



Egypt: Background and U.S. Relations

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June 27, 2013

Congressional Research Service

7-5700

www.crs.gov

RL33003

CRS Report for Congress

Prepared for Members and Committees of Congress

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 27 JUN 2013		2. REPORT TYPE		3. DATES COVERED 00-00-2013 to 00-00-2013	
4. TITLE AND SUBTITLE Egypt: Background and U.S. Relations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service, The Library of Congress, 101 Independence Ave, SE, Washington, DC, 20540				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 29	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Summary

This report provides a brief overview of the key issues for Congress related to Egypt and information on U.S. foreign aid to Egypt. The United States has provided significant military and economic assistance to Egypt since the late 1970s. U.S. policy makers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running military cooperation and on sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as generally influencing developments in the Middle East in line with U.S. interests. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations, and these debates and events in Egypt are shaping consideration of appropriations and authorization legislation in the 113th Congress.

For Obama Administration officials and the U.S. military, there is a desire to engage Egyptian President Muhammad Morsi's government on a host of issues, including immediate economic support and Sinai security. For others, opportunities for renewed diplomacy may be overshadowed by disruptive political trends that have been unleashed by the so-called Arab awakening and allowed for more expression of anti-Americanism, radical Islamist politics, antipathy toward Israel, and sectarianism, among others.

For FY2014, President Obama is requesting \$1.55 billion in total bilateral aid to Egypt (\$1.3 billion in military aid and \$250 million in economic aid).

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Overview

Two years after the resignation of former President Hosni Mubarak, Egypt is fraught with a polarized political culture and a contracting economy that, if not stabilized, could spark greater public unrest. The Muslim Brotherhood and the military are the two dominant actors, with the former gradually consolidating power in all branches of government and the latter retaining a large measure of control over national security and some foreign policy decision-making.¹ Although President Muhammad Morsi may perceive his growing control over the state² as necessary for stability, his opponents perceive a power grab, as the Morsi Administration has faced a public backlash from urban middle class residents in Cairo³ and citizens of the canal cities of Port Said, Ismailia, and Suez.⁴

Egyptians are divided on questions pertaining to the role of religion in public life and the degree of state involvement in the economy, among other issues. Generally speaking, voters identify with various movements, including the Muslim Brotherhood, Salafist parties, former members of the previous ruling and now-outlawed National Democratic Party (NDP), Leftists (or Nasserists), and

¹ This arrangement was formalized in President Morsi's August 2012 constitutional declaration, which was issued after Sinai-based militants killed 16 Egyptian soldiers in an incident which damaged the prestige of the military. As a result of that incident, President Morsi "dismissed" 77-year-old Defense Minister Field Marshal Mohamed Hussein Tantawi and other officers, though many experts believe that, behind-the-scenes, younger officers forced Tantawi and others into retirement, desiring a less public military role in governance. In exchange for its relinquishing most executive authority, the military most likely sought the Muslim Brotherhood's guarantee that it would constitutionally enshrine autonomy for the military and protection from civilian oversight on key traditional prerogatives. Egypt's new constitution, approved by referendum in December 2012, does precisely that: it allows the military to choose the defense minister; creates three different "councils" (National Security Council, Supreme Council of the Armed Forces, and National Defense Council) that are comprised of a majority of military officers and have ultimate authority over the defense budget; and continues the practice of allowing civilians to be tried by military courts, though only in cases where the "crimes are susceptible to harm the armed forces."

² In general, many Egyptians and some in the international community have bemoaned what they perceive to be a propensity toward authoritarian governance exhibited by President Morsi in recent months. For example, according to Gamal Eid, the executive director of the Arab Network for Human Rights, there have been four times as many "insulting the presidency" lawsuits filed against citizens during President Morsi's first 200 days in office than during the entire 30-year reign of former president Hosni Mubarak. See, "More 'insulting president' Lawsuits under Morsi than Mubarak," *Al Ahram Online*, January 20, 2013. Others charge that the Brotherhood is attempting to control the education system, labor unions, and religious institutions. See, Open Source Center Report: Egypt – "Officials, Media Criticize Latest 'Ikhwanization' Efforts," GMP20130118256001 Egypt—OSC Report in English, January 17, 2013.

³ In early 2013, Egypt experienced a wave of popular unrest directed against President Morsi himself and the process leading to the approval of the constitution. Although Muslim Brotherhood supporters still turned out in large enough numbers (total national turnout of 32%) to approve the Islamist-crafted constitution in a public referendum by a margin of 64% for to 36% against, critics charge that President Morsi forced the process forward, starting with his November 2012 declaration that provided him with immunity from judicial oversight, which he made in order to avoid having the courts annul the Islamist-dominated Constituent Assembly charged with drafting the document (Morsi rescinded most of the decree on December 8 but insisted that the referendum occur as scheduled). When protests occurred outside the presidential palace, regime critics allege that members of the Muslim Brotherhood violently dispersed protestors. Anti-Brotherhood protests in Cairo were particularly strong, as 56% of Cairene voters actually voted against the constitution's approval.

⁴ In January 2013, a court verdict sentencing 21 "Ultras" (hard-core Egyptian soccer fans) to death for their role in a riot last year sparked widespread violence in Egypt's three canal cities against the Muslim Brotherhood and the much maligned police forces, who, many Egyptians claim, continue to brutalize the population. For several days, authorities actually lost control over Port Said to protestors, leading Defense Minister General Abdul Fattah al Sisi to declare on January 29 that "The continuation of the conflict between different political forces and their disagreement on running the affairs of the country may lead to the collapse of the state and threatens the future of the coming generations."

the so-called secular-liberal parties. Of these political groupings, the Muslim Brotherhood continues to be the most successful at attracting supporters due to its sustained focus on social services, party discipline and organization, its history of opposition to Mubarak, and the broad popular appeal of Islam. Its electoral strength has led it to victories in the 2011-2012 parliamentary elections, the June 2012 presidential election, and the December 2012 constitutional referendum. Its decades-long experience in opposition gives it unparalleled credibility among its constituents, and the movement has a major advantage in voter mobilization, especially when overall voter turnout is lower than anticipated. The Brotherhood did not immediately employ its full political weight, having only a year ago changed course by opting to field a presidential candidate after initially pledging not to do so. After three consecutive electoral victories, clearly the Brotherhood has embraced the opportunities afforded it in the post-Mubarak era.

However, actual governance has been far more challenging for the Brotherhood than winning elections, as the reality of Islamists wielding real political power has engendered a fierce backlash from Brotherhood opponents who deeply distrust its motives. President Morsi on November 22, 2012, declared temporary immunity of the presidency from judicial review. This controversial step was the catalyst for the creation of a new opposition coalition, named the National Salvation Front (NSF). It is composed of several former presidential candidates, including Amr Moussa and Hamdeen Sabahi.⁵ It also includes Mohammed ElBaradei, the former Secretary General of the International Atomic Energy Agency.

Overall, though the Brotherhood may be attempting to consolidate power, some observers still believe that state institutions can somewhat hold it in check. According to one Egyptian editor, “If you think of the main pillars of the bureaucracy, the Brotherhood has not gotten control of them yet, and I don’t think they will completely.... There are so many people who are very difficult to bring to heel.... I think we are in for several years of turbulence where state power is diffused.”⁶ Perhaps the single greatest challenge for the Brotherhood is controlling and reforming the Interior Ministry and national police forces, which have been practically at war with street protestors over the past two years and have made no progress in gaining public trust. According to one account, “In a measure of the low level of the new government’s top-down control over the security forces, officers even cursed and chased away their new interior minister when he tried to attend a funeral for two members of the security forces killed in the recent clashes.”⁷

Numerous anecdotes indicate that continued factional fighting between Islamist and non-Islamist groups seems to be contributing to a reduction in public faith in government. According to Shadi Hamid, Director of Research at the Brookings Doha Center, “I think the lack of trust is so deep-seated that even if the Brotherhood made good faith gestures I don’t know if the opposition could believe them or take them at face value.”⁸ This trend may become exacerbated by deteriorating economic conditions. Overall, Egyptian groups appear to be treating politics as a zero-sum game in which the Brotherhood and its opponents have used heightened, sometimes even violent, rhetoric to discredit the other side. As violence in the streets becomes more commonplace, politicians seize upon each incident as an opportunity to delegitimize their opponents and blame them for the country’s ills. With each successive incident of public unrest, the rhetoric is becoming more heated,

⁵ Analysts have paid particular attention to the rise of Sabahi, who finished third in the 2012 election due to his personal charisma, past record of opposition to the Mubarak regime, and socialist economic populism.

⁶ “Brotherhood Struggles to Translate Power Into Policy in Egypt,” *New York Times*, January 19, 2013.

⁷ “Egypt’s Army Chief warns of ‘collapse,’” *International Herald Tribune*, January 30, 2013.

⁸ “Egypt is once again Risking its Future,” *Reuters*, January 30, 2013.

which raises international concern over respect for the rule of law in Egypt. There is even speculation of a return to direct military rule if political violence grows. According to Army Chief of Staff Sedki Sobhi, “It [the military] keeps an eye on what goes on in the nation and if the Egyptian people ever needed the armed forces, they will be on the streets in less than a second.”⁹

For example, in late January and early February, as the two-year anniversary of the 2011 revolution coincided with rioting in the canal cities, national figures condemned their opponents in harsh terms. In February 2013, Hamdeen Sabahi commented on political unrest by saying that President Morsi demonstrated “arrogance, the use of force and more bloodshed.... thus we have sided with the street and call for the bringing down of the dictatorship regime and the trial of its figures.”¹⁰ A well-known Salafi cleric, Mahmoud Shaaban, was recently detained for allegedly inciting potential attempts on the lives of Sabahi and other NSF leaders when he said on February 2 that the NSF wanted power and were “burning Egypt to get it.... It is clear now their sentence in God’s law is death.”¹¹ Although some degree of inflammatory rhetoric is to be expected in Egypt’s volatile political climate, the situation appears to be getting worse with time. According to the International Crisis Group:

In the absence of a shared view of the foundations of a future political system, Islamists are pressing their vision, while their opponents play spoilers. This has the makings of a self-fulfilling prophecy: the more the opposition obstructs and calls for Morsi’s ouster, the more it validates the Islamists’ conviction it will never recognize their right to govern; the more the Brotherhood charges ahead, the more it confirms the others’ belief of its monopolistic designs over power. Even if leaders back away from the brink, this could quickly get out of hand, as their ability to control the rank and file—and, in the case of the opposition, ability to represent the rank and file—dwindles.¹²

A New Wave of Protests and Possible Street Violence?

A new Egyptian movement called *Tamarod*¹³ (translated from Arabic into English as “rebellion”) is planning mass street protests throughout Egypt on June 30, 2013, the one-year anniversary of the inauguration of Islamist Egyptian President Muhammad Morsi. The protests, which many analysts expect to be significant, are intended as part of a wider public campaign to delegitimize the president and force his ouster. Since Tamarod’s inception in late April, activists claim to have collected over 15 million signatures for a petition (**Figure 1**) calling for a withdrawal of confidence in the Morsi administration and for new presidential

Figure 1. Tamarod Petition on Facebook



Source: Online signatures for Tamarod Campaign (www.tamarrod.com).

⁹ “Egypt’s Military growing Impatient with Morsi,” *Times of Israel*, February 21, 2013.

¹⁰ “BBCM Analysis: Winners, Losers in Egypt’s Political Crisis,” Open Source Center GMP20130205950052 *Caversham BBC Monitoring* in English, February 5, 2013.

¹¹ “Egypt Orders Cleric held over ElBaradei Death Call,” *Reuters*, February 11, 2013.

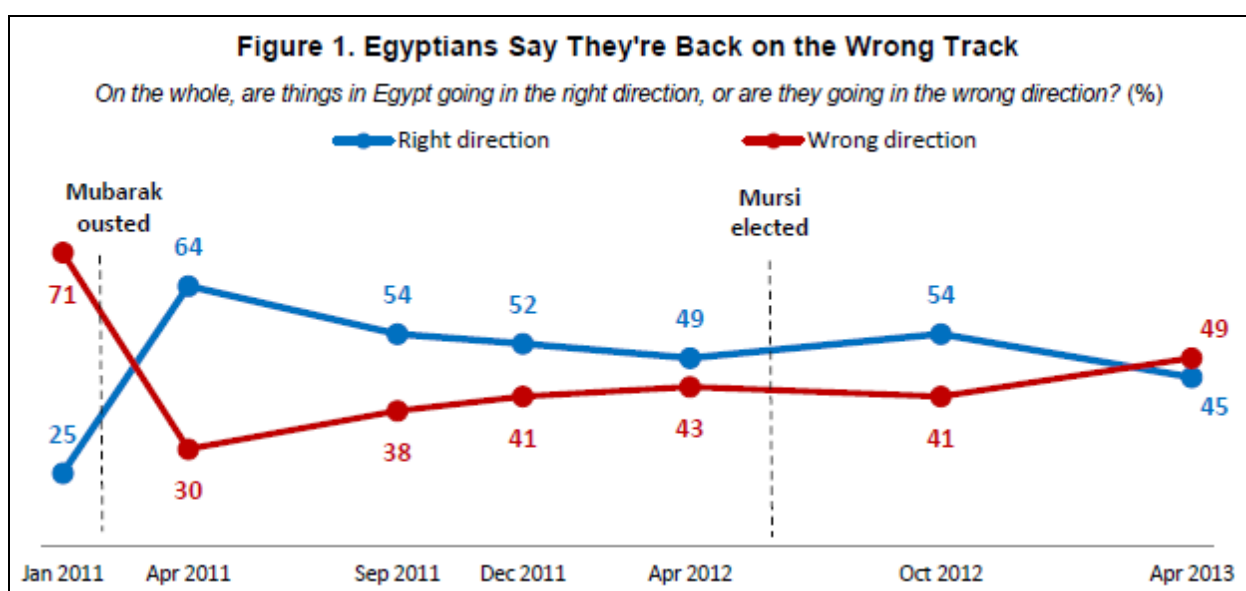
¹² “Egypt Conflict Alert,” *International Crisis Group*, Brussels/Cairo, February 4, 2013.

¹³ Alternative spellings include Motamarred (rebel), Tamarrud, or Tamarud.

elections three years before Morsi's term expires. Campaign leaders have pledged that if their demands for early elections are not met, they will sustain street demonstrations indefinitely and resort to widespread civil disobedience. Some labor unions also have joined the Tamarod campaign and have threatened public strikes on June 30. President Morsi has been widely dismissive of the campaign and in recent weeks has focused attention on foreign policy issues, such as the conflict in Syria and Ethiopia's planned construction of a dam on the Nile. Islamist political groups have threatened to convene counter rallies in order to demonstrate their support for the President.¹⁴ Morsi has repeated that while he will not resign, he is willing to meet with his opponents in a "national dialogue," though elements of the opposition have deemed such efforts as insufficient.

In the meantime, the military has called for calm and political dialogue, but has also indicated that it would not stand idly by should violence ensue. In late June, Defense Minister Abdel Fattah al Sisi stated that the military's "patriotic and moral responsibility toward its people compels it to intervene to keep Egypt from sliding into a dark tunnel of conflict, internal fighting, criminality, accusations of treason, sectarian discord and the collapse of state institutions."

Figure 2. Egyptians Say They Are Back on the Wrong Track



Source: U.S. State Department, INR, Office of Opinion Research, "Egypt: Downward Slide and a Public Divide," June 5, 2013.

Political and economic conditions in Egypt have been gradually deteriorating since the 2011 revolution and resignation of former president Hosni Mubarak. Though the majority of Egyptians still perceive the revolution as a positive development and a step toward democracy, political discourse has become dangerously polarized between Islamist and non-Islamist forces. The marked decline in public security also continues to be a concern for many Egyptians (**Figure 2**). According to the *Financial Times*, homicides tripled from 774 in 2010 to 2,144 in 2012.¹⁵ Moreover, the

¹⁴ One planned rally is called Tagarud, or "Impartiality."

¹⁵ "Egyptians become Victims of Soaring Crime Rate," *Financial Times*, May 1, 2013.

standard of living for many Egyptians continues to decrease, as the economy remains stagnant and government coffers dwindle under the burden of subsidizing fuel and food. As domestic production has declined and imports reduced, fuel shortages have led to longer lines at gas stations and even a few electricity blackouts. Urban consumer inflation has risen 8.2% over the past year. Food insecurity, malnutrition, and poverty rates also have climbed. According to one report, in 2011, 17% of the population experienced food insecurity compared with 14% in 2009.¹⁶

Tamarod activists plan on presenting their petition to the Supreme Constitutional Court (SCC), requesting that it withdraw confidence from President Morsi and appoint an interim president until new elections. However, there is no constitutional basis for a presidential recall election by petition. If organizers are successful in mobilizing mass demonstrations, their tactics could conceivably further tarnish President Morsi's legitimacy. Protestors may be emboldened by recent street demonstrations in Turkey against Islamist Prime Minister Recep Tayyip Erdogan. It also is quite possible that protests run their course after several days or weeks but then lose momentum.

However, even if the protests are relatively uneventful and brief, there is still much cause for concern. Each passing episode of political unrest arguably diminishes the rule of law and its enforcement by the state—an alarming trend for Egypt's long term stability. In January 2013, protests by soccer hooligans angered by the conviction of their fellow club members led to whole scale riots and the loss of government control in the canal cities of Suez, Ismailia, and Port Said. In the past week as tensions over Sunni-Shiite clashes in Syria intensified in Egypt, a mob of religious extremists killed four Egyptian Shiites in a village south of Cairo. If protests stretch beyond June 30, they could coincide with the Muslim fasting month of Ramadan (July 9 – August 7, 2013).

In anticipation of the planned street protests, the United States will close its embassy on June 30. According to the Embassy, "As potentially violent protest activity may occur before June 30th, U.S. citizens are advised to maintain a low profile and restrict movement to the immediate area of their residences and neighborhoods starting on June 28." In a major speech by U.S. Ambassador to Egypt Ann Patterson, the Ambassador angered many Egyptian liberals who perceived remarks as implicit criticism of the Tamarod movement. According to Ambassador Patterson:

Some say that street action will produce better results than elections. To be honest, my government and I are deeply skeptical. Egypt needs stability to get its economic house in order, and more violence on the streets will do little more than add new names to the lists of martyrs. Instead, I recommend Egyptians get organized. Join or start a political party that reflects your values and aspirations. Egyptians need to know a better path forward. This will take time. You will have to roll up your sleeves and work hard. Progress will be slow and you often will feel frustrated. But there is no other way.¹⁷

Will the Egyptian Military Intervene?

As of June 27, two Egyptians have already died in clashes between Muslim Brotherhood supporters and opponents, and the military has already deployed troops to secure key national facilities, such as the Suez Canal. If the planned June 30 protests trigger mass violent confrontations, it is possible that Egyptian military could intervene, though exactly how is unknown. For months, some of Morsi's opponents have been publicly expressing confidence in a temporary return to direct military rule,

¹⁶ "Egypt's gathering Economic Gloom leaves Millions facing Food Shortages," *Guardian* (UK), June 6, 2013.

¹⁷ Ambassador Anne W. Patterson's Speech at the Ibn Khaldun Center for Development Studies, June 18, 2013.

while Islamists have accused opponents of fomenting a military coup. According to one account, anti-Brotherhood demonstrators have even gathered outside the Defense Ministry displaying banners reading, “Army, come down and take back our country.” If military leaders perceived that the country was heading toward prolonged violent civil strife and acted unilaterally to unseat President Morsi in a coup, it is unclear how Islamists would then react. Given the civil war in Syria, and the 1991-2002 civil war in Algeria, both the military and the Brotherhood may be reluctant to escalate confrontations to such dramatic levels. How events evolve in the days and weeks ahead will most likely affect the military’s calculus, and may observers believe that Egyptian military leaders will be cautious rather than opportunistic.

Economy

Egypt’s economy has suffered immensely since the 2011 revolution, and efforts to stabilize the country’s fiscal deficit run the risk of exacerbating growing social unrest. Egypt is experiencing a phenomenon known as “stagflation,” a crippling combination of inflation and lack of growth. In 2012, real GDP grew by 2.2%, a figure that barely exceeds the country’s population growth. In 2011, real GDP grew by 1.78%. In order to prop up social spending, preserve costly fuel and food subsidies, service the debt, and counter the effects of investor capital flight, the central government has been running huge budget deficits and drawing down its foreign exchange reserves. Almost three-quarters of Egypt’s national budget is spent on state salaries, subsidies, and interest payments. In its current fiscal year, Egypt’s annual budget deficit could range from \$26 billion to \$31 billion; the high end of that range may exceed the Ministry of Finance’s projection of a deficit around 10% of GDP. In addition to the government’s domestic borrowing, its foreign exchange reserves are down from \$36 billion in 2011 to \$13.6 billion as of February 2013—enough for three months of import cover.

In order to assist exports¹⁸ and tourism, the Central Bank has tried to manage the gradual devaluation of the currency (Egyptian Pound), which has slid 8% against the dollar in 2013. Although the government claims that the currency will not collapse, there is concern that rising prices may spark additional unrest, as imported food and fuel become more expensive. Food prices increased 8% last year and overall inflation was 7%. With the government considering additional tax increases and subsidy reductions as part of a proposed International Monetary Fund (IMF) deal, the cost of living may substantially increase for all Egyptians in 2013.

For additional background on Egypt’s economy, see CRS Report R43053, *Egypt and the IMF: Overview and Issues for Congress*, by Rebecca M. Nelson and Jeremy M. Sharp.

Relations with Israel

Many historians have documented the long tradition within the Muslim Brotherhood of anti-Israel/anti-Semitic sentiment, most recently highlighted when reports surfaced of a 2010 Morsi

¹⁸ Textile exports are a key industry in Egypt, providing nearly a quarter of all industrial jobs and according to the *Financial Times* accounting for 27% of non-oil exports. See, “Trade conditions weaken Egypt textiles,” *Financial Times*, Feb. 11, 2013.

speech in which he called Jews “the descendants of apes and pigs.”¹⁹ Israel remains deeply concerned over the trajectory of Egyptian politics and its implications for Israel-Egypt relations and the 1979 peace treaty. In practical terms, however, both sides continue to cooperate on military and intelligence matters.

Although Egyptian military and intelligence may be the key interlocutors with Israel, President Morsi clearly feels that he himself has a role to play. In addressing Morsi’s mediation role between Hamas and Israel in reaching a cease-fire back in November 2012, one Morsi advisor remarked, “Let me tell you why the Gaza mediation worked. For the first time in a long time, there was an honest broker.” According to the *Jerusalem Post*, about two-thirds of Israelis polled in late 2012 said that Morsi had a positive impact on ending the Gaza violence.²⁰ Egypt continues to mediate indirect Israel-Hamas discussions—following from the November cease-fire agreement—regarding the possible further easing of restrictions on commerce in Gaza and relaxing of various buffer zone security measures.²¹ Egypt also is mediating a new round of intra-Palestinian talks aimed at implementing past agreements for a Fatah-Hamas consensus government in the West Bank and Gaza.

In November 2012, President Morsi recalled Egyptian Ambassador to Israel Atef Salem in protest of Israeli military action in the Gaza Strip. Since his recall, the Ambassador has not returned to Israel.

¹⁹ See the Middle East Media Research Institute’s (MEMRI) Anti-Semitism and Holocaust Denial Project at <http://www.thememriblog.org/antisemitism>

²⁰ “Majority of Israelis supported Gaza operation - poll. Two-thirds of the public believe Egypt’s Mohamed Morsi had positive impact on ending conflict,” *The Jerusalem Post*, December 9, 2012.

²¹ “Hamas confirms Indirect, Egyptian-sponsored talks with Israel over Gaza,” *Xinhua*, February 16, 2013.

Figure 3. Map of Egypt



Source: Map Resources, adapted by CRS.

U.S.-Egyptian Relations

The United States is facing a series of challenges stemming from more than two years of dramatic change in Egypt. The Administration and Congress have a number of interests at stake in Egypt as well as some potential levers of influence. Interests include maintaining U.S. naval access to the Suez Canal,²² maintaining the 1979 Israel-Egypt peace treaty, and promoting democracy and economic growth within Egypt, the region's largest Arab country. Egypt's President Muhammad Morsi, who hails from the Muslim Brotherhood, may choose to cooperate with the United States on some security and economic matters, though many analysts are concerned that his government may at times act undemocratically, be more confrontational toward Israel, and limit its cooperation with

²² For example, the U.S. Navy relies on receiving expedited passage for U.S. warships through the Suez Canal in order to deploy carrier groups swiftly to the Persian Gulf region. Without passage through the Canal, the Navy would have to deploy ships around the Cape of Good Hope—adding significant time to deployment from Norfolk, VA to the Persian Gulf or Indian Ocean.

the United States on intelligence and terrorism-related issues. Others assert that while Egypt may not follow the U.S. lead as closely as in the past (as evident by recent Iranian-Egyptian exchanges), its need for U.S. support to grow its economy and support its military should provide the United States with some leverage.

Current debate surrounding U.S. policy toward Egypt centers on the degree to which the United States should support a government led by a former leading member of the Muslim Brotherhood. Although most stakeholders in this debate would seek to avoid Egypt's state failure and the negative repercussions it would almost certainly entail for U.S. and global security, there is less consensus over the degree to which the United States should help an Egyptian government that may or may not pursue policies in line with American values and regional security interests. There is also disagreement about the related question of how much leverage the United States gains through various forms of financial assistance.

Overall, U.S. policymakers have broadly emphasized political inclusion²³ and economic stabilization while carefully avoiding entanglements in Egyptian domestic politics. Some critics of the Administration's approach have called for President Obama to exert more pressure on the Egyptian government, especially in advocating for religious minorities' and women's rights. In response, the Administration has counseled patience. Amidst the widespread December 2012 protests in Egypt, one senior Administration official reportedly said that "These last two weeks have been concerning, of course, but we are still waiting to see.... One thing we can say for Morsi is he was elected, so he has some legitimacy."²⁴ After taking office, Secretary of State John Kerry rejected the notion of reducing U.S. aid to Egypt: "A hold up of aid might contribute to the chaos that may ensue because of their collapsing economy.... their biggest problem is a collapsing economy."²⁵

U.S. Foreign Aid to Egypt

Between 1948 and 2011, the United States provided Egypt with a total of \$71.6 billion in bilateral foreign aid, including \$1.3 billion a year in military aid from 1987 to the present. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. bilateral foreign assistance.²⁶ In July 2007,

²³ For example, the State Department commented on the public approval of the constitution, stating that: "The future of Egypt's democracy depends on forging a broader consensus behind its new democratic rules and institutions. Many Egyptians have voiced deep concerns about the substance of the constitution and the constitutional process. President Morsi, as the democratically elected leader of Egypt, has a special responsibility to move forward in a way that recognizes the urgent need to bridge divisions, build trust, and broaden support for the political process. We have called for genuine consultation and compromise across Egypt's political divides. We hope those Egyptians disappointed by the result will seek more and deeper engagement. We look to those who welcome the result to engage in good faith. And we hope all sides will re-commit themselves to condemn and prevent violence." See, Referendum on the Egyptian Constitution, Press Statement, Patrick Ventrell, Acting Deputy Spokesperson, Office of the Spokesperson, Washington, DC, December 25, 2012.

²⁴ "Obama Walks a Fine Line with Egyptian President," *New York Times*, December 14, 2012.

²⁵ "US Aid to Egypt must continue despite Unrest, says John Kerry," *Al Ahram Online*, January 31, 2013.

²⁶ The 1979 Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In two separate memoranda accompanying the treaty, the United States outlined commitments to Israel and Egypt, respectively. In its letter to Israel, the Carter Administration pledged to "endeavor to take into account and will endeavor to be responsive to military and economic assistance requirements of Israel." In his letter to Egypt, former U.S. Secretary of Defense Harold Brown wrote that "the United States is prepared to enter into an expanded security relationship with Egypt with regard to the sales of military equipment and services and the financing of, at least a portion of those sales." Ultimately, the United States provided a total of \$7.3 billion to both parties in 1979. The Special International Security Assistance Act of 1979 (P.L. 96-35) provided both military and economic grants to Israel (continued...)

the George W. Bush Administration signed a 10-year Memorandum of Understanding (MOU) with Israel to increase U.S. military assistance from \$2.4 billion in FY2008 to over \$3 billion by 2018. Egypt received no corresponding increase in U.S. military aid; instead, the Bush Administration pledged to continue to provide Egypt with \$1.3 billion in military aid annually, the same amount it has received annually since 1987. Unlike with Israel and, separately, with Jordan, the Bush Administration's pledge did not involve signing a bilateral MOU with the Egyptian government. Congress typically specifies a precise allocation of foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).²⁷

Military Aid

In FY2011, Egypt received almost a quarter of all U.S. FMF funds, and Israel received nearly 60%. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts. U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank, which began in 1988, is one of the cornerstones of U.S. military assistance to Egypt. Egypt plans to acquire a total of 1,200 tanks. Under the terms of the program, a percentage of the tank's components are manufactured in Egypt at a facility on the outskirts of Cairo and the remaining parts are produced in the United States and then shipped to Egypt for final assembly. General Dynamics of Sterling Heights, MI, is the prime contractor for the program.²⁸ Although there are no verifiable figures on total Egyptian military spending, it is estimated that U.S. military aid covers as much as 80% of the Defense Ministry's weapons procurement costs.²⁹ Egypt also receives Excess Defense Articles (EDA) worth hundreds of millions of dollars annually from the U.S. Defense Department. The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term. IMET assistance also makes Egypt eligible to purchase training at a reduced rate.

In addition to large amounts of annual U.S. military assistance, Egypt benefits from certain aid provisions that are available to only a few other countries. Since 2000, Egypt's FMF funds have been deposited in an interest-bearing account in the Federal Reserve Bank of New York and have

(...continued)

and Egypt at a ratio of 3 to 2, respectively, though this ratio was not enshrined in the treaty as Egypt would later claim.

²⁷ Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement.

²⁸ Congress was notified in July 2011 of a potential M1A1 agreement. The notification is listed here: http://www.dsca.mil/PressReleases/36-b/2011/Egypt_10-67.pdf

Congress did not object to the sale, and an M1A1 contract was finalized thereafter. The following is information on the contract from the Department of Defense: General Dynamics [GD] Land Systems has received a \$395 million contract for work under the Egyptian tank co-production program. The contract, issued by the Army TACOM Lifecycle Management Command, has awarded the funds for production of 125 M1A1 Abrams tank kits for the 11th increment of the Egyptian co-production program. Since 1992, General Dynamics has provided components for kits used in the co-production program. The parts are shipped to a production facility near Cairo, Egypt, where the tanks are manufactured for the Egyptian Land Forces. This latest increment will increase the number of Egyptian co-production-built tanks to 1,130. Work on the components is to be performed in Anniston, Ala.; Tallahassee, Fla.; Sterling Heights, Mich.; Lima, Ohio; and Scranton, Penn., by existing General Dynamics employees. Deliveries are to begin in July 2013 and continue to January 2016.

²⁹ According to one source, U.S. military assistance pays for about a third of Egypt's overall defense budget each year. See, "Three Decades of Weapons, Training for Egypt Keep U.S. in Loop," *Bloomberg*, February 2, 2011.

remained there until they are obligated. By law (P.L. 106-280), Congress must be notified if any of the interest accrued in this account is obligated. Most significantly, Egypt is allowed to set aside FMF funds for current year payments only, rather than set aside the full amount needed to meet the full cost of multi-year purchases. Cash flow financing allows Egypt to negotiate major arms purchases with U.S. defense suppliers.

Arms Sales Issues

With the President of Egypt hailing from the Muslim Brotherhood, some lawmakers and U.S. citizens are concerned that continued U.S. military aid and sales of U.S. equipment could be one day used by a government and military that is controlled by Islamist forces hostile to U.S. national security interests and to peace with Israel. Some opponents of U.S. military aid to Egypt may apply further scrutiny in the months ahead to proposed U.S. arms sales to Egypt financed by U.S. taxpayer dollars. With the January 2013 arrival of four F-16s in Egypt, some media attention has focused on the pending delivery in 2013 of a total of 20 F-16 C/D fighters to Egypt that were notified to Congress in 2009.³⁰ Congress did not object to the sale after the notification, which was before the change in Egypt's government, and in 2010 Lockheed Martin and Egypt reached an agreement for the purchase of 20 F-16C/Ds³¹ valued at an estimated \$2.5 billion.

Another concern of some lawmakers is security in the Sinai Peninsula. P.L. 112-74, the Consolidated Appropriations Act, 2012, includes language that specifies that "\$1,300,000,000 shall be made available for grants only for Egypt, including for border security programs and activities in the Sinai." The Administration has been calling on the Egyptian military to use FMF to purchase border security equipment, but no purchase decision has been reached.

Finally, some lawmakers may be seeking to restructure the way Egypt may use FMF grants in the future. Although the Defense Department has for years tried to gradually convince the Egyptian military to focus its procurement more on counter-terrorism and counter-insurgency equipment and training than on conventional military items, the deterioration of law and order in Egypt has reenergized this issue. Some lawmakers may seek to direct future FMF spending toward reforming Egypt's internal police forces and countering the terrorist threat in the Sinai Peninsula.³²

Table I. U.S. Assistance to Egypt, FY2010-FY2014 Request

(Regular and Supplemental Appropriations; Current Year \$ in Millions)

Account	FY2010	FY2011	FY2012	FY2013	FY2014 Request
ESF	250.0	249.5	250.0	250.0	250.0
FMF	1,300.0	1,297.4	1,300.0	1,300.0	1,300.0
IMET	1.900	1.400	1.400	1.800	1.800
INCLE	1.000	1.000	.250	7.900	4.106
NADR	2.800	4.600	5.600	—	—
Total	1,555.7	1,553.9	1,557.25	1,559.7	1,555.906

³⁰ See, http://www.dsca.mil/PressReleases/36-b/2009/Egypt_%2009-34.pdf.

³¹ Since 1980, under the Peace Vector Foreign Military Sales Program, Egypt has acquired over 220 F-16s. It is the fourth largest operator of the F-16 after the United States, Israel, and Turkey.

³² "Bipartisan Senate Group Calls for Egypt Aid Restructure," *Congressional Quarterly*, February 12, 2013.

Economic Aid

During the 1980s and 1990s, Egypt received large amounts of annual economic loans and grants, mainly to support large-scale USAID infrastructure projects in sanitation, education, and telecommunications.³³ By the late 1990s, Congress began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials, sensing that their economic growth had obviated the need for that type of U.S. aid at a time when Congress sought to reduce foreign assistance expenditures, negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3:2 ratio that long prevailed in the overall levels of U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40 million reduction for Egypt), but Egypt did not receive an increase in military assistance. Thus, Congress reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008. The Bush Administration, whose relations with then-President Hosni Mubarak suffered over the latter’s reaction to the Administration’s democracy agenda in the Arab world, then requested that Congress cut ESF aid by half in FY2009 to \$200 million. Congress appropriated the President’s request. Upon taking office in 2009, President Obama sought a \$50 million increase in economic aid to Egypt for FY2010, which Congress then passed.

In prior years, ESF funds were divided into two categories: USAID projects and cash transfers.³⁴ ESF funds are allocated to a variety of sectors, including health, education, economic growth, and democracy and governance. U.S. funding for the latter has been a source of acrimony between the United States and Egypt for years, culminating in the recent dispute over U.S. funding for non-governmental organizations (see below).³⁵

U.S. Funding for Democracy Promotion and the 2011-2013 NGO Case

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 both governments have held numerous consultations over the years regarding what might be deemed as acceptable U.S.-funded activities in the democracy and governance sector, it appears that the two sides have not reached consensus. Using the appropriations process, Congress has acted to ensure that “democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt].”³⁶

³³ According to the U.S. State Department, U.S. economic aid has helped provide clean drinking water and sanitation to the city of Cairo, build more than 2,000 schools and double literacy levels, and decrease in the maternal mortality rate by over 50% and the child mortality rate by over 70%. See, U.S. State Department, Assistance to Egypt Fact Sheet, Office of the Spokesman, Washington, DC, May 19, 2011.

³⁴ It is unclear if USAID is still operating the cash transfer program, as it had been scheduled to be phased out by 2011.

³⁵ On February 6, Egyptian authorities charged 43 people, including the Egypt country directors of NDI and IRI, with spending money from organizations that were operating in Egypt without a license. Nineteen Americans, including Sam LaHood of IRI, the son of U.S. Transportation Secretary Ray LaHood, face criminal charges. Having departed Egypt, almost all of the accused Americans are being tried in absentia.

³⁶ In FY2005, Congress directed that “democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt],” language which remained in annual foreign operations appropriations legislation until FY2010. Under Mubarak, Egypt had claimed that U.S. assistance programs must be jointly negotiated and could not be unilaterally dictated by the United States. P.L. 111-117, the Consolidated Appropriations Act, FY2010, contained general legislative language on the use of U.S. funds to NGOs, stating in Section 7034: “With respect to the provision of assistance for democracy, human rights and governance activities in this Act, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the government of any foreign country.” (See, (continued...))

Congress also has conditioned U.S. assistance to Egypt, including military aid, on an executive branch certification that the Egyptian government is transitioning to democracy. Discussed in more detail below, Section 7041 of P.L. 112-74, the Consolidated Appropriations Act, 2012, specifies that no funds may be made available to Egypt until the Secretary of State certifies that Egypt is supporting the transition to civilian government, including by holding free and fair elections and by implementing policies to protect freedom of expression, association, and religion, and due process of law. The Administration may waive this certification under certain conditions. Former Secretary of State Hillary Rodham Clinton first exercised the waiver on March 23, 2012. Current Secretary of State Kerry exercised the waiver for FY2013 in early May 2013.³⁷

Background

Successive Egyptian governments under former President Hosni Mubarak, the military-led government that succeeded him, and the current government led by President Mohammed Morsi have all treated foreign-based non-governmental organizations (NGOs) and their local Egyptian partners with deep suspicion and have periodically suppressed their activities. This suspicion not only permeates the executive branch of government but the legislature and judiciary as well, as externally-funded democracy-promotion activities have run up against Egyptian nationalist sentiment and post-colonial suspicion of alleged “foreign interference.” Other governments around the world view NGO activities, particularly those of U.S.- and European-backed democracy promotion organizations, with similar suspicion, arguing that by engaging with and training NGOs and political party member, foreign NGOs promote social unrest and regime change.

Even before the 2011 revolution that unseated Mubarak, the United States and other Western governments had long advocated for greater NGO freedom and other civil liberties. In 2000, Egyptian authorities closed the internationally-recognized Egyptian NGO known as the Ibn Khaldun Center for Development Studies and arrested its director, Saad al-Din Ibrahim, a sociology professor at American University of Cairo. Ibrahim, who also holds U.S. citizenship, was arrested for defaming Egypt by describing discrimination against Coptic Christians, and for not reporting a foreign donation from the European Union for a voter education project. The international community condemned Ibrahim’s detention and conviction and in 2002, Congress rejected \$134 million in newly proposed economic assistance for Egypt to protest Ibrahim’s imprisonment. On March 18, 2003, an Egyptian court acquitted Ibrahim, and he was released.

One tool Egypt’s government has used to suppress NGO activity is the Mubarak-era Law on Associations (Association Law 84-2002). According to this law, which is still in effect, NGOs are required to apply for legal status and must be registered with the Ministry of Social Affairs. In some cases, it may take years before the ministry rules on an application, and many groups are routinely rejected. Often, no response is given to the application, leaving an organization in legal limbo. If an NGO’s application is rejected, it has few legal rights and can be shut down. Its members can be imprisoned. However, even registered NGOs must tread carefully when engaging in sensitive political issues, as some groups have been periodically closed or have had their legal status revoked.

(...continued)

P.L. 111-117. The conference report accompanying the Act notes, “the requirements of section 7034(m)(4) of this Act shall apply with respect to the provision of assistance to Egyptian NGOs.” P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, became law on April 15, 2011, after the resignation of former Egyptian President Hosni Mubarak, and did not contain language addressing the NGO issue.

³⁷ “U.S. quietly allows Military aid to Egypt despite rights Concerns,” Reuters, June 6, 2013.

NGOs also must report all foreign donations to the Ministry of Social Affairs. Overall, tolerance for the activities of non-registered groups varies, and many NGOs operate without any legal protection. A new NGO law is under consideration to replace Law 84-2002, and activist groups have criticized drafts under consideration for extending similar restrictions and requirements (see below).

The “NGO Case” 2011-2013

In 2011, the Egyptian military (or SCAF – the Supreme Council of the Armed Forces) assumed executive authority following the resignation of former President Hosni Mubarak. The SCAF began to vocally condemn long-standing U.S. democracy assistance programs and grants to Egyptian civil society organizations as unwelcome meddling in Egyptian affairs. These statements probably stemmed from tensions between the military and protestors fueled by disagreements over the pace of corruption trials for former regime officials and the continued detention and military trials of demonstrators. The SCAF may have been deliberately attempting to discredit secular/liberal activists by portraying them as American agents for accepting U.S. technical assistance. In the weeks following the resignation of former President Mubarak, the Obama Administration and Congress reprogrammed \$165 million in already appropriated economic aid for support to Egypt’s economy (\$100 million) and political transition (\$65 million). In March 2011, USAID’s Cairo office began soliciting grant proposals from Egyptian NGOs. In response, U.S. officials noted that “Egyptian groups that apply for and receive grants from the United States are engaged in activities that are politically neutral. No funds are provided to political parties.” During U.S. Ambassador to Egypt Anne W. Patterson’s 2011 Senate confirmation hearing, she remarked:

We have invested quite a few resources, close to \$40 million in these organizations [National Democratic Institute (NDI), International Republican Institute (IRI), and International Foundation for Electoral Systems (IFES)] over the—over the past few weeks. And they’re very active on the ground in Egypt and as I mentioned have been very well received. We’ve also tried to support smaller organizations. And through our Middle East Partnership Initiative we’ve given out, I think, 35 grants since the unrest in Tahrir Square to small civil society organizations, and many of them in rural areas who are doing just what you say, trying to connect the people’s grievances with their political desires.

After this testimony received press coverage in the Egyptian media, numerous Egyptian state-run media reports personally attacked the U.S. Ambassador and accused USAID of handing suitcases of cash over to Egyptian political parties and activists in Tahrir Square in order to buy influence. Egyptian leaders also accused the Obama Administration of violating Egyptian law by funneling money to unregistered foreign democracy assistance organizations such as the National Democratic Institute (NDI) and International Republican Institute (IRI) operating inside Egypt. Both IRI and NDI had previously sought registration under Law 84-2002 but had not received approval to operate. Although unregistered U.S.-based NGOs had operated inside Egypt in the past, the military-led regime made an issue of their presence in the charged political climate.

Then, on December 29, 2011, Egyptian police raided the offices of U.S.-based international non-governmental organizations working on election monitoring, political party training, and government transparency in Egypt, including IRI, NDI, and Freedom House, as part of a criminal investigation commissioned by then-Minister of International Cooperation Fayza Abul Naga³⁸ into foreign funding of NGOs. The legal status of these entities was an issue of long-running bilateral

³⁸ Abul Naga is the only remaining cabinet holdover from the Mubarak era and has served since 2001.

dispute. Police reportedly seized laptop computers and interrogated employees, accusing various organizations of operating illegally without a license. As a result of the raids, many NGOs were forced to close their local offices.

The U.S. government protested the raids, and the SCAF promised that equipment would be returned and that NGO operations would return to normal. However, these pledges were not fulfilled. On the contrary, two weeks later, Egypt barred at least six American NGO employees from leaving the country. On February 6, 2012, Egyptian authorities charged 43 people, including the Egypt country directors of NDI and IRI, with spending money from organizations that were operating in Egypt without a license. Nineteen Americans, including Sam LaHood of IRI, the son of U.S. Transportation Secretary Ray LaHood, faced criminal charges. Most of the accused American employees were nonetheless able to leave Egypt, with the exception of six or seven individuals who had fled to the U.S. Embassy in Cairo.

Throughout February and early March 2012, U.S. and Egyptian officials negotiated to (at the very least) have the travel ban on the Americans who remained at the U.S. Embassy in Cairo lifted. Reportedly, U.S. officials and lawmakers threatened not only to withhold bilateral aid, but to obstruct a pending IMF loan to Egypt if the situation was not resolved.³⁹ Finally, on March 1, days after three Egyptian judges recused themselves from the NGO case (reportedly because they refused orders to overturn the travel ban that they saw as stemming from U.S. pressure), Egyptian authorities lifted the travel ban, and NDI and IRI were forced to pay a combined \$4 million bail. Almost all of the accused Americans left Egypt.

For the next 15 months (March 2012 to June 2013), the government conducted a trial of the 43 NGO workers. Most of the foreigners remained in absentia. According to Human Rights Watch, the workers were charged under article 98(c)(1) of Egypt's penal code, which states: "Anyone who creates or establishes or manages an association or organization or institution of any kind of an international character or a branch of an international organization without a license in the Egyptian Republic shall be punished with imprisonment for a period of not more than 6 months or with a fine of 500 EGP [US\$82]." The defendants were also charged under the penal code with receiving funds without authorization, which can carry a penalty of up to five years in prison.⁴⁰

On June 4, 2013, a Cairo criminal court convicted the 43 NGO workers. Twenty-seven of those individuals received five-year jail terms. Another five received two years and 11 received one year. All 43 defendants were fined 1,000 Egyptian pounds (\$143). The court also ordered the closure of the NGOs involved in the case, including IRI, NDI, and Freedom House.

In response to the court's decision, U.S. National Security Council Spokesperson Caitlin Hayden made the following statement:

The United States is deeply concerned by the verdicts issued today by an Egyptian court against representatives of non-governmental organizations in what was a politically-motivated trial. The court's decision undermines the protection of universal human rights and calls into question the Government of Egypt's commitments to support the important role of civil society. Civic groups, including international non-governmental organizations, play a key role in successful democracies. They are critical to advancing freedoms, supporting universal human rights, and acting as appropriate checks on the government. We urge the Government of Egypt to protect

³⁹ "U.S. Defendants Leave Egypt Amid Growing Backlash," *New York Times*, March 1, 2012.

⁴⁰ <http://www.hrw.org/news/2013/06/04/egypt-unjust-verdict-rights-workers-trial>

the ability of these groups to operate freely, including by ensuring that the civil society law under consideration by the Shura Council conforms with international standards, and by working with international and domestic civic organizations to ensure they can support Egypt's transition to democracy.⁴¹

Egypt's Draft NGO Law

In the winter of 2013, President Morsi's Freedom and Justice Party, the political party of the Muslim Brotherhood, circulated a new draft NGO bill, known as the Civil Associations and Institutions Act. Although the Muslim Brotherhood was once an illegal organization itself and has advocated at times for the rights of civil society, many observers assert that this draft law, if enacted by parliament, would place further constraints on civil society groups. The bill would, among other things, limit the purpose and activities of associations and foundations and would grant a security-related "steering committee" the power to approve or deny funding to an association based on the specific activities for which funds would be used (Article 57). It would also allow officials to dissolve an organization at their discretion and require an organization to possess \$35,000 to be formed. It would additionally prohibit NGOs from receiving financial assistance without the prior approval of four government ministries.

In late May 2013, President Morsi circulated a new draft NGO bill, which he claims that if passed would strike a balance between foreign NGO concerns and concerns for Egyptian sovereignty.⁴² His critics decry the new version, claiming that it still maintains the provision that would create a "steering committee." Members of this committee would determine whether or not an NGO may receive foreign funding. Although NGOs would have judicial recourse if the committee rejects their application, many activists consider the bill too restrictive of their activities.

U.S. Foreign Aid to Egypt Since the February 2011 Revolution

U.S. foreign aid to Egypt, which was contentious during the reign of former President Hosni Mubarak, has continued to spark debate among lawmakers and between Congress and the Obama Administration. Although the Administration proposed the same bilateral foreign operations appropriation request for Egypt in FY2014 that Egypt received in the previous four fiscal years (approximately \$1.55 billion), the implementation of new Administration aid initiatives previously authorized by Congress have at times been placed on hold by some lawmakers. Due to overall U.S. budgetary limitations, concern over widespread anti-Americanism permeating Egyptian politics, uncertainty over the intentions of the Muslim Brotherhood, and general U.S. concern over Egypt's transition to democracy and adherence to the 1979 Israel-Egypt Peace Treaty, bilateral cooperation on aid has not been as robust as elsewhere in the region (e.g., Tunisia).

After Mubarak's resignation in February 2011, the Administration made several aid proposals for Egypt. In the weeks following the resignation, the Obama Administration reprogrammed \$165 million in already-appropriated ESF for support to Egypt's economy (\$100 million) and political transition (\$65 million).⁴³ In a speech delivered at the State Department on May 19, 2011, President

⁴¹ <http://www.whitehouse.gov/the-press-office/2013/06/04/statement-national-security-council-spokesperson-caitlin-hayden-egypt-ng>

⁴² "New Egypt NGO law could expand Morsi's Control," *Christian Science Monitor*, May 30, 2013.

⁴³ USAID provided support to both the 2011 parliamentary and 2012 presidential elections (est. \$20-\$23 million), including assistance to domestic and international election "witnesses" who reported on the election process and (continued...)

Obama outlined a new plan for U.S. engagement with Egypt and other Arab countries undergoing political transitions. Major components of that plan included providing up to \$1 billion in bilateral debt relief⁴⁴ to Egypt and \$1 billion in U.S.-backed loan guarantees⁴⁵ to finance Egyptian infrastructure and job creation, and creating an enterprise fund to invest in small- and medium-sized Egyptian businesses (SME).

The current status of U.S. aid to Egypt is as follows:

- **Cash Transfer⁴⁶ (Authorized but partially on Hold):** In late September 2012, some Members of Congress placed holds on a congressionally notified **\$450 million** Economic Support Fund (ESF) cash transfer to Egypt.⁴⁷ Those funds would have been used to pay down Egypt's bilateral debt⁴⁸ (approximately \$2.7 billion) to the United States in exchange for Egyptian government commitment to a fiscal stabilization program as prescribed by the International Monetary Fund.⁴⁹ During his March 2013 visit to Cairo, Secretary of State Kerry announced that Congress had partially lifted its hold and that the Administration would provide Egypt with \$190 million in budget support. (Congress also lifted a hold on a \$60 million Egyptian-American Enterprise Fund). The remaining \$260 million is still on hold. An additional \$550 million in debt relief pledged by the Obama Administration,

(...continued)

administration assistance in collaboration with the Egyptian High Election Commission (HEC), among other activities.

⁴⁴ As of June 2012, total Egyptian debt to the United States was approximately \$2.7 billion, with \$1.2 billion owed to USAID and the balance owed to USDA.

⁴⁵ According to the U.S. State Department, Loan Guarantees to Egypt were authorized in the Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-11). The maximum principal to be guaranteed was \$2 billion and the authority expired on September 30, 2005. Only \$1.25 billion in guarantees were issued under the program, and that amount remains outstanding, with the total principal due in September 2015.

⁴⁶ Egypt has already received substantial debt relief from the United States. In recognition of Egypt's participation in Operation Desert Storm in Iraq, in 1990, President George H.W. Bush asked Congress to forgive \$6.7 billion of debt that stemmed from military loans extended to Egypt by the United States between 1979 and 1984 to help finance large amounts of weapons purchased under the Foreign Military Sales (FMS) Program. Debt cancellation authority for the full amount was granted in the 1991 Foreign Operations Appropriations Act. At the time, total Egyptian debt owed to the United States, including ESF and PL-480 loans, was about \$12 billion.

⁴⁷ The ESF cash transfer would come from previously appropriated ESF, including: \$55,170,041 ESF (FY 2012), \$225,436,126 ESF (FY 2011), \$167,461,116 ESF (No Year), and \$1,932,717 ESF (Prior Year Recoveries).

⁴⁸ A portion of Egypt's debt to the United States government stems from past food aid programs. U.S. food aid to Egypt primarily consisted of concessional sales of U.S. wheat under Title I of the Food for Peace Act, which makes available long-term, low-interest loans or grants to developing countries and private entities for their purchase of U.S. agricultural commodities to support specific projects. According to one analyst, by the end of 1976, one of every three loaves of bread consumed by urban Egyptians was a product of wheat purchased under the PL-480 program. See, William Joseph Burn, *Economic Aid and the American Policy Toward Egypt, 1955-1981* (State University of New York Press, Albany, NY, 1985). Loan agreements under the Title I credit program provided for repayment terms of up to 30 years with a grace period of up to five years. Egypt stopped receiving loans under Title I in 1995 and no U.S. funding for any Title I credit sales and grants has been appropriated since FY2006.

⁴⁹ Egypt currently owes the United States approximately \$2.7 billion from decades-old food aid loans. In order to provide debt relief, U.S. government agencies are required to value U.S. loans, such as bilateral debt owed to the United States, on a net present value basis rather than at their face value, and an appropriation by Congress of the estimated amount of debt relief is required in advance. P.L. 112-74 provided that ESF funds appropriated for Egypt in the act and from prior acts could be used for an Egypt debt initiative. Moreover, according to P.L. 112-74, bilateral debt relief funds would be a "swap" and channeled into programs that improve "the lives of the Egyptian people through education, investment in jobs and skills (including secondary and vocational education), and access to finance for small and medium enterprises with emphasis on expanding opportunities for women, as well as other appropriate market-reform and economic growth activities."

according to the State Department, is still under consideration but it has not been notified to Congress.

Recent Legislation

The Consolidated Appropriations Act, FY2012

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

The Secretary of State exercised the waiver on March 23, 2012. In an accompanying statement, a State Department spokesperson said that:

As the Secretary's statement makes clear, as the statement we released with regard to her decision makes clear, we have a huge number of interests and equities at stake in our relationship with Egypt. This is a strategic partnership; so rather than talking about leverage, we're talking about partnership, as we have for all of these years. And as we make clear here, Egypt itself is changing very fast. We have a new Egypt emerging. So U.S. support in all of its forms – FMF, ESF in countries around the world – is designed to allow us to support the partnership that we have with countries and the developments that we want to see in countries in a more democratic, prosperous, stable, secure direction.⁵⁰

FY2013 State and Foreign Operations Appropriations Bills

House (112th Congress; H.R. 5857)—The House bill would have provided the full Administration request for Egypt of \$250 million in ESF and \$1.3 billion in FMF. It included a number of specific directives, including:

- Section 7042 of the bill contained a certification that no funds may be made available for Egypt unless the Secretary of State certifies to the Committees on Appropriations that Egypt's central government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.

⁵⁰ Victoria Nuland Spokesperson, Daily Press Briefing Washington, DC, March 23, 2012

- The bill also contained a requirement stating that prior to obligations of ESF and FMF, the Secretary of State shall certify that the Government of Egypt (1) has completed the transition to civilian government, including holding free and fair elections; and (2) is implementing policies to protect freedom of expression, association, and religion, and due process of law. The Secretary of State may waive these requirements if the Secretary determines and reports to the Committees on Appropriations that to do so is in the national security interest of the United States. The bill stated that such a determination and report shall include a detailed justification for such waiver and that the Secretary of State shall consult with the Committees on Appropriations prior to waiving such requirements.
- In addition, the Committee on Appropriations must be consulted prior to the transfer of FMF funds to an interest-bearing account for Egypt. The committee also must be notified 15 days in advance of the obligation of funds for Egypt.
- The committee also directed the Secretary of State to submit a report to the Committees on Appropriations, not later than 90 days after enactment of this act, detailing the status of human rights within Egypt. The report should include whether the government of Egypt is providing adequate protection for religious minorities, including protection of Coptic Christians, their property, and their places of worship.
- The committee directed the Secretary of State to report to the Committees on Appropriations, not later than 90 days after enactment of this act, on all assistance provided under this heading for Egypt from fiscal year 2008 through 2012. The report should include the following: (1) the ministries, agencies, or instrumentalities of the government of Egypt that received funding; (2) United States, international, or Egyptian organizations that received funding; (3) a description of the purpose of each program, project, or activity; (4) whether each program, project, or activity complied with mandatory audit requirements; and (5) a description of whether each program, project, or activity fulfilled its stated purpose.
- Section 7032 of the bill contained a passage stating that “None of the funds appropriated or otherwise made available by title III of this Act may be obligated for direct Government-to-Government assistance if such assistance is to a government that is actively and significantly interfering with the operation of civil society organizations.” This restriction does not specifically refer to Egypt but could possibly apply to some economic aid to Egypt should its government obstruct operations of non-governmental organizations.

Senate (112th Congress; S. 3241)—The Senate bill also contained most of the Administration request for Egypt, though it “reduces assistance for Egypt under ESF by an amount equal to the amount posted as bail in February 2012 for members of United States NGOs operating in Egypt.” The Senate bill included the following provisions:

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

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

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

Legislation in the 113th Congress

- H.R. 1960—National Defense Authorization Act for Fiscal Year 2014 – Section 1242 includes a sense of Congress that, among other things, states that “the United States continues to have considerable concerns about the intentions and actions of the Egyptian Muslim Brotherhood and whether the government of President Morsi is committed to a pluralistic, democratic Egypt.” This section also states that “the United States military relationship with the Egyptian military is long-standing and should remain a key pillar to, and component of, United States engagement with Egypt.” The bill also would require that the Secretary of Defense, in consultation with the Secretary of State, shall submit to the appropriate congressional committees a report that contains a comprehensive plan for United States military assistance and cooperation with Egypt. It also would require that the Comptroller General of the United States submit to the appropriate congressional committees a report that provides recommendations regarding additional actions with respect to the provision of United States security assistance to Egypt.
- S. 984—A bill that would prohibit appropriations to be used for United States participation in joint military exercises with Egypt if the Government of Egypt abrogates, terminates, or withdraws from the 1979 Egypt-Israel peace treaty signed at Washington, DC, on March 26, 1979. The President may waive this

limitation if the President certifies to Congress in writing that the waiver is in the national security interests of the United States.

- H.R. 1302—A bill that would prohibit military credit assistance to Egypt under the Arms Export Control Act with respect to funds made available to any federal department or agency beginning with FY2014.
- H.R. 1039—A bill that would rescind \$500 million of unobligated amounts of foreign assistance for Egypt and appropriates \$500 million for the Department of Defense (DOD) tuition assistance program for FY2013.
- H.R. 939—A bill that would prohibit the U.S. government from allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or certain other defense articles or services to Egypt until the President certifies to Congress that Egypt (1) is curtailing support for terrorist activities conducted by foreign terrorist organizations; (2) has adopted policies that promote religious and political freedoms; (3) is carrying out concerted efforts to enforce access along the Sinai Peninsula, including preventing illegal weapons smuggling between Egypt and Gaza; and (4) is fully implementing the 1979 Peace Treaty between Egypt and Israel.
- H.R. 276—a bill that would prohibit any funds made available after FY2013 to any federal department or agency from being used to provide assistance to Egypt.
- H.R. 416—a bill that, among other things, would limit specified security and economic assistance to Egypt unless the Secretary of State certifies to Congress every six months that the Egyptian government (1) is not controlled by or under the influence of a foreign terrorist organization, or that no supporter of a foreign terrorist organization serves in a policy-making position in the government; (2) has implemented legal reforms that protect the political, economic, and religious freedoms and human rights of all citizens and residents of Egypt; (3) is fully implementing the Israel-Egypt Peace Treaty; and (4) is taking verifiable steps to destroy the smuggling network and tunnels between Egypt and the Gaza Strip, and is cracking down on extremist groups in the Sinai Peninsula.
- S. 201—a bill that would prohibit the U.S. government from licensing, approving, facilitating, or otherwise allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or other specified defense articles or services to Egypt.
- S. 207—a bill that would prohibit the U.S. government from allowing the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or certain other defense articles or services to Egypt until the President certifies to Congress that Egypt has agreed to (1) continue to uphold its Camp David Peace Accords commitments, (2) provide proper security at U.S. embassies and consulates, and (3) end its systematic exclusion and silencing of all official minority political opposition parties and engage in dialogue for a power-sharing government with such parties.
- S.Amdt. 9 to H.R. 325—an amendment stating that “Notwithstanding any other provision of law, the United States Government shall not license, approve, facilitate, or otherwise allow the sale, lease, transfer, retransfer, or delivery of F-16 aircraft, M1 tanks, or other defense articles or services listed in Category VI, VII, or VIII of the United States Munitions List to the Government of Egypt.” The Senate failed to adopt the measure by a vote of 19 for to 79 against.

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

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

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

Table 3. U.S. Foreign Assistance to Egypt
(\$ in millions)

Fiscal Year	Economic	Military	IMET	Total
1948-1997	23,288.6	22,353.5	27.3	45,669.4
1998	815.0	1,300.0	1.0	2,116.0
1999	775.0	1,300.0	1.0	2,076.0
2000	727.3	1,300.0	1.0	2,028.3
2001	695.0	1,300.0	1.0	1,996.0
2002	655.0	1,300.0	1.0	1,956.0
2003	911.0	1,300.0	1.2	2,212.2
2004	571.6	1,292.3	1.4	1,865.3
2005	530.7	1,289.6	1.2	1,821.5
2006	490.0	1,287.0	1.2	1,778.2
2007	450.0	1,300.0	1.3	1,751.3
2008	411.6	1,289.4	1.2	1,702.2
2009	250.0	1,300.0	1.3	1,551.3
2010	250.0	1,300.0	1.9	1,551.9
2011	249.5	1,297.4	1.4	1,548.3
2012	250.0	1,300.0	1.4	1,551.4
Total	31,320.3	41,809.2	44.54	73,174.0

Table 4. 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 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8

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

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL 480 I	PL 480 II
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

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

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

* = less than \$100,000

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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