicate transitional period that witnessed an existential power struggle between Islamists and the military. After a two-and-a-half year period of U.S. efforts to promote a democratic transition in Egypt, the apparent return of authoritarian rule that began with the military's July 2013 takeover has left U.S. policymakers in a quandary.

With the Obama Administration focused on Operation Inherent Resolve against the Islamic State in Iraq and Syria, and with the concluded nuclear agreement with Iran, Egypt has been less of a regional priority for the U.S. government. As Egypt continues to crack down on all forms of dissent, the Obama Administration and the Egyptian government have articulated competing views of how best to secure Egypt's stability.

Between 1948 and 2015, the United States provided Egypt with \$76 billion in bilateral foreign aid (calculated in historical dollars—not adjusted for inflation), including \$1.3 billion a year in military aid from 1987 to the present. This report discusses the conditions governing the release of these funds. All U.S. foreign aid to Egypt (or any foreign recipient) is appropriated and authorized by Congress. All U.S. military aid to Egypt finances the procurement of weapons systems and services from U.S. defense contractors.

For FY2017, the President has requested that Congress appropriate \$1.3 billion in military assistance for Egypt. The President also is asking Congress to provide \$150 million in economic aid. H.R. 5912, the House version of the FY2017 Department of State, Foreign Operations, and Related Programs Appropriations bill, would provide up to \$150 million in ESF and \$1.3 billion in FMF for Egypt. The Senate version, S. 3117, would provide up to \$75 million in ESF and \$1.3 billion in FMF. Like the FY2016 Act (P.L. 114-113), the Senate bill would withhold 15% of FMF for Egypt from obligation until the Secretary of State can certify that Egypt is taking effective steps toward democracy and effective governance, among other things.

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Overview

Historically, Egypt has been an important country for U.S. national security interests based on its geography, demography, and diplomatic posture. Egypt controls the Suez Canal, through which 8% of all global maritime shipping passes annually. Moreover, Egypt expedites the passage of dozens of U.S. naval vessels through the Canal, providing a strategic benefit to U.S. forces deploying to the Mediterranean Sea or Persian Gulf/Indian Ocean basin for time-sensitive operations.

Demographically, Egypt, with its population of 91 million,¹ is by far the largest Arab country. Although it may not play the same type of leading political or military role in the Arab world as it has in the past, Egypt still has significant “soft power.” The Arab League is based in Cairo, as is Al Azhar University, which claims to be the oldest university still functioning and has symbolic importance as a leading source of Islamic scholarship.

Additionally, Egypt's 1979 peace treaty with Israel remains one of the most significant diplomatic achievements for the promotion of Arab-Israeli peace. While people-to-people relations remain cold, Israel and the military-backed Egyptian government that has been in power since July 2013 have increased their cooperation against Islamist militants and instability in the Sinai Peninsula and Gaza Strip.

Egyptian President Abdel Fattah el Sisi (former Field Marshal and Minister of Defense) has somewhat restored the domestic stability that was upended by nationwide protests and leadership changes from 2011 to 2013. Critics, however, charge that authorities have achieved this order by rolling back civil liberties and curtailing most political opposition.² In public, President Sisi has stated that Egyptians must defer practicing “real democracy” in order to preserve the “current social consensus.”³

As the economy and state finances face an array of challenges, President Sisi has appealed to the public to accept fiscal austerity and short term economic hardship. To fill the gap in its annual budget deficit, Egypt plans on borrowing \$12 billion from the International Monetary Fund (IMF) over three years. The IMF has conditioned its lending on Egypt embarking on an aggressive economic reform plan, a risky maneuver for the government due to the prospect for social unrest if the public feels too burdened by rising prices and reductions in public sector spending. In turning to the IMF, President Sisi remarked that “All the difficult decisions that many hesitated to take over many years, that they were afraid to take, I will not hesitate to take for one second.”⁴

¹ Based on Egyptian government estimates by the Central Agency for Public Mobilization and Statistics (CAPMAS). Population figures include Egyptian expatriates.

² “Egypt Faces Criticism over Human Rights Record,” Middle East In Focus, *Middle East Policy Council*, February 8, 2016.

³ “Too Early for Real Democracy, Attack on Govt 'Unjustified': President,” *Egypt Independent*, February 24, 2016.

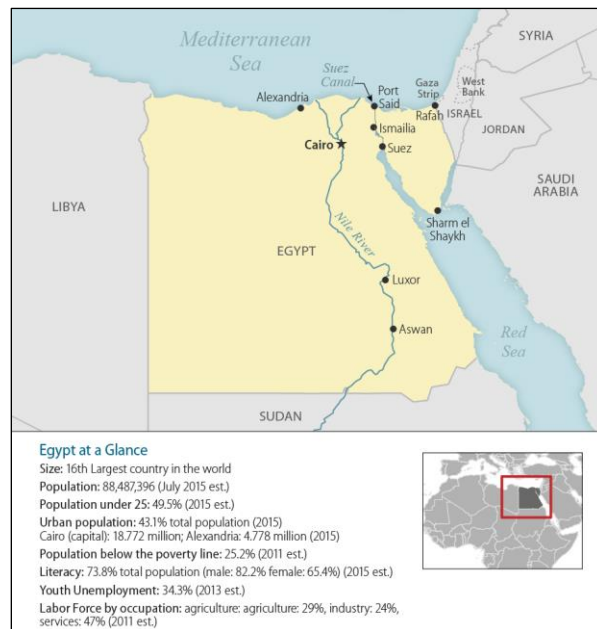
⁴ “After IMF deal, Egypt's Sisi says will not Hesitate on Tough Reforms,” *Reuters*, August 13, 2016.

Following the 2013 coup that toppled Morsi, the Obama Administration halted delivery of U.S. military equipment. Deliveries resumed in March 2015, but relations have remained strained, as other regional issues have taken priority (the Iran nuclear deal, Islamic State, and Syria).

Until its recent turn to the IMF, Egypt's main financial backers since 2013 had been Saudi Arabia and the United Arab Emirates. While those Gulf monarchies continue to provide some support, sustained lower global oil prices have forced the Gulf to reduce their aid. In the military sphere, Russia and France have supplied Egypt with major new defense systems such as fighter aircraft and helicopter carriers. The Israeli government continues to emphasize its cooperation with Egypt in countering terrorism in the Sinai and taking measures to prevent Hamas and other Palestinian militants in the Gaza Strip from rearming.

As the domestic situation continues to languish, Sisi's presidency is entering a crucial period. The public is becoming more concerned about the economy and, without the assurance of a steady stream of substantial Gulf aid, the government has no other options but to enact politically unpopular austerity measures. The Egyptian government has stated that it believes its people will accept some level of sacrifice as preferable to renewed unrest. Given the proliferation of conflict across the region, Egyptians may indeed be somewhat deterred from domestic protest; however, they may also feel that after toppling the Mubarak government in 2011, popular demands for change can no longer be taken for granted by the state.

Figure 1. Egypt at a Glance



Source: CRS Graphics

The Egyptian Government

Executive Branch and Military

Egypt is formally a republic, governed by a constitution that was approved in a national referendum in January 2014.⁵ President Sisi, who assumed office in June 2014, is next up for reelection in 2018. The constitution limits the president to two four-year terms. It also allows the president to issue decrees with the force of law when parliament is not in session, to appoint a prime minister to form a government, and to reshuffle the cabinet with the approval of parliament.

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,

⁵ An unofficial English translation of the constitution is available at <http://www.sis.gov.eg/Newvr/Dustor-en001.pdf>.

providing employment and a sense of national identity to many Egyptians. General Sedki Sobhi is the current Minister of Defense.

Legislative Branch

Parliamentary elections were held in late 2015 (Parliament had been dissolved since June 2012) for Egypt's House of Representatives, with its single-chamber legislature comprised of 596 members (568 elected, 28 appointed by the president). The Support Egypt Coalition (SEC) is a bloc of six parties considered to be the pro-government majority (holding 315 of 596 seats, or 53%).

Parliament convened in January 2016 and, during its first session, approved almost all of the presidential decrees previously issued by Sisi and his immediate predecessor, interim President Adly Mansour. Parliament also approved the government's economic reform plan, including a value added tax (VAT). Parliament also approved a church construction law, which expedites the government approval process for the construction and restoration of mainly Coptic churches. The Coptic Christian community has complained for years about the legal process governing church construction and repair. Parliamentarians with Islamist leanings are represented by 12 lawmakers who hail from the Salafist Nour Party. The Muslim Brotherhood has been outlawed and its members banned from participation in politics.

The Judiciary

Article 94 of the 2014 constitution states that: "The independence, immunity and impartiality of the judiciary are essential guarantees for the protection of rights and freedoms." Egypt has both civilian courts and a parallel military justice system. Although the professionalism of Egyptian judges has been long established, some observers have asserted that, since 2013, the courts have supported the military's crackdown against dissent. According to one scholar:

It has become clear that for economic, political, security, and cultural reasons, most in Egypt's establishment, including judges, value order and stability above almost all else. More broadly, it has also become clear that many and perhaps most Egyptians, including a surprising number of the country's liberals, are willing to tolerate harsh security measures and even an alarming degree of human rights violations if deemed necessary for national security and to restore order on the streets.⁶

Egypt has had a parallel military justice system since 1966. Article 204 of the 2014 constitution enshrines the Military Court as an independent judicial body and recent presidential decrees have expanded the court's jurisdiction. According to Human Rights Watch, military courts have tried at least 7,420 Egyptian civilians since October 2014.⁷

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. After February 2011, the political party arm of the movement, the Freedom and Justice Party (FJP), was

⁶ David Risley, "Egypt's Judiciary: Obstructing or Assisting Reform?" *Middle East Institute*, January 13, 2016.

⁷ "Egypt: 7,400 Civilians Tried In Military Courts," *Human Rights Watch*, April 13, 2016.

legalized, and the FJP secured 45% of all seats in the lower house of parliament (which then had two chambers) following parliamentary elections in 2011-2012.

Since the ouster of former President Morsi, who hailed from the Muslim Brotherhood, the Brotherhood has been outlawed and its members banned from participation in politics. According to Eric Trager of the Washington Institute for Near East Policy, “Brotherhood leaders are either in prison, in hiding, or scattered among various countries in exile, and this has catalyzed an internal power struggle that hasn't been resolved yet. In this sense, there are still many Muslim Brothers but no Brotherhood, at least for the time being.”⁸

Concerns over Human Rights Violations

Certain practices of President Sisi's government and the security apparatus have been contentious; many Egyptians and foreign observers have accused the government of committing serious abuses of human rights against a broad spectrum of opponents, both secular and Islamist. President Sisi has at times publicly apologized for police abuses against citizens and sexual assaults against Egyptian women. The ongoing crackdown against dissent arguably comes not only with a significant human cost, but also at a sizeable cost to the country's international reputation, particularly in the West.

Detained Egyptian-American: Aya Hijazi

Since May 2, 2014, 29-year-old American citizen Aya Hijazi of Alexandria, Virginia (also an Egyptian citizen), who ran an NGO in Egypt to help homeless children, has been imprisoned without trial on charges of sexually abusing children and paying them to demonstrate against the government. Numerous international human rights groups⁹ have stated that the charges against her are politically motivated and designed to further deter NGO activity in Egypt. In July 2016, a U.S. State Department spokesperson said that “We continue to call for an expeditious resolution to the case and a fair and transparent legal process, in accordance with local law and in a manner that also respects international human rights. We continue to provide all possible consular assistance to Ms. Hijazi. We meet with her frequently, and we also attended her last court hearing, which was May 21st. We will attend all upcoming hearings and continue to provide that consular assistance.”¹⁰ On September 27, Senator Patrick Leahy gave a floor speech in which he remarked about the Hijazi case, “After more than 2 years, the government has yet to disclose a shred of evidence to support the allegations....Aya Hijazi's case fits a pattern. We have seen it time and again, not only in Egypt, but in other repressive societies where governments are unaccountable and abuse the judicial process to silence dissent and intimidate those who are perceived, rightly or wrongly, to be engaged in activities that may reflect poorly on the authorities.”¹¹

According to the State Department's Country Reports on Human Rights Practices for 2015 (Egypt), “The most significant human rights problems were excessive use of force by security forces, deficiencies in due process, and the suppression of civil liberties.” Specific examples of these problems cited in the report include unlawful killings and torture; excessive use of preventive custody and pretrial detention; use of military courts to try civilians; arbitrary arrests and harsh prison conditions; and restrictions on freedoms of expression, the press, assembly, association, and religion. While the Report praises the record level of Christians elected to

⁸ Eric Trager, “Where Did They Go Wrong?” The Washington Institute for Near East Policy, Cipher Brief, August 12, 2016.

⁹ “Robert F. Kennedy Human Rights Submits Case to U.N. Working Group Seeking Release of Street Children NGO Co-Founders in Egypt,” May 20, 2016.

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¹⁰ Elizabeth Trudeau, Director, Press Office, U.S. State Department Daily Press Briefing, July 14, 2016.

¹¹ Congressional Record – Senate, “Imprisonment of Aya Hijazi,” September 27, 2016, S6127.

parliament, from 13 in the 2012 parliament to 36, it states that it's well short of proportional. It also points out that, "Local and international rights groups reported increased charges under the blasphemy law, primarily targeting Christians but also atheists."¹²

U.S. officials have periodically expressed strong concern over continued human rights violations committed by Egyptian authorities. In September 2016, National Security Advisor Susan E. Rice said that "Egypt has seen an unprecedented spike in enforced disappearances, with Egyptian security forces increasingly relying on this tactic to silence and intimidate the government's critics."¹³

Non-Governmental Organizations (NGOs)

Successive Egyptian governments have all treated foreign-based non-governmental organizations (NGOs) and their local Egyptian partners with deep suspicion and periodically suppressed their activities. In 2013, an Egyptian court convicted and sentenced 43 people, including the Egypt country directors of the National Democratic Institute (NDI) and the International Republican Institute (IRI), for spending money from organizations that were operating in Egypt without a license. In September 2016, an Egyptian court ordered an asset freeze on five well-known human rights activists and three NGOs. The U.S. State Department responded, stating:

The United States is troubled by the decision by an Egyptian court to freeze the assets of some of the country's leading human rights organizations...These human rights organizations are documenting violations and abuses and defending the freedoms enshrined in Egypt's constitution, and this decision comes against a wider backdrop of closing space for Egyptian civil society. Such restrictions on the space for civil society activity will produce neither stability nor security. We urge the Government of Egypt to lift these asset freezes, take all legally available measures to end the investigations into human rights non-governmental organizations (NGOs), and ease restrictions on association and expression so that these and other NGOs can operate freely.¹⁴

The Economy

According to the *Economist Intelligence Unit*, Egypt's GDP growth in 2016 will most likely reach 3%, a figure that is below government targets and insufficient to jumpstart an economy still recovering from the shock it experienced in 2011.¹⁵ Egypt's economic challenges are numerous. For example:

- Egypt's currency (Pound) is overvalued by an estimated 30%, deterring foreign direct investment. The government has already devalued the currency by 12.6% and is considering whether to partially float the currency. Further devaluation of the pound would attract greater investment, but would also drive up inflation.¹⁶

¹² <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2015&dldid=252921#wrapper>.

¹³ The White House, Office of the Press Secretary, Statement by National Security Advisor Susan E. Rice on the International Day for the Victims of Enforced Disappearances, August 30, 2016.

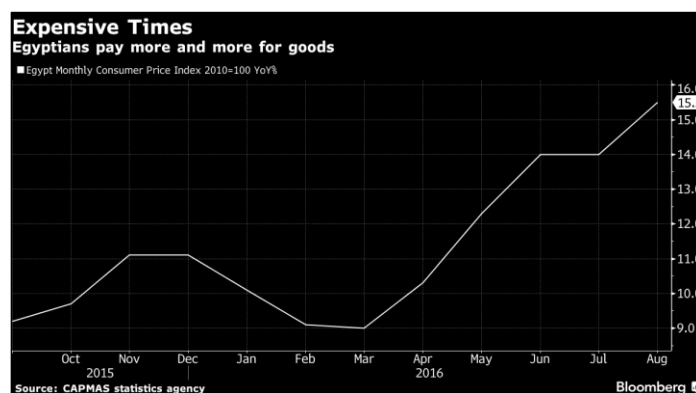
¹⁴ U.S. State Department, Egypt: Non-Governmental Organization Asset Freezes, Press Statement, John Kirby, Assistant Secretary and Department Spokesperson, Bureau of Public Affairs, September 18, 2016.

¹⁵ Economist Intelligence Unit, Country Report – Egypt, Generated on September 30, 2016.

¹⁶ Hydrocarbons are the main source of Egyptian export revenue, and the energy industry is one of the main beneficiaries of foreign direct investment.

- Egypt's foreign exchange reserves stand, as of September 2016, at \$16.6 billion; enough to cover three months-worth of imports. In 2011, reserves were over \$36 billion.
- The Egyptian government already devotes significant resources toward servicing its growing public (\$270 billion) and external debt (\$53 billion). Interest payments on the debt account for a third of total government expenditure.
- The tourism sector remains depressed as tourist arrivals are down 60% from 2015.¹⁷

Figure 2. Inflation in Egypt, 2015-2016



Source: Bloomberg News citing CAPMAS.

The IMF Deal

Facing a large annual budget deficit that cannot be met with Gulf funding alone, Egypt has turned to the International Monetary Fund (IMF) as a lender of last resort; a politically-risky move for the Sisi government given Egypt's long history of conditions-based foreign lending from the West. The IMF has agreed to an Extended Fund Facility, which will lend the Egyptian government \$12 billion over three years conditioned on Egypt finding an additional \$6 billion in bilateral aid from other donors. To date, Saudi Arabia, the United Arab Emirates (UAE), and China have all agreed to provide Egypt with some of these funds. Egypt may turn to Europe and the United States for assistance in order to support the IMF deal. If the IMF approves the final deal, it will be its largest -ever assistance package to a Middle Eastern recipient.

In return for IMF financing, Egypt is expected to embark on an ambitious economic reform plan, some of which it is already implementing, including subsidies cuts and the introduction of a VAT (already approved by parliament). Egypt is already receiving a three-year, \$3 billion World Bank loan and a \$1.5 billion loan from the African Development Bank.

¹⁷ "A Gloomy Egypt Sees Its International Influence Wither Away," *New York Times*, August 2, 2016.

Will the U.S. Support Egypt's Deal with the IMF?

Per Egypt's agreement with the IMF, the government must seek an additional \$6 billion in bilateral loans/grants. Saudi Arabia, the UAE, and China have pledged some assistance. Egyptian officials in Washington have been seeking U.S. support for Egypt's IMF deal from the Administration and Congress. For lawmakers inclined to aid Egypt, potential policy options would include redirecting unspent economic aid to Egypt from the Economic Support Fund (ESF) and/or authorizing a sovereign loan guarantee. The former would require Congressional notification, while the latter would require Congressional authorization and an appropriation to cover the costs/fees associated with the loan guarantee. At this point, it is unclear where the Administration stands on Egypt's request. During the Bush Administration, Congress authorized up to \$2 billion in loan guarantees for Egypt. As a result, Egypt issued a bond for 10 years at \$1.25 billion in 2005. The subsidy cost for the loan guarantee was \$137.25 million, which Egypt paid. The loan matured in 2015. The coupon rate was 4.45%, and received a AAA rating.

Terrorism in the Sinai Peninsula

One of the biggest areas of concern for Egyptian and regional stability over the past several years has been the Sinai Peninsula, where a mix of radicalized indigenous Bedouin Arabs, foreign fighters, and Palestinian militants from neighboring Gaza have formed terrorist cells and targeted both Egypt and Israel. Terrorists belonging to the Islamic State-affiliated Sinai Province (SP)¹⁸ have attacked military bases and police checkpoints, killing hundreds of Egyptian soldiers. Egypt has declared a state of emergency in northern Sinai, where most of the attacks take place.

Many observers assert that, while an increased Egyptian military presence in the Sinai is necessary to stabilize the area, military means alone are insufficient. These critics argue that force should be accompanied by policies to reduce the appeal of antigovernment militancy by addressing local political and economic grievances. The population of northern Sinai predominately consists of tribal Bedouin Arabs—approximately 370,000. Sinai Province tries both to woo disaffected tribal youth to their ranks and to terrorize tribal leaders who cooperate with the Egyptian government. For its part, the Egyptian military needs the cooperation of tribes in combatting Sinai Province, but a discernible and historical lack of trust between tribes and the state hinders more robust cooperation.

Russian Passenger Jet Crash in the Sinai

On October 31, 2015, a Russian passenger jet (Metrojet Flight 9268) exploded in mid-air over the Sinai Peninsula after taking off from Sharm al Sheikh airport, killing all 224 passengers aboard. While the Egyptian government has been circumspect over the cause of the crash, in February 2016 President Sisi seemed to confirm that the circumstances under which the plane had been downed were related to terrorism.¹⁹ This conclusion aligns with that of several foreign governments, including the United States and Russia, who have strongly suggested that the detonation of a hidden "improvised explosive device" most likely brought down the flight. Sinai Province, the Islamic State's Egyptian affiliate, has claimed responsibility for the crash, saying it was in retaliation for Russia's military deployment to Syria. The Metrojet bombing may both harm Egypt's tourism sector and undermine government claims of success in countering terrorism. Tens of thousands of Russian and European tourists were evacuated from various beach resorts in Sharm al Sheikh and tourist numbers have remained relatively low since, crippling a tourist industry that had already been under strain.

¹⁸ This group was formerly known as *Ansar Bayt al Maqdis* (Supporters of the Holy House or Partisans of Jerusalem). It emerged after the Egyptian revolution of 2011 and affiliated with the Islamic State in 2014. Estimates of its numerical composition range from 500 to 1,000. In Arabic, it is known as *Wilayat Sinai* (Sinai Province).

¹⁹ Nour Youssef, "In Reversal, Egypt Says Terrorists Downed Russian Jet Over Sinai," *New York Times*, February 24, 2016.

In general, Bedouin Arabs in the Sinai have complained that the state has neglected their areas, while authorities have tended to view tribal communities with suspicion over their involvement in smuggling. The Sinai smuggling trade (human trafficking, narcotics, and weapons) had been lucrative business for some Sinai residents before being disrupted by Israel's construction of a wall along its border with Egypt and Egypt's crackdown on tunnel smuggling along the Gaza border.²⁰

Egypt's Foreign Relations

Israel, Hamas, and Countering Underground Smuggling

Israeli-Egyptian relations have markedly improved since the 2013 ouster of former Egyptian President Mohammed Morsi. Israel had been apprehensive about the long-term prospect of an Islamist-governed Egypt, and while its relationship with Egypt's military is not without challenges,²¹ the two sides maintain regular dialogue on defense and intelligence issues.

Throughout 2016, Egypt has attempted to take a more high profile role in putative negotiations between Israel and the Palestinians, though some observers have portrayed this as an effort to distract from domestic concerns.²² Initial indications are that Israel cautiously welcomes Egyptian involvement in hopes that regional Arab intervention with the Palestinians might augur more favorable outcomes for Israel than other international initiatives, such as one led by France this year.²³ Under similar logic, the Palestine Liberation Organization (PLO) appears to favor wider international initiatives (such as the French one) over a major Egyptian role.²⁴

In July 2016, Egyptian Foreign Minister Sameh Shoukry visited Jerusalem, the first such visit for an Egyptian official to Israel in nearly a decade. Shoukry met with Israeli Prime Minister Benjamin Netanyahu, who remarked during the foreign minister's visit that "I welcome President el-Sisi's recent offer of Egyptian leadership in efforts to advance peace with the Palestinians and a broader peace in our region."

²⁰ "The General's Law in Sinai," *The Economist*, November 15, 2014.

²¹ Although Egypt and Israel have been at peace since 1979, their relationship is often characterized as a "cold peace." According to one account, "Despite the new strategic cooperation, which largely occurs behind the scenes, Egyptian popular attitudes toward Israel remain overwhelmingly negative. Few Israelis visit Egypt, and those who do are often carefully watched by the security services, while the Egyptian government, social pressures, and popular hostility continue to impede Egyptian visits to Israel." See, Marc J. Sievers "Riding the Egyptian-Israeli Roller Coaster 2011–2015," *The Washington Institute for Near East Policy*, Policy Notes #27, December 2015.

²² Albaraa Abdullah, "What Role will Egypt play in Palestine-Israel peace path?" *Al Monitor Egypt Pulse*, June 15, 2016.

²³ See, e.g., Leslie Susser, "The Netanyahu enigma," *Jerusalem Report*, June 27, 2016.

²⁴ Rory Jones and Tamer El-Ghobashy, "Israel, Palestinians Court Egypt's Sisi as Broker in Peace Talks," *Wall Street Journal*, June 2, 2016.

Israel and Egypt share a common adversary in the Palestinian terrorist group Hamas, which Egypt accuses of aiding antigovernment militants in the Sinai Peninsula.²⁵ Since it deposed President Morsi in July 2013, Egypt's military has attempted to more dramatically curb weapons smuggling to Gaza-based militants. It repeatedly claims to have destroyed tunnels, and it has taken the unprecedented steps of largely dismantling the town of Rafah along the Egypt-Gaza border and relocating it further from the border. Egypt hopes to create a "buffer zone," which it claims would significantly reduce underground weapons smuggling to Hamas.

The Egyptian Border Guards Forces (BGF), a unit within the Egyptian army permitted to operate near the Israeli-Egyptian-Gaza border,²⁶ is the primary defense force charged with curbing Hamas smuggling. BGF forces have flooded the tunnels with seawater, leaving the soil prone to collapse. Egypt also controls the Rafah border crossing into Gaza, the only non-Israeli-controlled entry way into the Strip, which it periodically closes for security reasons.

Libya

Egypt is a strong backer of Qadhafi-era retired general Khalifah Haftar, who now controls significant territory in eastern Libya, including many of the country's key oil-producing areas. Some Libyans view Egypt's backing of Haftar's campaign against extremist groups, other Islamists, and a coalition of western Libyans as an attempt to reassert authoritarian control and reverse the outcome of Libya's 2011 revolution. Haftar is the current leader of the Libyan National Army (LNA), which is nominally aligned with the Tobruk-based House of Representatives government in the east. Egyptian officials have argued that terrorist violence emanating from Libya and directed against Egyptian citizens living and working there has compelled Egypt to militarily intervene in its neighbor's civil war.

The Gulf Arab Monarchies

Saudi Arabia, the United Arab Emirates (UAE) and other Gulf Arab monarchies have been strong proponents of President Sisi, and their financial aid has been critical in stabilizing Egypt's economy and national budget. Gulf states have injected billions of dollars into the economy and treasury, providing cash grants, concessional loans, and fuel imports.

Figure 3. Egyptian FM visits Israel



Source: Israel's Ministry of Foreign Affairs

²⁵ Shlomi Eldar, "Is Hamas working with Wilayat Sinai?," *Al Monitor Israel Pulse*, July 6, 2015.

²⁶ The Israeli-Egyptian peace treaty limits the number of soldiers that Egypt can deploy in the Sinai, among other things, subject to the parties' ability to negotiate changes to Egyptian deployments as circumstances necessitate. Egypt and Israel mutually agree upon any short-term increase of Egypt's military presence in the Sinai. Both sides coordinate with the Multinational Force of Observers (MFO), which monitors force deployments.

Red Sea Islands Controversy

During a visit by King Salman of Saudi Arabia to Cairo in April 2016, President Sisi announced the transfer of two Egyptian-administered Red Sea islands to Saudi control, sparking popular backlash and legal confusion.

Tiran and Sanafir, which are uninhabited but strategically important islands located at the entrance to the Gulf of Aqaba, were administered by Egypt from the 1950s until their occupation by Israel in 1967, and were returned to Egyptian control following the 1979 peace treaty with Israel. The Egyptian government justified the 2016 transfer by arguing that the islands had been temporarily administered by Egypt at Saudi Arabia's request, and that the new maritime border agreement, previously postponed because of concerns about regional stability, was simply formalizing already recognized Saudi sovereignty over the islands. The announcement was accompanied by news of billions of additional dollars in Saudi aid, and a plan to build a bridge from Egypt's Sinai Peninsula to Saudi Arabia. In what have been the largest protests of Sisi's administration to date, thousands of demonstrators took to the streets of Cairo and Alexandria to condemn the government's decision. Critics characterized the transfer of the islands as a capitulation by the Sisi government to maintain the financial and political support of Saudi Arabia.

In a June 2016 ruling that constituted a rare judicial setback for President Sisi, an Egyptian court voided the decision; the government has appealed.

Despite this largesse, when Gulf allies have called for regional military support, President Sisi has maintained a relatively independent stance. In the spring of 2015, when Saudi Arabia assembled an international coalition to support its military operations in Yemen, Egypt refrained from making any large scale commitment of ground troops, instead sending naval vessels to assist with a Saudi-led blockade and keep the Bab al Mandeb Strait open to international shipping. Egypt has agreed to membership in another Saudi-assembled international coalition to counter terrorism, though what specific role Egypt may play has yet to be determined.

Arms Agreements with France and Russia

Since coming to power, President Sisi has attempted to broaden Egypt's diplomatic relationships, including through military procurement from non-U.S. sources. According to one Egyptian professor, "diversifying the sources of arms is an important issue for Egypt to free it from subordination to the United States."²⁷ Since 2013, the Egyptian military, partially underwritten by the Gulf Arab states, has increased defense spending and reached new arms agreements with France and Russia.

In February 2015, Egypt purchased 24 Dassault Rafale multirole fighters, a frigate, and missiles from France in a deal worth an estimated \$5.9 billion (half of which is financed by French loans). France delivered the first three planes in July 2015. In 2014, France sold Egypt four naval corvettes and a frigate in a deal worth \$1.35 billion.

In the fall of 2015, France announced that it would sell Egypt two Mistral-class helicopter carriers (each carrier can carry 16 helicopters, four landing craft, and 13 tanks) for \$1 billion. In a separate deal with Russia, Egypt will purchase 46 Ka-52 Alligator helicopters which can operate on the Mistral-class helicopter carrier.

Figure 4. Egypt's New Rafale Jetfighters



²⁷ Open Source Center, "Egyptian Military Experts Hail Deal with France," Document ID# IMR2015072244574979, OSC Summary, July 21, 2015. **Source:** Jane's Defence Weekly.

Other Russian-Egyptian arms sales include

- Antey-2500 (S-300) anti-ballistic missile system (\$1 billion contract)
- 46 MiG-29 multirole fighters (\$2 billion contract)²⁸

Russian Nuclear Deal?

In May 2016, Russia announced that it would lend Egypt \$25 billion over 35 years to finance the Russian construction and operation of a nuclear power plant in Daba'a. The plant aims to be operational by 2022 and produce electricity by 2024.²⁹ In late September 2016, President Sisi met with Russia's State Nuclear Energy Corporation (ROSATOM) head Sergey Kiriyenko. ROSATOM will be building the nuclear plant in Egypt.

U.S. Policy toward Egypt

Egypt's role in the "Arab Spring" of 2011 briefly elevated the country toward the top of the U.S. foreign policy agenda, as officials tried to navigate a delicate transitional period that witnessed an existential power struggle between Islamists and the military. After a two-and-a-half year period of U.S. efforts to promote a democratic transition in Egypt, the apparent return of authoritarian rule that began with the military's July 2013 takeover has left U.S. policymakers in a quandary.

Administration Attempts to "Redefine" U.S.-Egyptian Relations

With the Obama Administration focused on Operation Inherent Resolve against the Islamic State in Iraq and Syria, and with the concluded nuclear agreement with Iran, Egypt has been less of a regional priority for the U.S. government. As Egypt continues to crack down on all forms of dissent, the Obama Administration and the Egyptian government have articulated competing views of how best to secure Egypt's stability.

Principles Versus Interests

In the last few years, Egypt has presented serious challenges to U.S. policymakers seeking to balance competing priorities. On one hand, the Obama Administration wants Egypt to move toward more democratic governance and a market-based economy to address the grievances of its relatively young population. On the other hand, Egypt's military, which has evolved little in terms of democratic practices and institutions since the end of Egypt's monarchy in 1952, remains the country's primary political actor. If the United States fully embraces the military, it risks alienating Egyptians striving for either liberal democracy or Islam-based governance. When the United States appears to emphasize democracy, Egypt's security apparatus tends to turn against it, accusing American diplomats of, among other things, supporting the Muslim Brotherhood, spreading neo-colonialism, and undermining Egypt's stability.

The Obama Administration has attempted to balance these competing priorities by crafting a policy that continues strong military-to-military ties without condoning Egypt's crackdown against dissent.³⁰ Soon after the Egyptian military's ouster of former president Mohammed Morsi in July 2013, the Administration launched a lengthy review of U.S. foreign assistance policy

²⁸ "Egypt reportedly to buy 46 MiG-29s," *Jane's Defence Weekly*, May 27, 2015.

²⁹ "Russia to lend Egypt \$25 billion to build Nuclear Power Plant," *Reuters*, May 19, 2016.

³⁰ See, "Remarks of President Obama, Commencement Address," West Point, New York, May 28, 2014. The President's 2015 National Security Strategy also alludes to this balance between principles and interests, noting that "We will maintain strategic cooperation with Egypt to enable it to respond to shared security threats, while broadening our partnership and encouraging progress toward restoration of democratic institutions."

toward Egypt.³¹ This review came amid questions about the legality of continued assistance to Egypt's government given U.S. law prohibiting assistance to any government whose duly elected leader is deposed by military coup or decree.

In order to demonstrate its disapproval of the Egyptian military's reassertion of power without cutting all military-to-military ties, the Administration announced in October 2013 that it would withhold the delivery of certain large-scale military systems (such as F-16s, Apache helicopters, Harpoon missiles, and M1A1 tanks) to the Egyptian government pending credible progress toward democracy.

For the year-and-a-half duration of the weapons suspension, U.S.-Egyptian military cooperation continued, though Egyptian officials repeatedly criticized the President's decision. Egypt also began broadening its defense ties with other countries. As noted above, the Egyptian military signed new arms agreements with Russia (S-300) and France (Rafale Fighters). Although the Administration ultimately lifted the suspension on arms deliveries (see below), Sisi expressed frustration with the weapons suspension, claiming in an interview that it sent a "negative indication to the public opinion that the United States is not standing by the Egyptians."³²

Major Shift in U.S. Assistance Policy

By the spring of 2015, as terrorist attacks against Egypt continued, some lawmakers called on the Administration to end its weapons suspension,³³ and the Administration responded with a significant change in U.S. policy. On March 31, 2015, after a phone call between President Obama and President Sisi, the White House announced that the Administration was releasing the deliveries of select weapons systems to Egypt that had been on hold since October 2013, and pledged to continue seeking \$1.3 billion in aid from Congress. However, the White House simultaneously announced that future military assistance to Egypt would be largely reformulated: "Beginning in fiscal year 2018 ... we will channel U.S. security assistance for Egypt to four categories – counterterrorism, border security, Sinai security, and maritime security – and for sustainment of weapons systems already in Egypt's arsenal."³⁴ In a separate National Security Council (NSC) press release, NSC Spokesperson Bernadette Meehan noted that

At the same time, the President has decided to modernize the U.S.-Egypt military assistance relationship. First, beginning in fiscal year 2018, we will discontinue Egypt's use of cash flow financing (CFF) – the financial mechanism that enables Egypt to purchase equipment on credit. By ending CFF, we will have more flexibility to, in coordination with Egypt, tailor our military assistance as conditions and needs on the ground change.³⁵

³¹ The White House, Office of the Press Secretary, Statement by President Barack Obama on Egypt, July 03, 2013.

³² "Exclusive: El-Sisi urges 'Arab ready force' to confront ISIS, questions if US 'standing by' Egypt," *Foxnews.com*, March 9, 2015.

³³ In February 2015, Representative Kay Granger, Chairwoman of the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs, wrote to President Obama stating that "They [the Egyptians] need these planes and other weapons immediately to continue the fight against ISIL and other terrorists threatening Egypt's security, but your Administration has refused to use the authority Congress provided you in law to provide Egypt these weapons."

³⁴ The White House, Office of the Press Secretary, Readout of the President's Call with President al-Sisi of Egypt, March 31, 2015.

³⁵ For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by (name redacted) .

To date, there has been relatively muted public discussion of the President's proposed policy changes. According to one analyst, "In Washington, Egypt's cash-flow financing had lost support from both parties and is not likely to be reinstated no matter who moves into the White House in 2017."³⁶ Others have blamed President Obama for hurting overall U.S. Egyptian-relations by announcing a future end for CFF. According to one observer, "Ironically, President Obama may have thought his phone call to Cairo announcing the release of weapons would turn a new page in a rocky relationship. But by coupling that decision with the cancellation of a financing scheme that was a signal of Egypt's special relationship with Washington, Obama might have closed the book on any chance for closer U.S.-Egypt ties until a new president takes another look at this old alliance."³⁷

Latest Developments in U.S. Policy

The following is a list of policy developments concerning Egypt:

- **Unobligated Economic Aid:** According to the Government Accountability Office (GAO), the Department of State and the U.S. Agency for International Development (USAID) reported hundreds of millions of dollars (\$460 million as of 2015) in unobligated prior year ESF funding.³⁸ The current amount of unobligated ESF may be as high as \$500 to \$700 million.³⁹
- **Human Rights Vetting (Leahy Law)**⁴⁰ –Section 620M of the Foreign Assistance Act of 1961 (FAA), as amended, prohibits the furnishing of assistance authorized by the FAA and the Arms Export Control Act to any foreign security force unit where there is credible information that the unit has committed a gross violation of human rights. The State Department and U.S. embassies overseas implement Leahy vetting to determine which foreign security individuals and units are eligible to receive U.S. assistance or training. A GAO report from May 2016 concluded:

The U.S. government completed some, but not all, human rights vetting required by State policy before providing training or equipment to Egyptian security forces. State deemed GAO's estimate of the percentage of Egyptian security forces that were not vetted to be sensitive but unclassified information, which is excluded from this public report. Moreover, State has not established specific policies and procedures for vetting Egyptian security forces receiving equipment. Although State concurred with a 2011 GAO recommendation to implement equipment vetting, it has not established a time frame for such action. State currently attests in memos that it is in compliance with the Leahy law. However, without vetting policies and procedures, the U.S. government risks providing U.S. equipment to recipients in Egypt in violation of the Leahy laws.⁴¹

In February 2016, Senator Leahy and 10 other Members of Congress sent a letter to Secretary of State John Kerry asking the State Department to determine whether alleged extrajudicial killings by Egyptian security forces should trigger Leahy law restrictions.⁴² P.L. 114-113, the FY2016

³⁶ "The Politics of Restoring Egypt's Military Aid," *Washington Post*, April 2, 2015.

³⁷ "Obama Wrecked U.S.-Egypt Ties," *National Interest*, April 7, 2015.

³⁸ EGYPT: U.S. Government Should Examine Options for Using Unobligated Funds and Evaluating Security Assistance Programs, GAO-15-259; Published: February 11, 2015. Publicly Released: March 12, 2015.

³⁹ "Congress Ponders next move as Egypt clogs its own Funding Pipeline," *Al Monitor*, April 13, 2016.

⁴⁰ For background on the Leahy Law, see CRS Report R43361, "Leahy Law" Human Rights Provisions and Security Assistance: Issue Overview, coordinated by (name redacted) .

⁴¹ SECURITY ASSISTANCE: U.S. Government Should Strengthen End-Use Monitoring and Human Rights Vetting for Egypt

GAO-16-435; Published: April 12, 2016. Publicly Released: May 12, 2016.

⁴² The letter's text is available at <http://www.politico.com/f/?id=00000153-c56c-d662-a75b-cfecc6be0000>.

Consolidated Appropriations Act, states that “Funds appropriated by this Act that are available for assistance for Egypt may be made available notwithstanding any other provision of law restricting assistance for Egypt, except for this subsection and section 620M of the Foreign Assistance Act of 1961.”

- **Proposed 2017 Foreign Aid Legislation to Egypt:** H.R. 5912, the House version of the FY2017 Department of State, Foreign Operations, and Related Programs Appropriations bill, would provide up to \$150 million in ESF and \$1.3 billion in FMF for Egypt. The Senate version, S. 3117, would provide up to \$75 million in ESF and \$1.3 billion in FMF. Like the FY2016 Act (P.L. 114-113), the Senate bill would withhold 15% of FMF for Egypt from obligation until the Secretary of State can certify that Egypt is taking effective steps toward democracy and effective governance, among other things.

Background on U.S. Foreign Assistance to Egypt

Overview

Between 1948 and 2015, the United States provided Egypt with \$76 billion in bilateral foreign aid (calculated in historical dollars—not adjusted for inflation), including \$1.3 billion a year in military aid from 1987 to the present.

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:

In the context of the peace treaty between Egypt and Israel, 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, subject to such Congressional review and approvals as may be required.⁴³

All U.S. foreign aid to Egypt (or any foreign recipient) is *appropriated and authorized by Congress*. The 1979 Egypt-Israel Peace Treaty is a bilateral peace agreement between Egypt and Israel, and the United States is not a legal party to the treaty. The treaty itself does not include any U.S. aid obligations, and any assistance commitments to Israel and Egypt that could be potentially construed in conjunction with the treaty were through ancillary documents or other communications and were—by their express terms—subject to congressional approval (see above). However, as the peace broker between Israel and Egypt, the United States has traditionally provided foreign aid to both countries to ensure a regional balance of power and sustain security cooperation with both countries.

In some cases, an Administration may sign a bilateral “Memorandum of Understanding” (MOU) with a foreign country pledging a specific amount of foreign aid to be provided over a selected

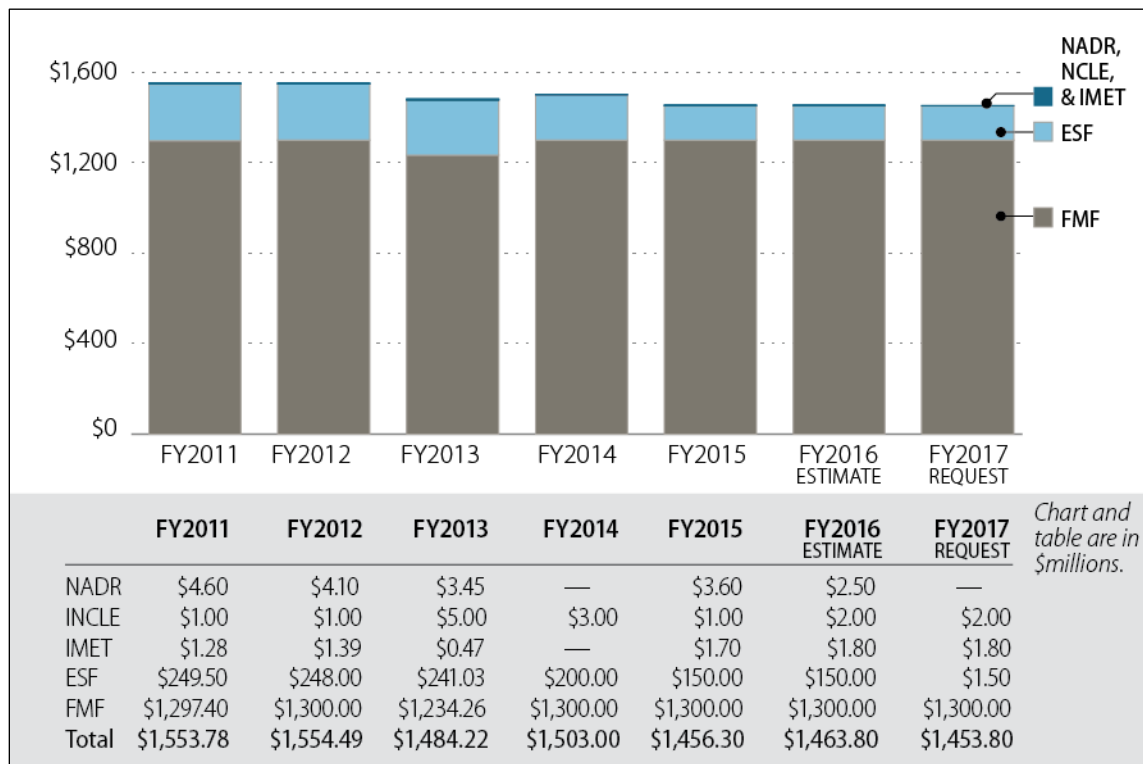
⁴³ See Letter From the Secretary of Defense (Brown) to the Egyptian Minister of Defense and War Production (Ali), March 23, 1979, “United States Sales of Military Equipment and Services to Egypt.” Ultimately, the United States provided a total of \$7.3 billion to both parties in 1979. The Special International 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.

time period subject to the approval of Congress. In the Middle East, the United States has signed foreign assistance MOUs with Israel and Jordan. Currently, there is no U.S.-Egyptian MOU specifying a specific amount of total U.S. aid pledged to Egypt over a certain time period. In July 2007, the Bush Administration had announced, as a part of a larger arms package to the region, that it would begin discussions with Egypt on a proposed \$13 billion military aid agreement over a 10-year period. Since Egypt was already receiving approximately \$1.3 billion a year in military assistance, the announcement represented no major change in U.S. aid policy toward Egypt. Since then, no such bilateral MOU on U.S. military aid to Egypt has been reached either by the Bush or Obama Administrations with the Egyptian government.

Congress typically specifies a precise allocation of most 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).⁴⁴ The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term.

⁴⁴ 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. The Administration typically requests these funds, but they are not usually specifically earmarked for Egypt (or for most other countries) in legislation. After the passage of a foreign operations appropriations bill, federal agencies such as the State Department and the U.S. Agency for International Development (USAID) allocate funds to Egypt from these aid accounts. They then submit a country allocation report (653a Report) to Congress for review.

Figure 5. U.S. Assistance to Egypt, FY2011-FY2017 Request
(Regular and Supplemental Appropriations; Current Year \$ in Millions)



Source: U.S. State Department.

Notes: In FY2013, the State Department allocated an additional \$202 million in FY2013 ESF for an “Egypt Initiative,” which was intended to support a loan guarantee program. Following the President’s review of Egypt assistance in summer 2013, the Administration made a decision to no longer pursue a loan guarantee. Programmatic decisions about this funding are still being determined.

Military Aid and Arms Sales

Overview

Since the 1979 Israeli-Egyptian Peace Treaty, the United States has provided Egypt with large amounts of military assistance. U.S. policymakers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running military cooperation and on sustaining the treaty—principles that are supposed to be mutually reinforcing. Egypt has used U.S. military aid through the FMF to (among other things) gradually replace its earlier Soviet-origin equipment with U.S. defense systems.

Frequently Asked Question: Is U.S. Military Aid Provided to Egypt as a Cash Transfer?

No. All U.S. military aid to Egypt finances the procurement of weapons systems and services *from U.S. defense contractors*.⁴⁵ The United States provides military assistance to U.S. partners and allies to help them acquire U.S. military equipment and training. Egypt is one of the main recipients of FMF, a program with a corresponding appropriations account administered by the Department of State but implemented by the Department of Defense. FMF is a grant program that enables governments to receive equipment and associated training from the U.S. government or to access equipment directly through U.S. commercial channels.

Most countries receiving FMF generally purchase goods and services through government-to-government contracts, also known as Foreign Military Sales (FMS). According to the Government Accountability Office, “under this procurement channel, the U.S. government buys the desired item on behalf of the foreign country (Egypt), generally employing the same criteria as if the item were being procured for the U.S. military.” The vast majority of what Egypt purchases from the United States is conducted through the FMS program funded by FMF. Egypt uses few of its own national funds for U.S. military equipment purchases.

Under Section 36(b) of the Arms Export Control Act (AECA), Congress must be formally notified 30 calendar days before the Administration can take the final steps of a government-to-government foreign military sale of major U.S.-origin defense equipment valued at \$14 million or more, defense articles or services valued at \$50 million or more, or design and construction services valued at \$200 million or more. In practice, pre-notifications to congressional committees of jurisdiction occur and proposed arms sales generally do not proceed to the public official notification stage until issues of potential concern to key committees have been resolved.

Realigning Military Aid from Conventional to Counterterrorism Equipment

For decades, FMF grants have supported Egypt’s purchases of large-scale conventional military equipment from U.S. suppliers. However, as previously mentioned, the Administration has announced that future FMF grants may only be used to purchase equipment specifically for “counterterrorism, border security, Sinai security, and maritime security” (and for sustainment of weapons systems already in Egypt’s arsenal).⁴⁶

At this time, it is unclear how the Administration will determine which U.S.-supplied military equipment will help the Egyptian military counter terrorism and secure its land and maritime borders. Overall, some defense experts continue to view the Egyptian military as inadequately prepared, both doctrinally and tactically, to face the threat posed by terrorist/insurgent groups such as Sinai Province. In order to reorient the military toward unconventional warfare, the Egyptian military needs, according to one assessment, “heavy investment into rapid reaction forces equipped with sophisticated infantry weapons, optics and communication gear ... backed by enhanced intelligence, surveillance and reconnaissance platforms. In order to transport them, Egypt would also need numerous modern aviation assets.”⁴⁷

⁴⁵ For the relevant legal authorities, see §604 of the Foreign Assistance Act as amended (22 U.S.C. 2354) and §503 of the Foreign Assistance Act as amended (22 U.S.C. 2311).

⁴⁶ According to a 2015 GAO report on U.S. assistance to Egypt, DSCA “led a review of Egypt’s FMF program to align current purchases with shared security interests and to make recommendations on whether to continue to support specific systems through FMF. As part of this review, DSCA identified some systems that did not directly align with shared security interests. These included some older, outdated, or third-party produced systems, such as Chinese-built submarines and Russian-made surface-to-air missiles, as well as U.S.-manufactured Gulfstream VIP aircraft and M1A1 tank kits. DSCA recommended continuing support for 18 of these systems totaling \$6.5 billion, but identified 15 of these systems totaling \$777 million that should be transitioned from FMF funds to Egyptian government funds or ended.” See, GAO-15-259, “EGYPT U.S. Government Should Examine Options for Using Unobligated Funds and Evaluating Security Assistance Programs,” February 2015.

⁴⁷ “Egypt’s Conventional Military Thinking,” *Stratfor*, June 12, 2015.

Special Military Assistance Benefits for Egypt

In addition to substantial amounts of annual U.S. military assistance, Egypt has benefited from certain aid provisions that have been available to only a few other countries. For example:

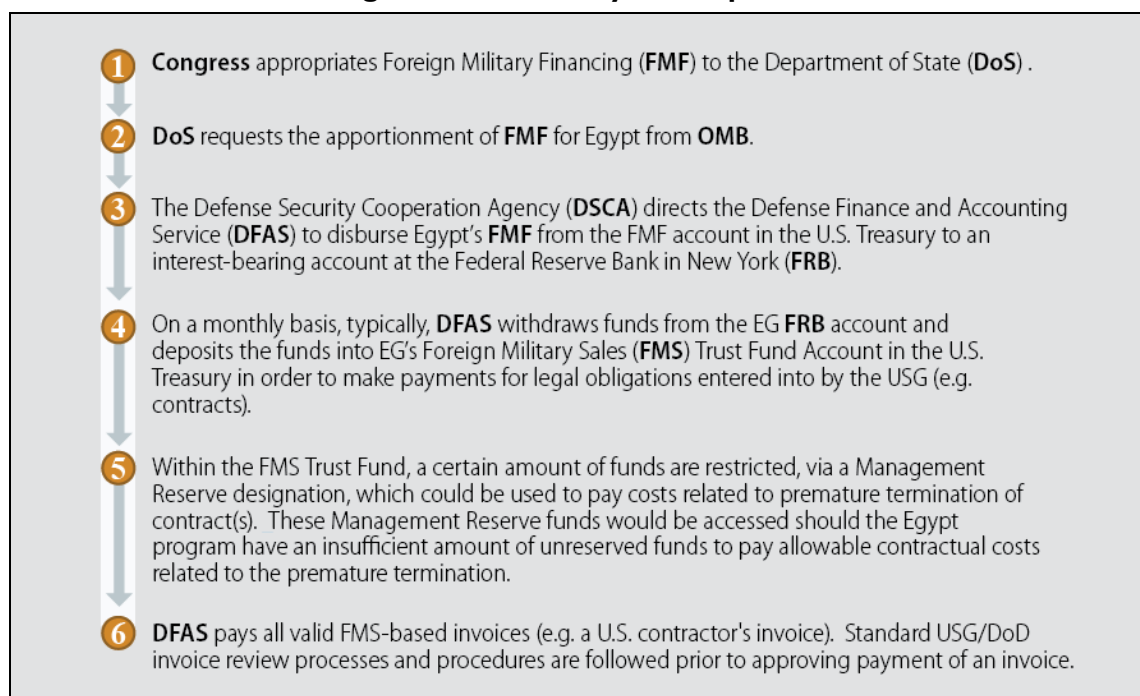
- **Early Disbursal and Interest Bearing Account:** Between FY2001 and FY2011, Congress granted Egypt early disbursement of FMF funds (within 30 days of the enactment of appropriations legislation) to an interest-bearing account at the Federal Reserve Bank of New York.⁴⁸ Interest accrued from the rapid disbursement of aid has allowed Egypt to receive additional funding for the purchase of U.S.-origin equipment. In FY2012, Congress began to condition the obligation of FMF, requiring the Administration to certify certain conditions had been met before releasing FMF funds, thereby eliminating their automatic early disbursal. However, Congress has permitted Egypt to continue to earn interest on FMF funds already deposited in the Federal Reserve Bank of New York.
- **The Excess Defense Articles (EDA) program** provides one means by which the United States can advance foreign policy objectives—assisting friendly and allied nations through provision of equipment in excess of the requirements of its own defense forces. The Defense Security Cooperation Agency (DSCA) manages the EDA program, which enables the United States to reduce its inventory of outdated equipment by providing friendly countries with necessary supplies at either reduced rates or no charge. As a designated “major non-NATO ally,” Egypt is eligible to receive EDA under Section 516 of the Foreign Assistance Act and Section 23(a) of the Arms Export Control Act.
- **Cash Flow Financing:** Section 23 of the Arms Export Control Act (22 U.S.C. §2763⁴⁹) authorizes the President to finance the “procurement of defense articles, defense services, and design and construction services by friendly foreign countries and international organizations, on such terms and conditions as he may determine consistent with the requirements of this section.” Successive Administrations have used this authority to permit Israel and Egypt to set aside almost all FMF funds for current year payments only, rather than set aside the

⁴⁸ By law, Egypt and Israel are permitted to earn interest on congressionally appropriated Foreign Military Financing (FMF). During the late 1990s, the Clinton Administration (especially the U.S. Defense Department) and the Egyptian government sought to increase U.S. military aid to Egypt. One proposal had been to grant Egypt a benefit already enjoyed by Israel—the use of an interest-bearing account in which unspent FMF funds can accumulate interest to be used for future purchases. During Senate consideration of legislation to provide Egypt access to an interest-bearing account, Senator Mitch McConnell remarked that “In the State Department briefing justifying the request, U.S. officials urged our support because of Mubarak’s need to address the requirements of ‘his key constituents, the military.’ Frankly, I think Mr. Mubarak needs to worry less about satisfying the military and spend more time and effort shoring up democratic institutions and civic society.” See Congressional Record-Senate, S5508, June 21, 2000. In October 2000, Congress passed P.L. 106-280, the Security Assistance Act of 2000, which authorized FY2001 FMF funds for Egypt to be disbursed to an interest-bearing account in the Federal Reserve Bank of New York. The law required that none of the interest accrued by such account should be obligated unless first notified to relevant congressional appropriations and oversight committees. In November 2000, Congress passed P.L. 106-429, the FY2001 Foreign Operations Appropriations Act, which included an interest-bearing account for Egypt in appropriations legislation. Since then, this provision has remained in annual appropriations legislation, most recently in P.L. 114-113, the Consolidated Appropriations Act, 2016.

⁴⁹ Section 23(g)(1) of the AECA requires congressional notification of Letters of Offer and Acceptance (LOAs), Amendments, and commercial contracts for \$100 million or greater that are partially or totally funded with cash flow financing.

full amount needed to meet the full cost of multi-year purchases.⁵⁰ Known as “cash flow financing,” this benefit enables Egypt to negotiate major arms purchases with U.S. defense suppliers and acquire defense systems with payments scheduled over a longer time horizon. On March 31, 2015, the White House announced that beginning in FY2018, the United States would stop providing cash flow financing (CFF) to Egypt; successive Administrations have authorized CFF for Egypt since 1979. For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by (name redacted) .

Figure 6. The Military Aid “Pipeline”



Source: Information from Defense Security Cooperation Agency. Graphic created by CRS.

Economic Aid

Overview

Although Egypt still receives economic assistance from the Economic Support Fund (ESF), the nature of U.S. support has changed significantly over the years. In the early to mid-1970s, as the United States sought to expand its relationship with Egypt, encourage peace with Israel, and promote a capitalist economy, U.S. loans and grant aid helped Egypt modernize its national infrastructure.⁵¹ When Egypt made peace with Israel and subsequently became politically and

⁵⁰ In the past, other countries such as Greece, Portugal, and Turkey have been granted the benefit of cash flow financing but only for specific purchases, such as F-16 aircraft. See General Accounting Office, “Military Sales, Cash Flow Financing, Report #GAO/NSIAD-94-102R, February 8, 1994.

⁵¹ In the late 1970s, U.S. aid to Egypt was substantial when compared to both the size of the Egyptian economy and the government's budget. According to former U.S. Ambassador to Egypt Edward S. Walker Jr., “In terms of Egypt's non-recurring expenditures in 1979, that is excluding salaries and so forth, the aid infusion was equal to about two thirds of (continued...) ”

economically isolated from the rest of the Arab world, a large-scale U.S. assistance program helped offset the losses from Egypt's diplomatic isolation while building Cairo's sewer system, a telecommunications network, and thousands of schools and medical facilities.⁵²

However, beginning in the mid to late 1990s, as Egypt moved from an impoverished country to a lower-middle income economy, the United States and Egypt began to rethink the assistance relationship, emphasizing "trade not aid." In 1994, then Vice President Al Gore and former Egyptian President Hosni Mubarak formed the U.S.-Egypt Partnership for Economic Growth, a bilateral forum designed ultimately to boost the Egyptian private sector and promote U.S.-Egyptian trade. The Egyptian government had hoped that high-level U.S. attention on bilateral economic issues would ultimately lead to a possible Free Trade Agreement (FTA) with the United States.⁵³ However, as bilateral relations somewhat soured during the Bush Administration, an array of political and economic U.S. concerns (e.g., Egypt's poor human rights record, lack of protection for intellectual property) hampered any momentum for a U.S.-Egypt FTA.⁵⁴

U.S. Funding for Democracy Promotion

U.S. funding for democracy promotion activities and good governance has been a source of acrimony between the United States and Egypt for years. Though the two governments have held numerous consultations over the years regarding what Cairo might view as acceptable U.S.-funded activities in the democracy and governance sector, it appears that the sides have not reached a consensus. Using the appropriations process, Congress has acted to ensure that "democracy and governance activities shall not be subject to the prior approval by the government of any foreign country."⁵⁵

The Consolidated Appropriations Act, 2016, like previous versions, contains several provisions on U.S. democracy assistance, including Section 7041(a)(2)(B), which mandates that the Secretary of State withhold an amount of ESF to Egypt determined to be equivalent to that expended by the United States Government for bail, and by nongovernmental organizations for legal and court fees, associated with democracy related trials in Egypt until the Secretary certifies that Egypt has dismissed the convictions issued by the Cairo Criminal Court on June 4, 2013. In 2014, the Egyptian government mandated, per law 84 of 2002, that all civil society groups must register with the Ministry of Social Solidarity. Article 78 of the Egyptian penal code also was amended to mandate life imprisonment for anyone who receives funds from foreign entities in the context of counterterrorism; though democracy activists fear that this amendment will be used to silence dissent.⁵⁶

(...continued)

Egypt's discretionary budget at that time. Today the program hardly makes the chart." See Statement by Ambassador Edward S. Walker Jr. President, Middle East Institute, "U.S. Economic Aid To Egypt," Committee on House International Relations, June 17, 2004.

⁵² In 1978, the United States and Egypt signed a bilateral Economic, Technical, and Related Assistance Agreement, which states in clause one that "the furnishing of such assistance shall be applicable to United States laws and regulations. It shall be made available in accordance with arrangements agreed upon between the above-mentioned representatives." See Agreement between the United States of America and Egypt, signed at Cairo, August 16, 1978, Treaties in Force, U.S. State Department, Office of the Legal Adviser, 9481.

⁵³ As a first step, the two parties signed a Trade and Investment Framework Agreement (TIFA) in 1999. The TIFA established a Council on Trade and Investment (TIFA Council) composed of representatives of both governments and chaired by the United States Trade Representative (USTR) and Egypt's Minister of Economy and Foreign Trade.

⁵⁴ 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. Egypt did not enter the QIZ program until 2004, more than seven years after the offer was formally extended by Congress. In March 2013, nearly a decade after Egypt entered the QIZ program, the USTR announced an expansion of the QIZ program to include two new QIZ areas.

⁵⁵ Originally referred to as the Brownback amendment, this legislative language began in reference to Egypt, but was expanded in FY2008 to include "any foreign country." See P.L. 110-161. This provision has been retained in Section 7032 of P.L. 113-235, the FY2015 Consolidated Appropriations Act.

⁵⁶ "Egyptian Activists fear new Penalties for Foreign Funding," *Al Monitor*, October 10, 2014.

Congress began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached between the United States and Israel 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. From FY2010 to FY2013, Congress appropriated ESF to Egypt at the \$250 million Administration-requested level. In FY2014 and FY2015, Congress provided up to \$200 million and \$150 million respectively in ESF to Egypt, of which not less than \$35 million was specified for higher education programs and scholarships.

As in the previous two fiscal years, the FY2017 Administration request seeks to maintain ESF at the \$150 million level. Presently, there is no bilateral agreement between the United States and Egypt on overall levels of economic assistance. U.S. economic aid to Egypt is divided into two components: (1) USAID-managed programs⁵⁷ (public health, education,⁵⁸ economic development, democracy and governance); and (2) the U.S.-Egyptian Enterprise Fund. According to the GAO, there are “significant unobligated balances in the ESF account,” dating back to Egypt’s 2011-2013 political transition, and various obstacles that arose at that time toward implementing support programs.⁵⁹

The Enterprise Fund

In late 2011, when Congress passed P.L. 112-74, the Consolidated Appropriations Act, 2012, it authorized the creation of an enterprise fund for Egypt, Jordan, and Tunisia.⁶⁰ The goal of such a

⁵⁷ For FY2014, USAID estimates that of the \$200 million in ESF it has allocated for Egypt, an estimated \$6.19 million will be directed toward democracy, good governance, and political competition, \$52 million for basic and higher education, and \$141.81 million on various economic development, trade, macroeconomic growth, agriculture, and private sector competitiveness programs. See, Congressional Notification #88, USAID Country Narrative Egypt, May 19, 2015.

⁵⁸ USAID’s Higher Education Initiative (HEI) has received the most programmatic ESF assistance from USAID for Egypt since 2011. According to USAID, the HEI provides funding for “1) scholarships to Egyptian women for Master of Business Administration degrees in the United States; 2) scholarships to Egyptian women for Bachelor’s degrees in the United States in the fields of science, technology, engineering and math; 3) Fulbright scholarships to disadvantaged youth for Master’s degrees in the United States, through a transfer to the Department of State’s Bureau of Educational and Cultural Affairs; 4) scholarships to Egyptian civil servants for Master’s degrees in the United States; and 5) scholarships to economically disadvantaged men and women to pursue Bachelor’s degrees at select, high-quality Egyptian public and private universities that provide instruction in English. The HEI will also fund partnerships between Egyptian and U.S. universities.” Implementing partners for the HEI are: World Learning, Inc., American University in Cairo (AUC), Institute of International Education (IIE), Bi-national Fulbright Commission. See Congressional Notification #101, May 2, 2014, USAID Country Narrative, Egypt.

⁵⁹ Op. cit., GAO, February 2015.

⁶⁰ See Section 7041(b) of the act, which states: “Up to \$60,000,000 of funds appropriated under the heading ‘Economic Support Fund’ in this Act and prior acts making appropriations for the Department of State, foreign operations, and related programs (and including previously obligated funds), that are available for assistance for Egypt, up to (continued...) ”

fund is to further develop Egypt's private sector, particularly in the agricultural sector, by making equity investments in small to medium-sized businesses or providing entrepreneurs with start-up loans and technical assistance. In 2012, The Egyptian-American Enterprise Fund (EAEF) was formally incorporated in Delaware and in November 2012, the State Department notified Congress of its intent to obligate \$60 million in FY2012 ESF aid to capitalize the fund. A second notification of an additional \$60 million obligation in ESF was notified to Congress in October 2013. The fund is chaired by fund manager James A. Harmon.⁶¹ According to one report, "Harmon developed a plan to buy control of a financial institution in Egypt that could get financing from the Ex-Im Bank and dozens of other institutions around the world—leveraging the U.S. commitment of \$60 million annually over five years to produce a much bigger lending operation."⁶²

However, because the fund was formally launched during the Morsi administration, some Members of Congress were concerned about plans to expand U.S.-Egyptian economic cooperation. In the fall of 2012, then Chairwoman of the House Foreign Affairs Committee Representative Ileana Ros-Lehtinen placed an informal hold on the initial \$60 million ESF obligation (it was eventually lifted). In 2013, after the military's ouster of Morsi, Senator Lindsey Graham placed a hold on the second obligation of \$60 million in ESF, with a spokesman for the Senator saying "Senator Graham has placed a hold on these funds and until he sees Egypt moving toward democracy, he will continue to restrict funding.... Additionally, he believes American taxpayers deserve a much clearer explanation of what exactly is President Obama's policy toward Egypt."⁶³ Senator Graham lifted his hold in early December 2013 just as a draft copy of Egypt's amended constitution was made public in preparation for a national referendum on its adoption.

In February 2015, the Government Accountability Office (GAO) released a report on the status of the Egyptian and Tunisian Enterprise Funds. The report found that

"The Egyptian-American Enterprise Fund (EAEF) has not yet made any investments in Egypt.... EAEF has not made any investments in Egypt as its initial investment did not proceed as planned. EAEF's attempt to purchase a bank in Egypt that would lend money to small and medium-sized enterprises (SME) was rejected by the Egyptian Central Bank."⁶⁴

(...continued)

\$20,000,000 of such funds that are available for assistance for Tunisia, and up to \$60,000,000 of such funds that are available for assistance for Jordan, respectively, may be made available notwithstanding any other provision of law, to establish and operate one or more enterprise funds for Egypt, Tunisia, and Jordan, respectively." The law also states that "each fund shall be governed by a Board of Directors comprised of six private United States citizens and three private citizens of each country, respectively, who have had international business careers and demonstrated expertise in international and emerging markets investment activities.... The authority of any such fund or funds to provide assistance shall cease to be effective on December 31, 2022." Section 7034(r) of P.L. 113-235, the FY2015 Consolidated Appropriations Act, authorized the use of FY2015 ESF funds to operate the enterprise fund for Egypt (and Tunisia).

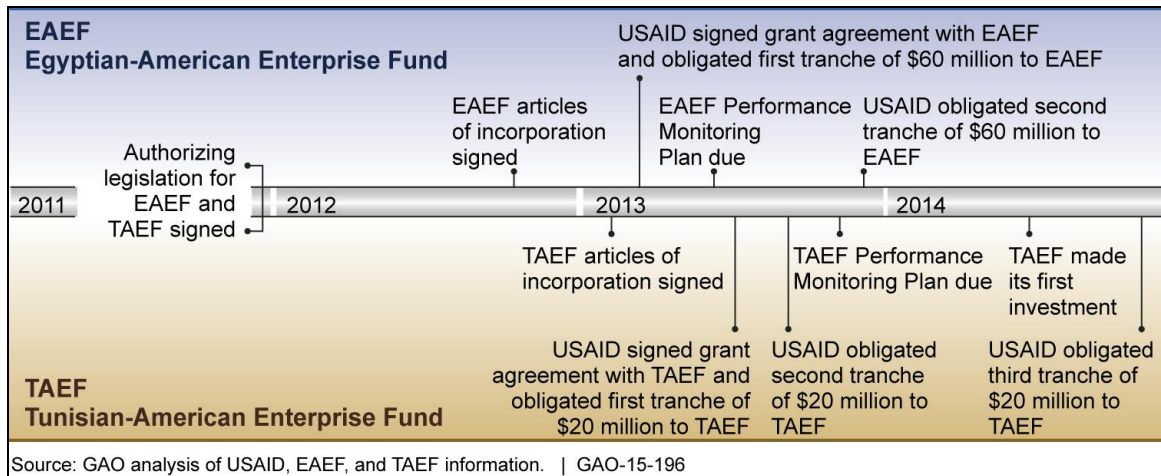
⁶¹ The fund's board of directors includes Sherif Kamel, Dean of the School of Business at the American University in Cairo (AUC), Hani Sari-El Din, head of the Middle East Institute for Law and Development (MIDL), Neveen El-Tahri, Regional Director of Delta Shield for Investments, Jim Owens, the Chairman of the Board of Directors of Caterpillar Inc., Haytham Al-Nather, Head of TA Stock Investment Corporation, Tarek Abdul Majid, Chairman of the international investment banking sector at Morgan Stanley, and Dina Powell, President of the Goldman Sachs Foundation. See <http://www.wamda.com/2013/05/egyptian-american-enterprise-fund-launches-to-support-egyptian-startups>.

⁶² David Ignatius, "An Egyptian Aid Package, Stuck in a D.C. Labyrinth," *Washington Post*, July 19, 2013.

⁶³ "U.S. Aid to Egypt Stuck in Limbo," *CQ News*, October 28, 2013.

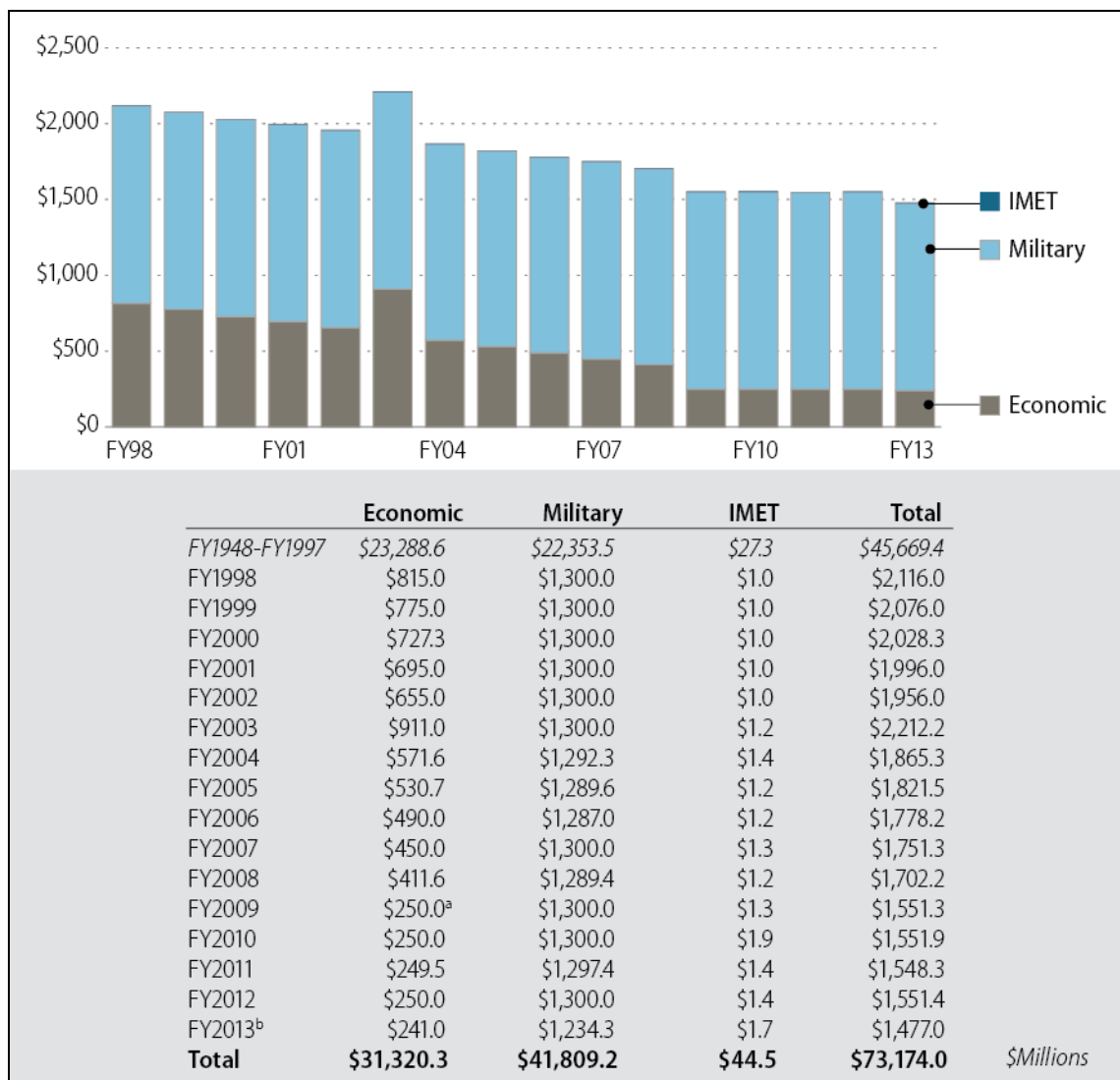
⁶⁴ Government Accountability Office, GAO-15-196, February 2015.

Figure 7. The Egyptian-American Enterprise Fund



Source: Government Accountability Office, GAO-15-196.

Figure 8. U.S. Foreign Assistance to Egypt
(\$ in millions)



Source: Created by CRS.

- a. In FY2009, Egypt received \$200 million in ESF from P.L. 111-8, the FY2009 Omnibus Appropriations Act. It then received an additional \$50 million in ESF from P.L. 111-32, the FY2009 Supplemental Appropriations Act.
- b. Reduced due to sequestration.

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

(\$ in millions)

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL. 480 I	PL. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWR A	—	—	—	—	—	—
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

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL 480 I	PL 480 II
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	—
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 Section 416 food donations.

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

* = less than \$100,000

IMET = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

DA = Development Assistance

ESF = Economic Support Funds

PL 480 I = Public Law 480 (Food for Peace), Title I Loan

PL 480 II = Public Law 480 (Food for Peace), Title II Grant

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