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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 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.

U.S. leaders also have consistently expressed concerns about governance and human rights in Egypt, and differences over these issues have tested bilateral relations repeatedly in recent years. The United States encouraged Egypt's long-serving president Hosni Mubarak to step down in 2011 in the face of a popular uprising, and revised U.S. assistance programs two years later, when the Egyptian military intervened to oust Mubarak's elected successor amid popular demands.

Egyptian President Abdel Fattah el Sisi, who led the 2013 military intervention and was elected in mid-2014, reportedly has high hopes for improving bilateral relations through engagement with the Trump Administration. The Obama Administration first suspended and then recast U.S. assistance for Egypt after 2013, with Congress enacting legislation placing evolving conditions on continued U.S. aid. During the 2016 U.S. presidential campaign, then-candidate Trump attempted to differentiate his approach to Egypt from then-President Obama by personally praising Sisi and vowing to strengthen the bilateral relationship if elected. Some observers express concern that any improvement in U.S.-Egyptian ties may come at the expense of human rights in Egypt.

Egypt's economy remains weak, the government faces significant fiscal challenges, and campaigns of insurgent and terrorist violence by various groups threaten the country's security. Reports in the Egyptian media indicate that the Sisi Administration is seeking, among other things, a restoration of certain major U.S. defense equipment sales to Egypt, an overall increase in U.S. aid to Egypt, and a U.S. designation of the Muslim Brotherhood as a foreign terrorist organization. The Trump Administration may want Egypt to improve its counterterrorism and counterinsurgency efforts in the Sinai Peninsula, participate in a new international military coalition of Arab states, and play a more active role in Israeli-Palestinian peacemaking.

Between 1948 and 2016, the United States provided Egypt with \$77.4 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 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.

President Obama requested that Congress appropriate \$1.3 billion in FY2017 military assistance and \$150 million in FY2017 economic aid for Egypt. Foreign Operations appropriations legislation considered in the 114th Congress (H.R. 5912 and S. 3117) would have provided the requested military assistance, with the Senate version of the bill providing \$75 million in economic aid and including the FY2016 appropriations act's withholding of 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. Under the continuing appropriations resolutions adopted in September and December 2016, FY2016 conditions apply to FY2017 funds, which are available at the FY2016 level minus specified rescissions until April 28, 2017.

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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. Egypt expedites the passage of dozens of U.S. naval vessels through the Canal annually, 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 94.6 million, is by far the most populous Arabic-speaking 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 may retain some “soft power” by virtue of its history, its media, and its positive and negative potential. The 22-member Arab League is based in Cairo, as is Al Azhar University, which claims to be the oldest continuously operating university 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 Egypt have increased their cooperation against Islamist militants and instability in the Sinai Peninsula and Gaza Strip.

Historical Background

Since 1952, when a cabal of Egyptian Army officers, known as the Free Officers Movement, ousted the British-backed king, Egypt’s military has produced four presidents, Gamal Abdel Nasser (1954-1970), Anwar Sadat (1970-1981), Hosni Mubarak (1981-2011), and Abdel Fattah el Sisi (2013-present). In general, these four men have ruled Egypt with strong backing from the country’s security establishment. The only significant opposition has come from the Egyptian Muslim Brotherhood, an organization that has opposed single party rule backed by the military and advocated for a state governed by a vaguely articulated combination of civil and Shariah (Islamic) law.

Egypt’s sole departure from this general formula took place between 2011 and 2013, after popular demonstrations sparked by the “Arab Spring” compelled the military to force the resignation of former President Hosni Mubarak in February 2011. During this roughly 28-month period, Egypt experienced tremendous political tumult, culminating in the one-year presidency of the Muslim Brotherhood’s Muhammad Morsi, from June 2012 to July 2013. When Morsi took office on June 30, 2012, after winning Egypt’s first truly competitive presidential election, his ascension to the presidency was supposed to mark the end of a rocky 16-month transition period. Proposed time lines for elections, the constitutional drafting process, and the military’s relinquishing of power to a civilian government had been constantly changed, contested, and sometimes even overruled by the courts. Instead of consolidating democratic or civilian rule, Morsi’s rule exposed the deep divisions in Egyptian politics, pitting a broad cross-section of Egypt’s public and private sectors, the Coptic Church, and the military against the Brotherhood and its Islamist supporters.

The atmosphere of mutual distrust, political gridlock, and public dissatisfaction that permeated Morsi’s presidency provided Egypt’s military, led by then-Defense Minister Sisi, with an opportunity to reassert political control. On July 3, 2013, following several days of mass demonstrations against Morsi’s rule, the military unilaterally dissolved Morsi’s government, suspended the constitution that had been passed during his rule, and installed an interim president. The Muslim Brotherhood and its supporters declared the military’s actions a coup d’etat and

protested in the streets. Weeks later, Egypt's military and national police launched a violent crackdown against the Muslim Brotherhood, and police and army soldiers fired live ammunition against demonstrators encamped in several public squares, resulting in the killing of at least 1,150 demonstrators. The Egyptian military justified these actions by decrying the encampments as a threat to national security.

Egypt Under President Sisi: 2014-Present

Egyptian President Abdel Fattah el Sisi (former Field Marshal and Minister of Defense) has somewhat restored the domestic status quo that was upended by nationwide protests and leadership changes from 2011 to 2013. Critics charge that authorities have established order by rolling back civil liberties and curtailing most political opposition.¹ In public, President Sisi, who was elected in mid-2014 with 97% of the vote, has stated that Egyptians must defer practicing “real democracy” in order to preserve the “current social consensus.”² According to media accounts, the March 2017 release of former President Hosni Mubarak from years of confinement confirmed the sense many Egyptians have that the overthrow in 2011 failed to achieve lasting change in the system.

As the economy and state finances present an array of challenges, President Sisi has appealed to the public to accept fiscal austerity and short-term economic hardship. To stabilize public finances, Egypt requested \$12 billion in lending support from the International Monetary Fund (IMF) over three years. The IMF has conditioned its lending on Egypt embarking on an aggressive economic reform plan. The drastic reforms Sisi agreed to are risky 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.”³

¹ “Egypt Faces Criticism over Human Rights Record,” Middle East In Focus, *Middle East Policy Council*, February 8, 2016.

² “Too Early for Real Democracy, Attack on Govt ‘Unjustified’: President,” *Egypt Independent*, February 24, 2016.

³ “After IMF deal, Egypt’s Sisi says will not Hesitate on Tough Reforms,” *Reuters*, August 13, 2016.

Figure I. Egypt in the Next 20 Years
National Intelligence Council's Projections



Source: National Intelligence Council's, "Global Trends: Paradox of Progress," January 2017.

Figure 2. Egypt at a Glance



Source: CRS Graphics

President Sisi has tried to adopt a more balanced foreign policy by turning away from the United States and toward Russia, France, and the Arab Gulf states. However, Egyptian nationalist sentiment has often clashed with the political realities of dependence on any foreign benefactors. Saudi-Egyptian relations have been strained over several issues, including disputes over Syria at the United Nations Security Council and an ongoing Egyptian court case over the disputed legal status of two Red Sea islands set to be handed over from Egypt to the kingdom. President Sisi has

said that Egypt will pursue “independent [foreign] policies” aimed at safeguarding security in the Arab world “through an Egyptian perspective.”⁴

President Sisi appears committed to countering not only violent Salafi-Jihadi terrorism, but also its foundational ideology, which President Sisi and his supporters often attribute to the Muslim Brotherhood in Egypt. According to an analyst writing in *Foreign Affairs*, “Cairo’s single-minded pursuit of the Brotherhood—and of any Islamist group that bears the slightest resemblance to the Brotherhood—has become the guiding principle of Egypt’s foreign, as well as domestic, policy.”⁵ President Sisi also has sought to temper the popular impact of his government’s opposition to Islamism by promoting moderate religious discourse. In a December 31, 2014, speech at Al Azhar University, Sisi said:

We demand that the new approach keeps the profound norms of Islam, promotes peaceful values of Islam, puts an end to religious and sectarian polarization, and resolves the issue of extremism by correcting misconceptions and distorted interpretations about Islam.⁶

As the domestic situation continues to languish, Sisi’s presidency is entering a crucial period. The government has agreed to enact austerity measures and structural reforms that may prove politically unpopular and, according to the IMF, be “vulnerable to opposition by vested interests.” 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.

The United States and Egypt: 2011-Present

The popular uprising that spread across the Arab world in 2011, including the three-week period of unrest that ultimately led to the resignation of former President Hosni Mubarak, forced the United States to reprioritize the promotion of democracy in Egyptian domestic politics.⁷ In the months following Mubarak’s resignation in February 2011, the Obama Administration focused on developing contacts with new political forces, working with traditional actors such as the ruling military to ensure a smooth transition, and offering support to stabilize the economy.

However, the popular uprising in Egypt unleashed a wave of pent-up anti-Americanism due to the decades-old U.S. relationship with the former Mubarak regime. Even as traditional U.S.-Egyptian defense cooperation continued during the 16-month rule of the military government that followed Mubarak, Egyptian politicians fanned the flame of anti-Americanism. Perhaps partly in order to stir up and/or placate nationalist sentiment among the “Egyptian street” amid repeated public unrest and economic recession, the military pushed back against U.S. support for a democratic transition, vigorously criticizing former U.S. Ambassador Anne Patterson and jailing American employees (as well as Egyptian and other foreign nationals) of U.S.-based and foreign democracy advocacy organizations.

⁴ “Egypt’s Fight against Islamic Militancy makes Enemies,” *Associated Press*, October 21, 2016.

⁵ Steven A. Cook, “Egypt’s Nightmare, Sisi’s Dangerous War on Terror,” *Foreign Affairs*, November/December 2016.

⁶ U.S. Government Open Source Center Report IMN2015011343670860, “Egypt’s President Al-Sisi Calls For ‘Religious Revolution’ To Counter Islamic Extremism,” Egyptian Satellite Channel 1 Television in Arabic, January 1, 2015.

⁷ Available online at <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa>.

In the aftermath of Egypt's 2012 presidential election, when former President Mohamed Morsi—a leading figure in the Muslim Brotherhood—became that nation's first democratically elected president, Obama Administration officials cautiously engaged the new Egyptian government. They attempted to balance U.S. interests in maintaining close ties to the military with the need to acknowledge the legitimacy of elected civilian leaders. When asked how the Obama Administration would deal with an Islamist head of the Egyptian state, U.S. officials stated at the time that they would “judge by actions, not words.”⁸

An early test of U.S. relations with the Morsi government came on September 11, 2012, when thousands of predominantly Salafist Egyptians protested at the U.S. Embassy in downtown Cairo.⁹ Some demonstrators scaled the walls and replaced the U.S. flag with a black one inscribed with the Islamic creed, “There is no God but God and Mohammed is the prophet of God.”¹⁰ The protests coincided with other demonstrations in Muslim-majority countries and the murder of U.S. Ambassador to Libya Christopher Stevens and three other Americans in Benghazi, Libya. The Egyptian government did not immediately take additional steps to protect the U.S. Embassy, and on September 12, President Obama stated, “I don't think that we would consider them [Egypt] an ally, but we don't consider them an enemy.... I think it's still a work in progress, but certainly in this situation, what we're going to expect is that they are responsive to our insistence that our embassy is protected, our personnel is protected.”¹¹

In the months prior to Morsi's eventual removal, as Egypt grew less stable, U.S. officials voiced greater concern over preserving basic governance and preventing economic collapse—encouraging all sides to engage in a dialogue and be politically inclusive. Nevertheless, many Egyptians, especially non-Islamists, accused the United States and then-U.S. Ambassador Anne Patterson of favoring the Morsi Administration. Patterson gave a speech two weeks before Morsi's removal in which she expressed skepticism that “street action will produce better results than elections” in helping Egypt to maintain stability and get its “economic house in order.”¹²

Following the July 3 ouster of Morsi—an elected president—by the Egyptian military, President Obama expressed concern over Egypt's polarized politics, reiterating that the United States is “not aligned with, and does not support, any particular Egyptian political party or group.”¹³ President Obama launched a lengthy review of U.S. foreign assistance policy toward Egypt.¹⁴ 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 the immediate aftermath of Morsi's ouster, President Obama also canceled a joint U.S.-Egypt military exercise (Operation Bright Star), suspended the

⁸ “Remarks at the Release of the 2011 International Religious Freedom Report,” Secretary of State Hillary Rodham Clinton, Carnegie Endowment for International Peace, July 30, 2012.

⁹ At that time, protests had occurred in several countries over a privately produced film that had circulated on the Internet that had been perceived to denigrate Islam and the prophet Mohammed. See CRS Report R42743, *Recent Protests in Muslim Countries: Background and Issues for Congress*.

¹⁰ Al Jazeera Wire Services, “Egypt protesters tear down US embassy flag,” September 11, 2012.

¹¹ “Egypt May Be Bigger Concern Than Libya for White House,” *New York Times*, September 13, 2012.

¹² U.S. Embassy in Egypt, Ambassador Anne W. Patterson's Speech at the Ibn Khaldun Center for Development Studies, June 18, 2013.

¹³ The White House, Office of the Press Secretary, Readout of the President's Meeting with the National Security Council Regarding the Situation in Egypt, July 06, 2013.

¹⁴ The White House, Office of the Press Secretary, Statement by President Barack Obama on Egypt, July 03, 2013.

deliveries of certain military items to Egypt (such as F-16s), and cancelled planned cash transfers of economic aid.¹⁵

Ultimately, the Obama Administration accepted the military's *fait accompli* but attempted to redefine certain components of the U.S.-Egyptian relationship.¹⁶ 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 (October 2013-March 2015), U.S.-Egyptian military cooperation continued, though Egyptian officials repeatedly criticized the President's decision. 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."¹⁷

By the spring of 2015, as terrorist attacks against Egypt continued, some lawmakers called on the Administration to end its weapons suspension,¹⁸ 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."¹⁹ 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.²⁰

¹⁵ U.S. State Department Press Statement, "U.S. Assistance to Egypt," October 9, 2013.

¹⁶ The White House, Office of the Press Secretary, Remarks by President Obama in Address to the United Nations General Assembly, September 24, 2013.

¹⁷ "Exclusive: El-Sisi urges 'Arab ready force' to confront ISIS, questions if US 'standing by' Egypt," *Foxnews.com*, March 9, 2015.

¹⁸ 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."

¹⁹ The White House, Office of the Press Secretary, Readout of the President's Call with President al-Sisi of Egypt, March 31, 2015.

²⁰ For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by (name redacted) .

Egypt and the Trump Administration

The Egyptian government of President Abdel Fattah el Sisi has expressed high hopes for its relations with the Trump Administration. U.S.-Egyptian relations had been strained during the last three years of the Obama Administration, and during the 2016 U.S. presidential campaign, then-candidate Trump differentiated his approach to Egypt from then-President Obama by personally praising Sisi and vowing to strengthen the bilateral relationship if elected.²¹ According to one unnamed U.S. official, “The rhetoric alone of this Trump administration is much more forward leaning in its support towards Sisi than Obama.... I expect it to be a much closer relationship.”²²

Some observers are concerned that should diplomatic relations improve between the United States and Egypt, these stronger ties may come at the expense of U.S. concern for human rights in Egypt. According to one February 2017 study by the Center for American Progress, “Under President Trump, there is also a new risk that cooperation between governments in Cairo and Washington deepens in ways that actually leave both countries worse off, mutually reinforcing their governments’ most repressive tendencies, leaving the relationship—and Egypt itself—on shakier foundations for the long term.”²³

How U.S.-Egyptian relations may improve beyond leaders’ mutual expressions of admiration is the subject of much speculation. Various reports in the Egyptian media indicate that the Sisi Administration is seeking, among other things, a restoration of certain major U.S. defense equipment sales to Egypt, an overall increase in U.S. aid to Egypt, and a U.S. designation of the Muslim Brotherhood as a foreign terrorist organization. The Trump Administration may want Egypt to improve its counterterrorism and counterinsurgency efforts in the Sinai, participate in a new collective security-focused coalition of Arab states, and play a more active regional role in Israeli-Palestinian peacemaking.²⁴

Despite these early expressions of affinity, various factors have the potential to affect U.S.-Egypt ties over time. Developments in Washington, Cairo, and the Middle East all have the potential to impact the trajectory of bilateral ties. Some key questions for lawmakers include the following:

- Is the Trump Administration prepared to reverse or otherwise modify the Obama Administration’s March 2015 decision to reformulate U.S. military aid to Egypt? Should the United States reverse the Obama Administration’s decision to gradually phase out “cash flow financing” for Egyptian purchases of U.S. military equipment? Should U.S. security assistance for Egypt continue to be channeled to four categories—counterterrorism, border security, Sinai Peninsula security, and maritime security? What additional terms, conditions, or certification requirements, if any, should Congress impose on U.S. assistance to Egypt?
- How strong is public support for the Sisi government amid continued economic hardship in the face of rising prices and a depreciated currency? Amid continued terrorist incidents in both the Sinai Peninsula and urban areas?

²¹ “Trump praises Egypt’s al-Sisi: ‘He’s a fantastic guy,’” *Politico*, September 22, 2016.

²² “Trump Presidency heralds new era of closer Ties with Egypt,” *Reuters*, February 8, 2017.

²³ “Setting the Terms for U.S.-Egypt Relations,” Center for American Progress, February 21, 2017.

²⁴ “U.S., Middle East Allies Explore Arab Military Coalition,” *Wall Street Journal*, February 15, 2017.

- If the Trump Administration makes the Israeli-Palestinian peace process a priority, what role, if any, can Egypt play to facilitate the process regionally? How might a more formal Egyptian role affect President Sisi domestically?

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 2014.²⁵ President Sisi, who assumed office in June 2014 after winning a May 2014 election with 96% of the vote, 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 and business holdings.²⁶ It plays a key social role, aiming to provide employment and a sense of national identity and pride. 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%).

Parliamentarians with Islamist leanings are represented by 12 lawmakers who hail from the Salafist Nour Party. The Muslim Brotherhood was outlawed and declared a terrorist group in 2013 and its main political arm, the Freedom and Justice Party (FJP), was dissolved in 2014. After Mubarak's resignation in February 2011, the FJP was legalized, and secured 45% of all seats in the lower house of parliament (which then had two chambers) following parliamentary elections in 2011-2012.

In 2016 and early 2017, Parliament has approved the government's IMF-recommended 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.

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 civilian courts and a parallel military justice system. Although the professionalism of Egyptian judges has

²⁵ An unofficial English translation of the constitution is available at <http://www.sis.gov.eg/Newvr/Dustor-en001.pdf>.

²⁶ "The Egyptian Armed Forces and the Remaking of an Economic Empire," *Carnegie Middle East Center*, April 15, 2015.

been long established, some observers have asserted that, since 2013, the courts have supported the military's crackdown against dissent.²⁷

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 its jurisdiction. According to Human Rights Watch, military courts have tried at least 7,420 Egyptian civilians since October 2014.²⁸

The Muslim Brotherhood

Since its founding in 1928, the Muslim Brotherhood (MB) has been one of Egypt's strongest political movements. Its stated purpose is to turn Egypt toward government based on sharia (religious) law and Islamic principles. Over the years, the Egyptian government has alternated between tolerating and suppressing the Muslim Brotherhood.

Terrorism in Egypt Beyond the Sinai

The Egyptian authorities continue to blame the Muslim Brotherhood for a spate of terrorist attacks inside Egypt. Militants have assassinated high-ranking police and military officers, including Brigadier General Adel Ragaei, who was assassinated outside his home in October 2016. One new insurgent group, *Liwa al Thawra* (The Revolution Brigade), claimed responsibility for the assassination, and it and another new group, *Harakat Sawaed Misr* (Arms of Egypt Movement, referred to by its Arabic acronym *Hasm*), have sought to draw disenfranchised younger Brotherhood members toward militancy. According to Mokhtar Awad, an expert on Egyptian militant groups, "Hasm's attacks seem to represent a possible new normal for Egypt. Although overall violence levels may continue to remain low in the mainland, a dedicated core of Islamist militants may be investing their resources into targeted operations and training for veteran militants."²⁹ According to a recent profile of Egypt in the *New Yorker*, "There's no evidence of the kind of broad-based movement of religious resistance that arose during the nineteen-eighties and nineties, when Islamists engaged in violent attacks across Egypt.... the vast majority of terrorism has focused on the Egyptian police, the Army, or other representatives of the state."³⁰

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."³¹

Concerns Over Human Rights Violations

Certain practices of President Sisi's government and the security apparatus have been contentious. Many Egyptians and foreign observers, including the U.S. State Department, have accused the government of committing serious abuses of human rights against a broad spectrum of opponents, both secular and Islamist. International human rights advocates have accused the government of freezing the assets and banning the travel of Egyptian activists and local organizations and

²⁷ David Risley, "Egypt's Judiciary: Obstructing or Assisting Reform?" *Middle East Institute*, January 13, 2016.

²⁸ "Egypt: 7,400 Civilians Tried In Military Courts," *Human Rights Watch*, April 13, 2016.

²⁹ "What Egypt's Assassination Attempts Say about its Islamist Insurgency," *Atlantic Council*, October 3, 2016.

³⁰ "The Shadow General," *New Yorker*, January 2, 2017.

³¹ Eric Trager, "Where Did They Go Wrong?" The Washington Institute for Near East Policy, Cipher Brief, August 12, 2016.

imprisoning journalists.³² According to the State Department’s Country Reports on Human Rights Practices for 2016 (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. Excessive use of force included unlawful killings and torture. Due process problems included the excessive use of preventative custody and pretrial detention, the use of military courts to try civilians, trials involving hundreds of defendants in which authorities did not present evidence on an individual basis, and arrests conducted without warrants or judicial orders. Civil liberties problems included societal and government restrictions on freedoms of expression and the media, as well as on the freedoms of assembly and association in statute and practice.³³

President Sisi has at times publicly apologized for police abuses against citizens and for 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, 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 groups³⁴ have stated that the charges against her are politically motivated and designed to further deter NGO activity in Egypt. On September 27, 2016, Senator Patrick Leahy gave a floor speech in which he remarked, “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.”³⁵ On March 23, 2017, a Cairo court decided to postpone issuing its verdict in Hijazi’s case for three weeks. Critics assert that Hijazi has been held beyond the two-year limit for pretrial detention under Egyptian law.

Nongovernmental Organizations (NGOs)

Successive Egyptian governments have all treated foreign-based nongovernmental 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.

On November 29, 2016, parliament approved a new Associations’ Law (commonly referred to as the NGO law),³⁶ which has been widely criticized by the international community for restricting

³² “Letter to Merkel Ahead Of Visit to Cairo,” EuroMed Rights, Egypt, Open Letter, February 24, 2017.

³³ <https://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>.

³⁴ “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.

³⁵ Congressional Record – Senate, “Imprisonment of Aya Hijazi,” September 27, 2016, S6127.

³⁶ Existing Egyptian law already seeks to limit NGO activity. Law 84 of 2002 mandates that all civil society groups must register with the Ministry of Social Solidarity. Article 78 of the Egyptian penal code mandates life imprisonment for anyone who receives funds from foreign entities in the context of counterterrorism to harm the national interest. Law 128 of 2014 mandates that the receipt of funds from foreign organizations without prior approval is a crime punishable up to life imprisonment.

civil society activity in Egypt. The law, if ratified by President Sisi, would require NGOs to receive prior approval before accepting foreign funding.³⁷ Foreign NGOs would need prior approval before operating inside Egypt and/or working with local Egyptian NGOs. Under the proposed law, a new government entity, comprising representatives from various security agencies, would oversee the NGO law's implementation. The law also would increase penalties for violations, including imprisonment for up to five years.

The Economy

According to the *Economist Intelligence Unit*, Egypt's GDP growth in 2017 will most likely reach 3.9%, a figure that is below the rates necessary to jumpstart an economy and reduce unemployment.³⁸ Egypt's economic challenges are numerous. For example:

- **Inflation.** Egyptian officials allowed the value of the Egyptian pound to float beginning on November 3, 2016 (as required by its deal with the IMF). Since then inflation rates have soared, reaching 30.2% in February 2017. Food prices and health care costs have dramatically increased, affecting Egyptians across the economic spectrum. A depreciated currency has driven up the cost of food imports in pound terms, and household food costs are up nearly 40% in the past few months.³⁹
- **Debt.** The Egyptian government already devotes significant resources to servicing its growing public (\$270 billion) and external debt (\$61.5 billion). Interest payments on the debt account for a third of total government expenditure. Egypt's public debt reached 101% of its gross domestic product in 2016.
- **Tourism.** Due to the threat of terrorism in the Sinai, specifically the downing of Metrojet Flight 9268 in October 2015, tourist visits to Egypt are down significantly. Although the depressed currency is expected to make Egypt more attractive to foreign tourists, average monthly visits to Egypt in 2016 were less than half their 2014 level.

The IMF Deal

In November 2016, the International Monetary Fund (IMF) executive board approved a three-year, \$12 billion loan (in IMF terms known as an Extended Fund Facility) to Egypt. In exchange for IMF support and other international lending (World Bank, African Development Bank, and bilateral creditors),⁴⁰ the government of Egypt pledged to undertake a number of economic reforms to address an overvalued exchange rate, a shortage of foreign exchange, and a chronic budget deficit that has raised the national debt to alarming levels.⁴¹ The government's floating of the currency was a major step in meeting lenders' conditions. Egypt also introduced a value added tax (VAT), cut public wages, and reduced energy subsidies. Egypt will receive IMF funds in

³⁷ Civic Freedom Monitor: Egypt, The International Center for Not-for-Profit Law, December 2, 2016.

³⁸ Economist Intelligence Unit, Country Report – Egypt, Generated on February 24, 2017.

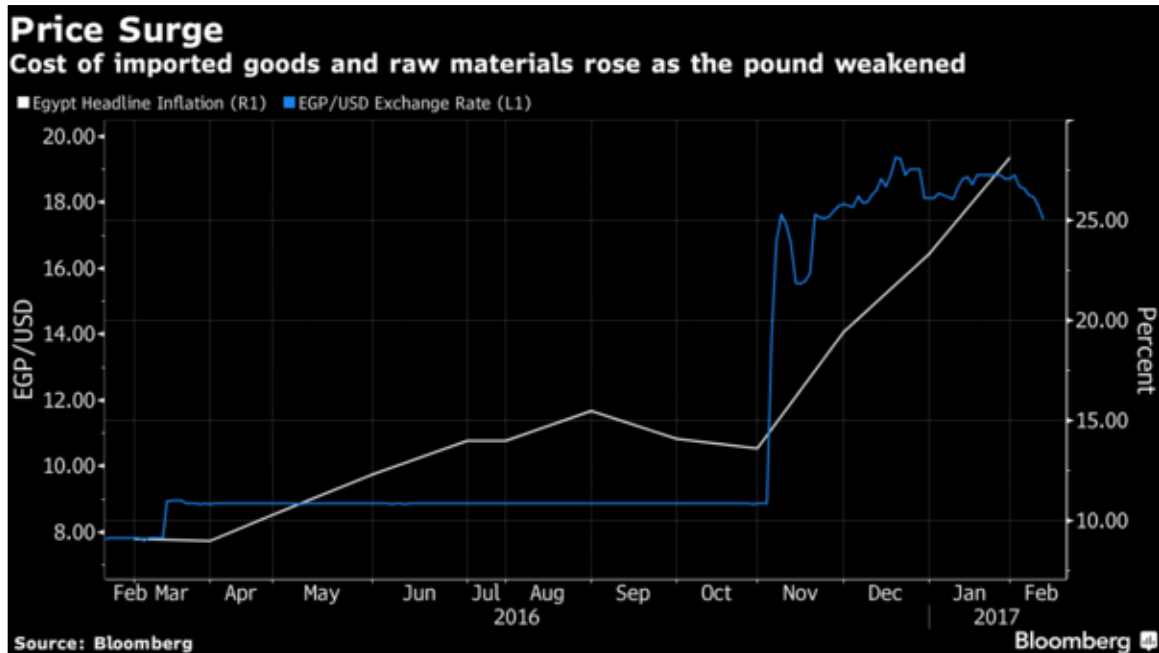
³⁹ “Egyptians Bear Down Under Worst Inflation In A Decade,” *Associated Press*, February 24, 2017.

⁴⁰ Other creditors include Afreximbank, the United Arab Emirates, China, Germany, the United Kingdom, France, and Japan.

⁴¹ “IMF Executive Board Approves US\$12 billion Extended Arrangement Under the Extended Fund Facility for Egypt,” Press Release No.16/501, International Monetary Fund, November 11, 2016.

tranches, and will dedicate more public spending toward social welfare spending for those most affected by austerity measures.

Figure 3. Inflation in Egypt



Source: Bloomberg, “Surging Egypt Inflation May Soon Peak, Finance Minister Says,” February 12, 2017.

By early February 2017, Egypt’s foreign exchange reserves had risen to \$26.36 billion, up from \$16.5 billion a year earlier. In another positive sign, foreign investors have increased their holdings of Egyptian debt, as demand for Egyptian treasury bills has soared due to high yields and possible investor confidence in the trajectory of the economy.

Terrorism in the Sinai Peninsula

One of the biggest areas of concern regarding 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)⁴² 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. According to one account:

Sinai residents are prohibited from joining any senior post in the state. They cannot work in the army, police, judiciary, or in diplomacy. Meanwhile, no development projects have

⁴² 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).

been undertaken in North Sinai the past 40 years. The villages of Rafah and Sheikh Zuwayed have no schools or hospitals and no modern system to receive potable water. They depend on rainwater and wells, as if it were the Middle Ages.⁴³

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.

SP Targets Coptic Christians and Israel

In February 2017, the Islamic State-affiliated Sinai Province (SP) murdered several Coptic Christians living in the northern Sinai town of Al Arish, forcing hundreds of families to flee the city. In the same month, the group also fired rockets from the Sinai into Israel. The rockets were either intercepted by Israel or landed in empty areas. In response to the attacks against Israel, Defense Minister Avigdor Lieberman dismissed SP's capabilities, remarking that "If you are talking about Hamas and Hezbollah then [IS's Sinai force] is not even a terror group.... We need to see everything in proportion."⁴⁴ In February 2017, one report suggested that Israel has withdrawn its Ambassador to Egypt, David Govrin, due to security concerns.⁴⁵

In December 2016, a 22-year-old student named Mahmoud Shafik (aka Abu Abdallah al-Masri) detonated a bomb inside the St Mark's Cathedral in Cairo, killing 28 people, mostly women and children. Instead of using the Sinai Province "brand" in taking responsibility for the attack, SP referred to itself as "Islamic State Egypt," signaling its intent to broaden its terrorist attacks to all of Egypt, Israel, and beyond—not just the Sinai.⁴⁶

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.⁴⁷

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 in favor of Sisi. Israelis had expressed apprehension about the long-term prospect of an Islamist-governed Egypt, and while its relationship with Egypt's military is not without challenges,⁴⁸ the two sides maintain regular dialogue on defense and intelligence issues.

⁴³ "Sinai's Suffering," *Foreign Affairs*, March 13, 2017.

⁴⁴ "Defense Minister: Islamic State in Sinai 'not a Serious Threat,'" *Times of Israel*, February 20, 2017.

⁴⁵ "Israel Quietly Withdraws Ambassador from Egypt 'Over Security Concerns,'" *Telegraph* (UK), February 14, 2017.

⁴⁶ "Islamic State extending Attacks beyond Sinai to Egyptian Heartland," *Reuters*, January 26, 2017.

⁴⁷ "The General's Law in Sinai," *The Economist*, November 15, 2014.

⁴⁸ 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–(continued...)"

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 Binyamin 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." Reportedly, Sisi and King Abdullah II of Jordan endorsed the idea of a regional Israeli-Palestinian peace initiative in a secret February 2016 summit convened in Jordan with Netanyahu and then-Secretary of State John Kerry.⁴⁹

Israeli-Egyptian tensions briefly heightened during consideration of United Nations Security Council Resolution (UNSCR) 2334 in December 2016, as part of Israel's general reaction against the 14-0 vote for the resolution (the United States, under the Obama Administration, abstained). Egypt is currently a nonpermanent member on the Security Council until its term expires at the end of 2017. UNSCR 2334 was widely condemned by Israel for, among other things, reaffirming that settlements established by Israel in "Palestinian territory occupied since 1967, including East Jerusalem," constitute "a flagrant violation under international law" and a "major obstacle" to a two-state solution and a "just, lasting and comprehensive peace." Egypt had introduced an earlier draft of UNSCR 2334, but withdrew the draft from consideration after pressure from Israel. According to one account, "The Israelis leaned on the Egyptians ... to postpone the vote, and the Egyptians basically caved."⁵⁰ Other countries reintroduced the resolution, which was then adopted as mentioned above.

Israel and Egypt share a common adversary in the Palestinian terrorist group Hamas, which Egypt accuses of aiding antigovernment militants in the Sinai Peninsula.⁵¹ 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 farther 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,⁵² is the primary defense force charged with curbing Hamas

(...continued)

2015," The Washington Institute for Near East Policy, Policy Notes #27, December 2015.

⁴⁹ Barak Ravid, "Exclusive Kerry Offered Netanyahu Regional Peace Plan in Secret 2016 Summit With al-Sissi, King Abdullah," *Ha'aretz*, February 19, 2017.

⁵⁰ "Trump Pressures Obama Over U.N. Resolution on Israeli Settlements," *New York Times*, December 22, 2016.

⁵¹ Shlomi Eldar, "Is Hamas working with Wilayat Sinai?," *Al Monitor Israel Pulse*, July 6, 2015.

⁵² 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 (continued...)

Figure 4. Egyptian FM Visits Israel



Source: Israel's Ministry of Foreign Affairs

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 entryway into the Strip, which it periodically closes for security reasons.

To some extent, Egypt also influences intra-Palestinian politics more broadly. Reportedly, Egypt and some Arab Gulf states provide some backing to Muhammad Dahlan, who was a former Fatah security chief based in Gaza before Hamas's military takeover in 2007. In 2011, Dahlan was expelled from Fatah after a falling out with Fatah head and Palestinian Authority (PA) President Mahmoud Abbas. Since then, Dahlan has been living in exile in the United Arab Emirates, and Egypt may be trying to assist him in his apparent aspirations to succeed the nearly 82-year-old Abbas.⁵³

Libya

Egypt is a strong backer of Qadhafi-era retired general Khalifah Haftar, who now controls significant territory in eastern Libya, and who has sought to control the region'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 (HoR) 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. Egypt continues to suffer from terrorist attacks in its western desert that authorities believe originate from Libya.

In recent months, Egypt, along with other international players (Algeria and Tunisia), has attempted to broker a negotiated settlement to Libya's continued political divisions. However, as General Haftar has grown stronger in eastern Libya, Egypt has not been able to convince him to join in direct talks with his political rivals, such as the U.N.-backed Prime Minister of the Government of National Accord (GNA), Fayez al Serraj. Moreover, as Russia has become more active in Libyan politics, particularly in support of Haftar's anti-Islamist agenda, Haftar's willingness to negotiate may be even further diminished. According to one account, "Despite Egypt's best attempts, for now there is little incentive for the field marshal [Haftar] to engage meaningfully with anything that could mean abandoning his ambitions."⁵⁴

As Haftar's forces continue to push westward, there are new reports Russian Special Forces may be aiding him based out of an airbase in Egypt's western desert (Sidi Barrani).⁵⁵ Egypt has denied any Russian presence on their soil.

(...continued)

with the Multinational Force of Observers (MFO), which monitors force deployments. According to one report, Israel has become more willing to allow temporary increases in Egyptian troop levels in the Sinai to counter terrorism. One unnamed Israeli official remarked that "There's a need on the ground that we more than acknowledge." See, "Israeli Official: Cooperation strong with Egypt," *Associated Press*, January 11, 2017.

⁵³ "Egypt's kinder policy toward Gaza. Opening of Rafah Crossing seen as 'Breakthrough,'" *The Jerusalem Post*, December 29, 2016.

⁵⁴ "Libya/Egypt Politics: Doubts loom over Egyptian Mediation in Libya," *Economist Intelligence Unit*, February 16, 2017.

⁵⁵ "Russia appears to Deploy Forces in Egypt, Eyes on Libya Role – sources," *Reuters*, March 14, 2017.

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. Since 2011, Gulf states have provided cash grants, concessional loans, and fuel imports worth a combined \$30 billion to Egypt.⁵⁶

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 in Egypt. 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. To date, two separate administrative courts, including the Supreme Administrative Court, have voided President Sisi's decision; the government has appealed to the Supreme Constitutional Court, arguing that the island transfer is a sovereign matter and the administrative courts lack the jurisdiction to rule on such matters.

Figure 5. Tiran and Sanafir



Source: Financial Times

Despite Gulf largesse, President Sisi has appeared to maintain a relatively independent stance and even clashed with Egypt's Gulf benefactors, specifically Saudi Arabia. In October 2016, Egypt sided with Russia's position on Syria at the United Nations Security Council, choosing not to support a French-Saudi resolution demanding a halt to airstrikes against rebel-held areas of Aleppo. A month later, Saudi Aramco announced that it was halting the delivery of petroleum supplies to Egypt. Saudi Arabia claimed that the Aramco decision was a commercial issue and not retribution against Egypt (Saudi petroleum supplies to Egypt resumed in March 2017). On

⁵⁶ "Egypt Looks for Help Where It Can Get It," *Stratfor*, November 17, 2016.

November 23, 2016, President Sisi remarked in a televised interview that Egypt was supporting the Syrian regime’s military forces, which was a departure from the more neutral stance Egypt had taken since the start of the war in Syria. In February 2017, Egypt abstained from a U.N. Security Council vote on a resolution that would have banned certain weapons transfers to Syria and sanctioned select Syrian officials in response to the Syrian government’s use of chemical weapons. Russia and China vetoed the resolution.

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.”⁵⁷ 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, 4 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.

Other Russian-Egyptian arms sales include

- Antey-2500 (S-300) anti-ballistic missile system (\$1 billion contract) and
- 46 MiG-29 multirole fighters (\$2 billion contract).⁵⁸

Figure 6. Egypt’s New Rafale Jetfighters



Source: Jane’s Defence Weekly.

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 2024.⁵⁹ 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.

⁵⁷ Open Source Center, “Egyptian Military Experts Hail Delivery of French Rafale Jets, Say Deal Ends ‘Subordination’ to US,” Document ID# IMR2015072244574979, OSC Summary, July 21, 2015.

⁵⁸ “Egypt reportedly to buy 46 MiG-29s,” *Jane’s Defence Weekly*, May 27, 2015.

⁵⁹ “Russia to lend Egypt \$25 billion to build Nuclear Power Plant,” *Reuters*, May 19, 2016.

U.S. Policy Toward Egypt Under the Trump Administration

As the Trump Administration lays out its priorities for the Middle East, Egypt is expected to be featured more prominently in the overall U.S. approach toward the region. Since late 2016, there has been a flurry of bilateral exchanges between U.S. and Egyptian diplomatic and military officials—Foreign Minister Sameh Shoukry has visited Washington three times since November 2016. The Egyptian press has signaled that President Sisi is planning on traveling to the United States for an official visit on April 3. Former Egyptian President Hosni Mubarak’s meeting with President George W. Bush at the Prairie Chapel Ranch in Crawford, TX, in 2004 was the last official visit to the United States by an Egyptian head of state.⁶⁰

One sign of improving relations came at the end of February 2017, when U.S. Central Command (CENTCOM) Commander General Joseph L. Votel visited Egypt and pledged to restart Operation Bright Star, a biennial multinational training exercise cohosted by the United States and Egypt that helps foster the interoperability of U.S. and Egyptian forces and provides specialized training opportunities for CENTCOM in the Middle East. The last Bright Star exercise took place in October 2009. Given the political upheaval in Egypt, it was not held in 2011, and President Obama suspended U.S. participation in 2013 after the ouster of former President Morsi in July 2013.

Egyptian officials may be seeking a commitment from the Trump Administration and Congress to restore cash flow financing for Egypt and end the restriction on Foreign Military Financing (FMF) that limits the purposes for which Egypt can acquire U.S. arms to counterterrorism, border security, Sinai security, and maritime security only (see text box below). Egypt may also be requesting that the new Administration request that Congress increase U.S. military aid to Egypt.⁶¹ According to Michele Dunne of the Carnegie Endowment for International Peace, “Egypt’s wish list, according to several sources, among them a publication closely connected with the government, includes a Sisi visit to Washington, a Trump visit to Cairo, increased military assistance, delivery of unspent economic assistance in cash, provision of several billion dollars in loan guarantees, designation of the Muslim Brotherhood as a terrorist organization, and extradition of Egyptians wanted by the government from the United States.”⁶²

On January 23, 2017, President Sisi received a phone call from U.S. President Donald Trump, and the two leaders reportedly discussed how to improve bilateral relations. According to Press Secretary Sean Spicer:

The President committed to working—continuing military assistance to Egypt and working with Egypt to ensure that assistance most effectively supports the Egyptian military’s fight against terrorism. The president also commended President el-Sisi for his courageous steps to address Egypt’s economic challenges and offered to discuss ways the United States could support Egypt’s economic reform program. Finally, the two leaders discussed a visit to the United States in the future.

⁶⁰ Office of the Historian, Department of State, Available online at <https://history.state.gov/departmenthistory/visits/egypt>.

⁶¹ “The Foreign Minister meets the Chairman of the House Armed Services Committee,” Egypt State Information Service, December 8, 2016.

⁶² “Christmas after January?” *Diwan*, Middle East Insights from Carnegie, December 12, 2016.

Developments in U.S. Policy

The following is a list of some policy developments concerning Egypt over the past year:

- **U.S. Equipment to the Multinational Force of Observers (MFO):** On November 16, 2016, President Obama issued a determination permitting the furnishing of defense articles and defense services to the Multinational Force and Observers in order to strengthen the security of the United States and promote world peace.⁶³
- **Reprogramming FY2015 Economic Aid:** In 2016, the Obama Administration notified Congress that it was reprogramming \$108 million of ESF that had been appropriated for Egypt in FY2015 but remained unobligated for other purposes. The Administration claimed that its actions were due to “continued government of Egypt process delays that have impeded the effective implementation of several programs.”⁶⁴
- **Recent Arms Sales Notification:** On October 7, 2016, the Defense Security Cooperation Agency (DSCA) notified Congress of the State Department’s intent to approve a Foreign Military Sale to Egypt for Common Missile Warning System (CMWS) for AH-64E Apache, UH-60 Blackhawks, and CH-47 Chinook Helicopters worth approximately \$81.4 million.
- **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.⁶⁵ The current amount of unobligated ESF may be as high as \$500 to \$700 million.⁶⁶
- **Human Rights Vetting (Leahy Law):**⁶⁷ 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

⁶³ The White House, Office of the Press Secretary, Presidential Memorandum—Eligibility of the Multinational Force and Observers to Receive Defense Articles and Defense Services, November 16, 2016.

⁶⁴ “US shifts Egypt aid to other countries,” *Al Monitor*, October 16, 2016.

⁶⁵ 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.

⁶⁶ “Congress Ponders next move as Egypt clogs its own Funding Pipeline,” *Al Monitor*, April 13, 2016.

⁶⁷ For background on the Leahy Law, see CRS Report R43361, “*Leahy Law*” *Human Rights Provisions and Security Assistance: Issue Overview*, coordinated by (name redacted) .

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.⁶⁸

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.⁶⁹ P.L. 114-113, the FY2016 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.”

Issues for the 115th Congress

As the United States and Egypt consider possible new avenues of cooperation, lawmakers may seek to influence the nature of the evolving bilateral relationship either through the appropriations process or through regular congressional oversight. In December 2016, during a visit by Egyptian Foreign Minister Sameh Shoukry, some Members indicated that while they welcomed improved ties, they were concerned about Egypt’s continued crackdown on civil society. In a joint press statement by Senators John McCain and Lindsey Graham on the possible signing into law of a new and restrictive Egyptian NGO law, the lawmakers indicated that “The Egyptian parliament’s passage of draconian legislation regulating non-governmental organizations (NGOs) undermines Egypt’s stated commitment to protecting constitutionally-guaranteed rights and to furthering Egypt’s democratic transition Should President al-Sisi sign into law this draconian legislation, we will endeavor to strengthen democratic benchmarks and human rights conditions on U.S. assistance for Egypt in fiscal years 2017 and 2018.”⁷⁰ Senator Benjamin Cardin also issued a statement after meeting with the Foreign Minister saying that “We also discussed the need for Egypt’s leaders to take steps toward political reform and prioritizing human rights and fundamental freedoms. The recently passed law on Civil Associations and Foundations would impose severe restrictions on civil society, undermining Egypt’s international commitments to the principle of freedom of association.”⁷¹

⁶⁸ 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.

⁶⁹ The letter’s text is available at <http://www.politico.com/f/?id=00000153-c56c-d662-a75b-cfecc6be0000>.

⁷⁰ Statement by Senators John McCain & Lindsey Graham on Egyptian Legislation regulating NGOs, December 1, 2016.

⁷¹ Cardin Meets with Egyptian Foreign Minister, United States Senate Committee on Foreign Relations, December 5, 2016.

Congressionally Mandated Certifications on FMF to Egypt

In FY2012, appropriators began inserting language into annual omnibus appropriations acts that withholds the obligation of Foreign Military Financing to Egypt until the Secretary of State can certify that Egypt is taking various steps toward supporting a democratic transition to civilian government. With the exception of FY2014, lawmakers included a national security waiver to allow the Administration to waive these congressionally mandated certification requirements under certain conditions. P.L. 114-113, the Consolidated Appropriations Act, 2016, required that 15% of FMF funds be withheld from obligation until the Secretary of State can certify to the appropriations committees that Egypt is taking effective steps to advance democracy and human rights among other things. This certification requirement does not apply to FMF used for counterterrorism, border security, and nonproliferation programs for Egypt. The Secretary of State may waive the certification requirement if he/she reports to Congress that to do so is important to the national security interest of the United States.

Table I. Democracy-Based Conditions on U.S. Military Aid to Egypt: FY2012-Present

Fiscal Year	Public Law	Conditions Requiring Secretary of State Certification	National Security Waiver for Certification	Date of Waiver Exercised by Secretary of State
FY2012	P.L. 112-74	Section 7041(a)(1)(B)	Section 7041(a)(1)(C)	March 23, 2012
FY2013	P.L. 112-175	(continuing resolution applied conditions in FY2012 Act)	(continuing resolution applied conditions in FY2012 Act)	May 2013
FY2014	P.L. 113-76	Section 7041(a)(6)(A)(B)	None	—
FY2015	P.L. 113-235	Section 7041(a)(6)(A)	Section 7041(a)(6)(C)	May 12, 2015
FY2016	P.L. 114-113	Section 7041(a)(3)(A)	Section 7041(a)(3)(B)	not issued

Notes: Conditions on the obligation of FMF to Egypt in Omnibus Appropriations Acts differ year to year.

FY2017 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.

Proposed Legislation in the 115th Congress

H.Res. 113—Among other things, calls for the President to reinstate cash flow financing (CFF) to Egypt in 2018, and afterward.

S. 68 (H.R. 377 in the House)—The Muslim Brotherhood Terrorist Designation Act of 2017 would require, not later than 60 days after the date of the enactment, that the Secretary of State, in consultation with the intelligence community, submit a detailed report to Congress indicating whether the Muslim Brotherhood meets the criteria for designation as a foreign terrorist organization under Section 219(a) of the Immigration and Nationality Act (8 U.S.C. 1189(a)). If the Secretary of State determines that the Muslim Brotherhood does not meet the criteria, the bill requires a detailed justification as to which criteria have not been met.

S. 266 (H.R. 754 in the House)—The bill requires that the Speaker of the House of Representatives and the President pro tempore of the Senate make appropriate arrangements for the posthumous award, on behalf of Congress, of a gold medal of appropriate design to Anwar Sadat in recognition of his achievements and heroic actions to attain comprehensive peace in the Middle East.

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.⁷²

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 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.

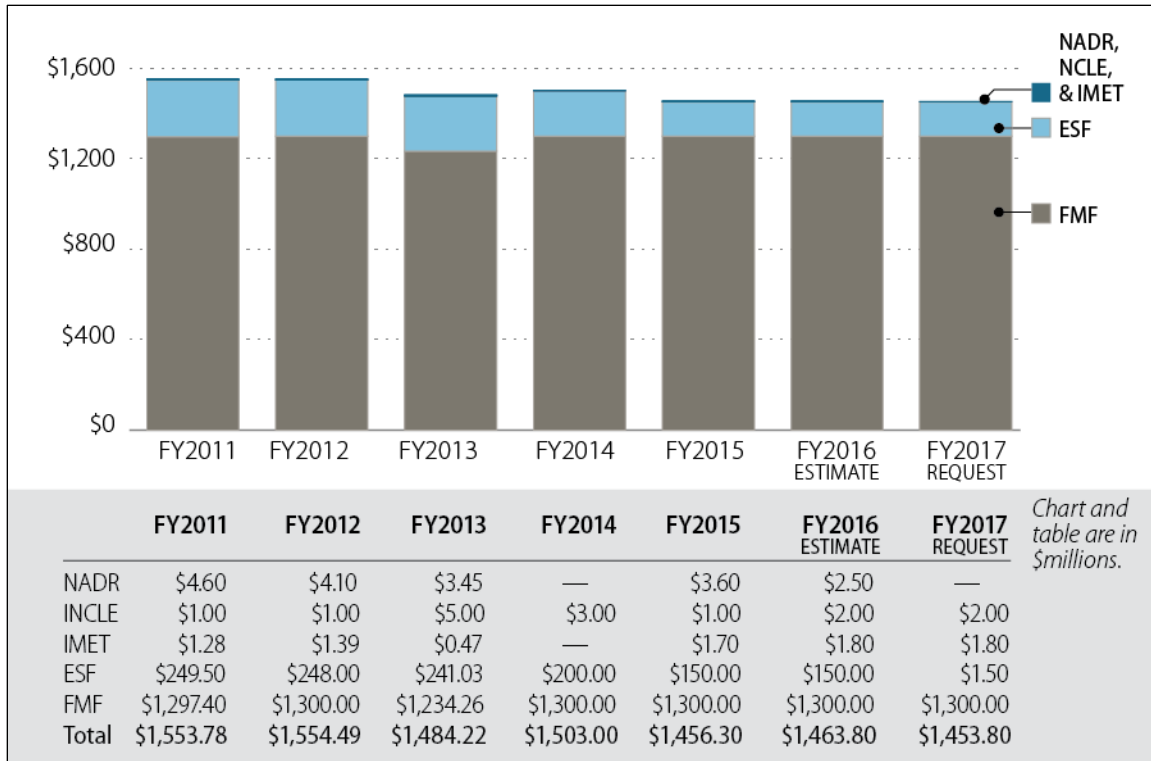
In some cases, an Administration may sign a bilateral “Memorandum of Understanding” (MOU) with a foreign country pledging a specific amount of foreign aid to be provided over a selected time period subject to the approval of Congress. In the Middle East, the United States has signed foreign assistance 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

⁷² 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.

then, no such bilateral MOU on U.S. military aid to Egypt has been reached by the Bush, Obama, or Trump 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).⁷³ The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term.

Figure 7. 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.

⁷³ 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 counterterrorism 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.

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 this 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*.⁷⁴ 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, prenotifications 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 mentioned above, the Obama Administration 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).⁷⁵

⁷⁴ 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).

⁷⁵ 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.

It is not yet clear how the Trump Administration will determine which U.S.-supplied military equipment would 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.”⁷⁶

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:

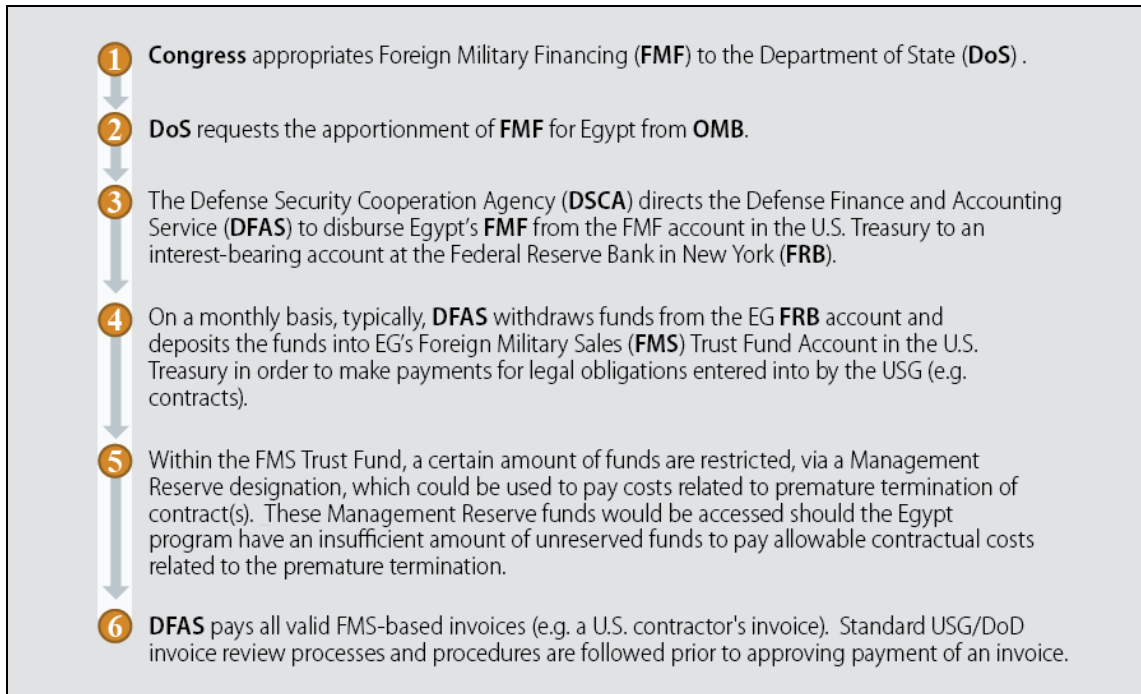
- **Early Disbursal and Interest Bearing Account:** Between FY2001 and FY2011, Congress granted Egypt early disbursement of FMF funds (within 30 days of the enactment of appropriations legislation) to an interest-bearing account at the Federal Reserve Bank of New York.⁷⁷ Interest accrued from the rapid 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.

⁷⁶ “Egypt’s Conventional Military Thinking,” *Stratfor*, June 12, 2015.

⁷⁷ 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.

- Cash Flow Financing:** Section 23 of the Arms Export Control Act (22 U.S.C. §2763)⁷⁸ 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 full amount needed to meet the full cost of multiyear purchases.⁷⁹ 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 had 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 8. The Military Aid “Pipeline”



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

⁷⁸ 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.

⁷⁹ 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.

Economic Aid

Overview

Although Egypt still receives economic assistance from the Economic Support Fund (ESF), the nature of U.S. support has shifted 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.⁸⁰ When Egypt made peace with Israel and subsequently became politically and 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.⁸¹

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.⁸² However, as bilateral relations soured somewhat 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.⁸³

⁸⁰ 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 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.

⁸¹ 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.

⁸² 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.

⁸³ 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.

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.”⁸⁴

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.⁸⁵

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 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 programs⁸⁶ (public health, education,⁸⁷ economic

⁸⁴ 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.

⁸⁵ “Egyptian Activists fear new Penalties for Foreign Funding,” *Al Monitor*, October 10, 2014.

⁸⁶ 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.

⁸⁷ 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 (continued...) ”

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.⁸⁸

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.⁸⁹ The goal 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.⁹⁰ 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.”⁹¹

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

(...continued)

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.

⁸⁸ Op. cit., GAO, February 2015.

⁸⁹ 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 \$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).

⁹⁰ 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>.

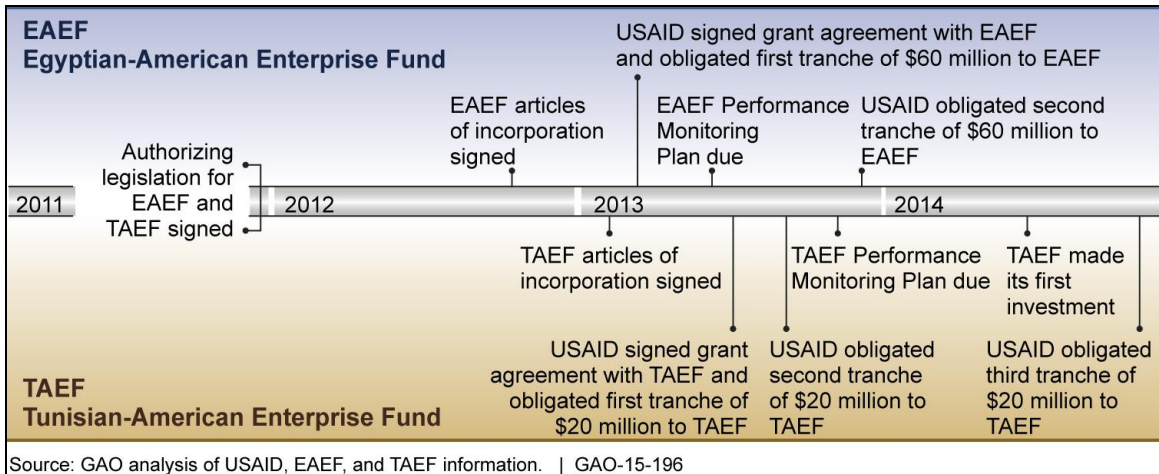
⁹¹ David Ignatius, “An Egyptian Aid Package, Stuck in a D.C. Labyrinth,” *Washington Post*, July 19, 2013.

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.”⁹² 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.⁹³

Figure 9. The Egyptian-American Enterprise Fund

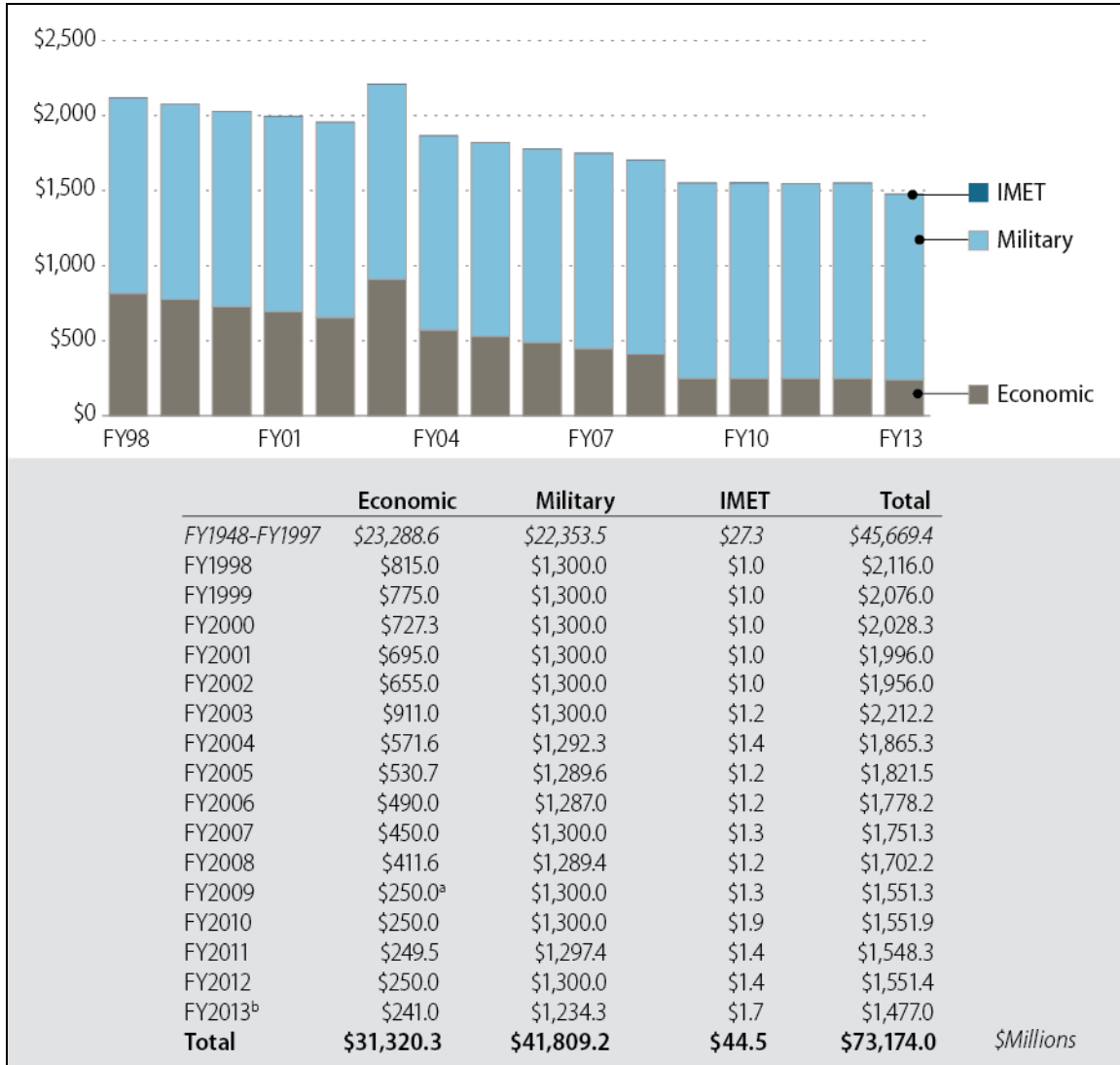


Source: Government Accountability Office, GAO-15-196.

⁹² “U.S. Aid to Egypt Stuck in Limbo,” *CQ News*, October 28, 2013.

⁹³ Government Accountability Office, GAO-15-196, February 2015.

Figure 10. 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 2. 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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