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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.

The United States has provided significant military and economic assistance to Egypt since the late 1970s. Successive U.S. Administrations have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running cooperation with the Egyptian military and on sustaining the 1979 Egyptian-Israeli peace treaty.

U.S. policymakers are now debating 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 114<sup>th</sup> Congress.

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

P.L. 113-235, the FY2015 Consolidated Appropriations Act, contains conditions on U.S. assistance to Egypt that are similar to what Congress included in the FY2014 appropriations act (P.L. 113-76), with one significant exception: an executive branch national security waiver in Section 7041(a)(6)(C) of the FY2015 act effectively permits the removal of limits imposed by Congress that would otherwise prevent the provision of assistance to Egypt until its government met democracy-based conditions. The Secretary of State exercised this waiver on May 12, 2015.

For FY2016, the President has requested that Congress appropriate \$1.3 billion in military assistance for Egypt. The President also is asking Congress to provide \$150 million in economic aid. For FY2016, both House and Senate draft foreign operations appropriations bills (H.R. 2772 and S. 1725, respectively) would provide the full amount requested by the President.

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## Overview

The Egyptian government, led by former General and now President Abdel Fatah al Sisi, aims to return Egypt to a point of “normalcy” after a tumultuous two-and-a-half-year period of domestic unrest. The current military-dominated government appears to define normalcy as reaching a similar level of internal stability that existed during the Mubarak era. However, the Sisi government claims that its rule differs from Mubarak’s in terms of the prospect of economic prosperity it claims to offer to a wide swath of the population, in contrast to the corruption and inequality that has persisted for decades and remains endemic to Egypt.<sup>1</sup> Whether this vision is attainable is an open question. The government continues to be plagued by high fiscal deficits and while economic growth has returned, it is mainly fueled by extensive investment from Gulf Arab monarchies. Moreover, violence and crime continue to disrupt daily life, and significantly higher levels of violence rage in the Sinai Peninsula than was usual under Mubarak.

Sisi’s government has banned the Muslim Brotherhood from political activity and, like Egypt’s previous leaders drawn from the military, he faults the group for most of the country’s ills. Egyptian officials frequently blame any anti-government violence on a Brotherhood conspiracy bent on overturning the new order. Military-aligned judges have sentenced hundreds of Muslim Brotherhood members and supporters to death, including Muslim Brotherhood figure and former president Mohammed Morsi.

Beyond the government’s continued crackdown against dissent, Egypt faces genuine terrorist threats emanating from disaffected youth, former prisoners, and fighters returning from Syria, Iraq, and elsewhere. The Islamic State organization (IS, also known as ISIL or ISIS) has received a pledge of loyalty from the Sinai-based group previously known as Ansar Bayt al Maqdis (ABM), and, as Sinai Province of the Islamic State (SP), the group continues to wage an insurgency in northern Sinai against military forces. Terrorists have targeted the army and police and have expanded their attacks to civilians. In the summer of 2015, Egyptians were shocked after a car bomb in an upscale Cairo neighborhood killed the public prosecutor Hisham Barakat. Days later, on July 1, an estimated 300 SP terrorists launched a multi-pronged assault against security forces in northern Sinai. Egyptian officials claim that 17 soldiers were killed, though unofficial reports suggest higher army casualties.

Overall, the return of authoritarian rule that began with the military’s July 2013 takeover has left U.S. policymakers in a quandary. President Obama and members of his administration continue to express the view that authoritarian governance and the denial of basic human and political rights create conditions conducive to the growth of violent extremism. Egypt’s government describes its Islamist adversaries as terrorists and portrays U.S. attempts to dictate terms or impose conditions related to Egypt’s internal affairs as naïve, malign or both.<sup>2</sup> As an alternative, Egypt’s rulers have welcomed the support of like-minded Arab governments in the Gulf region that view political Islam as an existential threat.

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<sup>1</sup> “Sisi inaugurates Egypt’s Economic Conference,” Egyptian State Information Service, March 13, 2015.

<sup>2</sup> Open Source Center, “Egypt Criticizes US Diplomat Over ‘Meddling In Internal Affairs,’” Document ID# IML2015062057743493, Cairo MENA (in English), June 20, 2015.

## Administration Attempts to “Redefine” U.S.-Egyptian Relations

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

### Principles Versus Interests

In the last few years, Egypt has presented serious challenges to U.S. policymakers seeking to balance competing priorities. On the one hand, the Obama Administration would like to see Egypt move toward a more democratic form of government and market-based economy in order to address the grievances of its relatively young population. On the other hand, Egypt’s military, which has cultivated little in terms of democratic practices and institutions since the end of Egypt’s monarchy in 1952, remains the country’s primary political actor, a reality that may benefit short-term U.S. national security interests. If the United States fully embraces the military, it risks alienating those Egyptians who espouse liberal democracy or an Islam-based system of governance. If the United States emphasizes democracy, Egypt’s security apparatus typically turns against it, accusing American diplomats of, among other things, supporting the Muslim Brotherhood, spreading neo-colonialism, and undermining Egypt’s stability.

The Obama Administration has attempted to craft a policy toward Egypt that continues strong military-to-military ties without condoning Egypt’s crackdown against dissent.<sup>3</sup> Soon after the Egyptian military’s ouster of former president Mohammed Morsi in July 2013, the Administration launched a lengthy review of U.S. foreign assistance policy toward Egypt.<sup>4</sup> This review came amidst questions about the legality of continued assistance to Egypt’s government given U.S. law prohibiting assistance to any government whose duly elected leader is deposed by military coup or decree.

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

For the year-and-a-half duration of the weapons suspension, U.S.-Egyptian military cooperation continued, though Egyptian officials continually criticized the President’s decision. Egypt also began broadening its defense ties with other countries. The Egyptian military signed new arms agreements with Russia (S-300) and France (Rafale Fighters) (see “Arms Agreements with France and Russia”). Although the Administration lifted the suspension on Apache helicopters, delivering them to Egypt in December 2014, President Sisi himself 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.”<sup>5</sup>

<sup>3</sup> See, “Remarks of President Obama, Commencement Address,” West Point, New York, May 28, 2014. The President’s 2015 National Security Strategy also alludes to this balance between principles and interests, noting that “We will maintain strategic cooperation with Egypt to enable it to respond to shared security threats, while broadening our partnership and encouraging progress toward restoration of democratic institutions.”

<sup>4</sup> The White House, Office of the Press Secretary, Statement by President Barack Obama on Egypt, July 03, 2013.

<sup>5</sup> “Exclusive: El-Sisi urges ‘Arab ready force’ to confront ISIS, questions if US ‘standing by’ Egypt,” *Foxnews.com*, March 9, 2015.

## Major Shift in U.S. Assistance Policy

By the spring of 2015, as terrorist attacks directed against Egypt continued, some lawmakers called on the Administration to end its weapons suspension,<sup>6</sup> 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.”<sup>7</sup> 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.<sup>8</sup>

To date, there has been relatively muted public discussion of the President’s proposed policy changes. According to Tamara Coffman Wittes of the Brookings Institution, “In Washington, Egypt’s cash-flow financing had lost support from both parties and is not likely to be reinstated no matter who moves into the White House in 2017.”<sup>9</sup> Others have blamed President Obama for hurting overall U.S. Egyptian-relations by announcing a future end for CFF. According to Eric Trager of the Washington Institute for Near East Policy, “Ironically, President Obama may have thought his phone call to Cairo announcing the release of weapons would turn a new page in a rocky relationship. But by coupling that decision with the cancellation of a financing scheme that was a signal of Egypt’s special relationship with Washington, Obama might have closed the book on any chance for closer U.S.-Egypt ties until a new president takes another look at this old alliance.”<sup>10</sup>

## Latest Policy Developments

- The U.S. State Department has announced that Secretary of State John Kerry will travel to Egypt for a U.S.-Egyptian “strategic dialogue” with his counterpart,

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<sup>6</sup> 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.”

<sup>7</sup> The White House. Office of the Press Secretary, Readout of the President’s Call with President al-Sisi of Egypt, March 31, 2015.

<sup>8</sup> For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by Jeremy M. Sharp.

<sup>9</sup> “The Politics of Restoring Egypt’s Military Aid,” *Washington Post*, April 2, 2015.

<sup>10</sup> “Obama Wrecked U.S.-Egypt Ties,” *National Interest*, April 7, 2015.

- Egyptian Foreign Minister Sameh Shoukry. Both countries had agreed to convene a dialogue back in September 2014.<sup>11</sup>
- On May 12, 2015, per Section 7041(a)(6)(C) of P.L. 113-235, the FY2015 Consolidated Appropriations Act, the Secretary of State certified that it is important to the national security interest of the United States to provide economic and military assistance to Egypt, bypassing other certification requirements under U.S. law that would limit assistance to Egypt if its government does not meet democracy-based conditions specified both in the FY2015 Act and in the FY2014 Appropriations Act.<sup>12</sup>

## Domestic Politics

When then-General and now President Abdel Fatah al Sisi assumed executive power in July 2013, the period of fluidity that characterized Egyptian politics following the 2011 resignation of former President Hosni Mubarak ended. Centralized authority is, once again, in the hands of a former military commander. Formally, Egypt is a republic, governed by a constitution<sup>13</sup> that was approved in a national referendum in January 2014. In June 2014, Sisi was elected president, garnering 96.91% of the vote amidst a political atmosphere that the Obama Administration and some foreign observers termed “restrictive.”<sup>14</sup>

Many analysts have characterized Sisi’s Egypt as the re-creation of an authoritarian regime, in which the civilian government is a facade covering the real authority of the military.<sup>15</sup> Sisi’s proponents claim to have a popular mandate in support of his new government. While their claims may be exaggerated, some recent polling data supports the idea that the military remains the only popularly trusted national institution. According to the U.S. State Department, “Sisi’s strong rhetoric against terrorism and his military background work to his advantage on security. The army is one of the few institutions held in high regard (68%), and a majority express confidence in the President (61%). Small majorities say the government is doing a good job combating terrorism (63%) and militants in the Sinai (59%).”<sup>16</sup>

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<sup>11</sup> Press Gaggle by Press Secretary Josh Earnest and Deputy National Security Advisor Ben Rhodes en route Andrews Air Force Base, The White House, Office of the Press Secretary, September 25, 2014.

<sup>12</sup> For a copy of the certification to Congress, see <http://graphics8.nytimes.com/packages/pdf/international/2015/egyptwaiver.pdf>

<sup>13</sup> An unofficial English translation of the constitution is available at <http://www.sis.gov.eg/Newvr/Dustor-en001.pdf>.

<sup>14</sup> The White House, Office of the Press Secretary, Statement by the Press Secretary on the Presidential Election in Egypt, June 4, 2014.

<sup>15</sup> “Egypt’s Double Standard,” *Washington Post*, December 7, 2014.

<sup>16</sup> U.S. State Department, INR Opinion Analysis: Egyptians – “Sisi Is for Security, But Justice Suffers,” For Government Use Only, FBS20150429713341, April 29, 2015.



**Figure I. Egypt at a Glance**



**EGYPT AT A GLANCE**

Size: 16th Largest country in the world  
 Population: 85,294,388 (July 2013 est.)  
 Population under 25: 50.3%  
 Urban population: 43.5% of total population (2011)  
 Cairo (capital): 11.169 million; Alexandria: 4.387 million (2011)  
 Population below the poverty line: 20% (2005 est.)  
 Literacy: 73.9% total population (male: 81.7% female: 65.8%)  
 Youth Unemployment: 24%  
 Labor Force by occupation: agriculture: 32%, industry: 17%, services: 51%



**Sources:** Graphic created by CRS using boundary and city data from Esri and Google Maps .  
 At-a-glance information from CIA World Factbook.

The Muslim Brotherhood, just a few years removed from its political ascendancy, once again finds itself outlawed. Many of its leaders remain imprisoned, including former president Mohammed Morsi. Egyptian authorities have formally designated it as a terrorist organization. The Brotherhood's political party, the Freedom and Justice Party, has been dissolved by court order. Many Brotherhood members or former members are in exile, and the Egyptian government has accused the group of fomenting violence, which it denies doing. According to one article in *Foreign Affairs*, "The Brotherhood's stubbornness—even in the face of such severe setbacks—is not particularly surprising. Far from being a 'moderate' or 'pragmatic' organization, as many optimistic analysts once described it, the Brotherhood is a deeply ideological, closed vanguard."<sup>20</sup>

#### **Killing of 13 Alleged Wanted Criminals from the Muslim Brotherhood**

On July 1, just hours after a SP attack in the Sinai killed at least 17 soldiers and just two days after the assassination of Egypt's public prosecutor, an estimated 13 members of the Muslim Brotherhood were killed by police while meeting in an apartment. The police claim that the men were fugitives and opened fire first.<sup>17</sup> The Muslim Brotherhood claims that the men were lawyers representing imprisoned Brotherhood supporters.<sup>18</sup> In a statement following the killings, the Brotherhood called on Egyptians to "Rise in revolt to defend your homeland, your lives and your children.... Oust the heinous murderer. Destroy the castles of injustice and tyranny. Reclaim Egypt once again."<sup>19</sup>

For two-and-a-half years, Egypt has been without an elected parliament,<sup>21</sup> and successive Egyptian presidents have issued new laws by executive decree,<sup>22</sup> including

- **The Protest Law (November 2013).** This law replaced the state of emergency then in effect. It bans public gatherings of more than 10 people without approval from the police, which must receive prior notification of any planned gathering. Most importantly, the law authorizes police to ban any protest deemed a threat to "public order."
- **The Electoral Law (June 2014).** This law creates a 567-seat Parliament, of which 420 seats are elected via the individual candidate system, 120 are elected by a party list system,<sup>23</sup> and 27 are allocated via presidential appointment in order to increase the representation of Coptic Christians and women. This law allows authorities to disqualify any candidate who is deemed to support a religiously based or religiously discriminatory organization, provisions directed against candidates from the already outlawed Muslim Brotherhood.<sup>24</sup>

<sup>17</sup> "Egypt's Interior Ministry Issues Statement on Killing of Muslim Brotherhood Leaders," Open Source Center, Document ID# IML2015070170458901, *Cairo Channel 1 Television in Arabic*, July 1, 2015.

<sup>18</sup> "Egyptian Forces Kill 13 Muslim Brotherhood Members in Cairo," *Middle East Eye*, July 1, 2015.

<sup>19</sup> "Egypt's Brotherhood calls for Uprising after Killings," *Al Jazeera*, July 2, 2015.

<sup>20</sup> Eric Trager and Gavi Barnhard, "Brothers in Trouble? Gomaa Amin and the Future of the Muslim Brotherhood," *Foreign Affairs*, September 24, 2014

<sup>21</sup> A court dissolved the lower house of parliament in June 2012, and the upper house was abolished after the enactment of the 2014 constitution.

<sup>22</sup> Article 156 of the 2014 constitution authorizes the president, in the event that the House of Representatives is not in session, to issue decrees that have the force of law.

<sup>23</sup> The electoral law also creates a winner-take-all system for party lists rather than a proportional vote system. In addition, it stipulates that party lists must reserve seats for female, Christian, youth, disabled, and rural candidates.

<sup>24</sup> "Egyptian Election Law Helps to Block Opposition," *New York Times*, June 6, 2014.

- **The Anti-Terrorism Law (February 2015).** This law authorizes the authorities to act against groups or individuals deemed a threat to national security. The law defines “terrorist entities” as groups or organizations that “through any means inside or outside the country, seek to call for the disabling of laws, or prevent state institutions or public authorities from functioning, or seek to attack the personal liberty of citizens, or other freedoms and rights granted [to citizens] by the law and constitution, or to harm national unity or social peace.”
- **Draft Counterterrorism Bill (July 2015).** This bill, which is under review, would extend judicial jurisdiction over terrorism cases to outside the country’s borders. It also would delineate punishments for incitement to commit a terrorist act and material support for terrorist crimes even if the intended attack is not carried out.<sup>25</sup> Moreover, the draft bill states that “anyone who intends to publish news or statements about terrorist attacks in [a] way that differs from official statements issued by concerned authorities is punishable by imprisonment of no less than two years.”<sup>26</sup>

After recent changes to the electoral system by the courts, the total number of seats in parliament has increased from 567 to 595. Of those 595 seats, 448 seats will be elected via the individual candidate system while 120 will be elected via party list. The remaining 27 seats will be allocated via presidential appointment in order to increase the representation of Coptic Christians and women. When elections are finally scheduled for later this year, turnout is expected to be low, and the next parliament is expected to be dominated by pro-Sisi figures.

### Recent Violence in Egypt

Opponents of the government, whether they are offshoots or sympathizers of the Muslim Brotherhood, soccer fans known as “Ultras,” disaffected youths, or terrorist groups, have been frequently targeting police officials, public spaces, and the military—presumably to reduce public confidence in the state and sow panic. Although much anti-government violence occurs in the Sinai Peninsula, it also happens in Cairo, Alexandria, and other cities. Explosive devices have been found and disarmed at Cairo International Airport, and small improvised explosive devices (IEDs) have gone off in public squares and at police checkpoints. Sabotage of economic targets is becoming more commonplace, as groups target electrical and telecommunications infrastructure, fuel stations, and retail establishments.

Egyptian authorities are deeply concerned with attacks directed against the tourism industry. Tourism is a major source of foreign currency for the Egyptian government. In June 2015, police thwarted an attack at the Karnak Temple in Luxor. Weeks earlier, gunmen killed two tourism police officers in broad daylight near the pyramids of Giza. In the first quarter of 2015, current-account revenue generated from tourism dropped from \$1.6 billion in that same quarter in 2014 to \$1.5 billion. The total number of tourists visiting Egypt in 2014 was a third below 2010 levels.

## Silencing Dissent and Violating Human Rights

President Sisi and the security apparatus’s reassertion of control over Egypt has been contentious; many Egyptians and foreign observers<sup>27</sup> have accused the government of committing serious abuses of human rights against a broad spectrum of opponents, secular and Islamist alike. Sisi and

<sup>25</sup> “Explainer: Egypt’s New Draft Anti Terrorism Law,” Open Source Center, Document ID# IML2015070635117504, *BBC Monitoring in English*, July 6, 2015.

<sup>26</sup> “Egypt Anti-Terror Bill Speeds Trials, Tightens Hand on Media,” *Associated Press*, July 6, 2015.

<sup>27</sup> For example, see “Egypt: Year of Abuses Under al-Sisi,” *Human Rights Watch*, June 8, 2015.

his supporters level similar charges against their Muslim Brotherhood predecessors. The ongoing crackdown against dissent may have come not only with a significant human cost, but also at a sizeable cost to the country's international reputation, particularly in the West, where many observers had hoped that the 2011 uprising against Mubarak<sup>28</sup> would change Egypt's trajectory for the better. President Sisi has at times publicly apologized for police abuses against citizens and sexual assaults against Egyptian women.

In June 2015, the State Department released its *Country Reports on Human Rights Practices 2014*. The report notes that in Egypt, "The most significant human rights problems were excessive use of force by security forces, including unlawful killings and torture; the suppression of civil liberties, including societal and government restrictions on freedoms of expression and the press and the freedom of peaceful assembly and association; and limitations on due process in trials."<sup>29</sup>

Many foreign observers believe that the state's ongoing measures against most forms of anti-government dissent are actually fueling anti-government militancy and terrorism. After former Egyptian President Mohamed Morsi was sentenced to death in May 2015, the *New York Times* Editorial Board wrote that:

Egypt's relentless and sweeping crackdown on Islamists, under the baseless contention that they are inherently dangerous, is becoming a self-fulfilling prophecy. Executing Mr. Morsi, who was sentenced on Saturday, would turn an underwhelming former statesman into a martyr. It also would send an unfortunate and needless signal to Egyptians who have historically been averse to militancy that taking up arms might be the only way to be heard.<sup>30</sup>

## Economy

Egypt's economy and national budget are slowly stabilizing, due in large part to the financial largesse of the Gulf Arab monarchies. Countries such as the United Arab Emirates, Kuwait, and Saudi Arabia have injected billions of dollars into the economy and treasury, providing cash grants, concessional loans, and fuel imports. Since the ouster of former president Morsi in July 2013, Gulf states have provided government-to-government aid to Egypt possibly as high as \$30 billion,<sup>31</sup> with billions more coming in the form of private sector investment.<sup>32</sup> This assistance has bolstered the Sisi government and given it the confidence to enact some unpopular but fiscally prudent measures, such as reducing fuel subsidies by 30%.

Although GDP growth is on pace for 4.2% this year (it averaged 2.1% from 2011 to 2014), government spending continues to far outpace revenue, leading to large annual deficits, projected to be nearly 11% of GDP in 2015.<sup>33</sup> The International Monetary Fund has praised Egypt's

<sup>28</sup> Former president Hosni Mubarak, age 86, remains held at a military hospital in a southern suburb of Cairo. In late 2014, a Cairo Criminal Court dropped charges against Mubarak relating to the killing of protesters in January 2011. After four years in prison, his two sons were released in early 2015.

<sup>29</sup> U.S. Department of State, Bureau of Democracy, Human Rights and Labor, *Country Reports on Human Rights Practices for 2014*. Available online at <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>

<sup>30</sup> In Egypt, Deplorable Death Sentences, *New York Times*, May 18, 2015.

<sup>31</sup> "Gulf Arabs Offer More Billions to Help Revive Egypt Economy," *Bloomberg*, March 15, 2015.

<sup>32</sup> "Egypt looks to a New Capital City," *Los Angeles Times*, March 29, 2015.

<sup>33</sup> The deficit, which was 12.8% of GDP in 2014, has been manageable only because of the massive infusion of Gulf (continued...)

“important” progress in enacting new taxes and reducing food and fuel subsidies.<sup>34</sup> However, in order to boost the Egyptian bourse and appease domestic and foreign investors, the government suspended a recently imposed 10% capital gains tax. It also has cut the top individual/corporate tax rate from 25% to 22.5%.

Foreign investors, for their part, seek assurances that Egypt is headed in the right direction economically and is politically stable. Egyptian officials have attempted to persuade the international community that Egypt is a safe investment. The Central Bank has devalued the Egyptian pound, and the government has embarked on major infrastructure projects, such as an \$8.5 billion expansion of the Suez Canal, a megaproject that is expected to triple annual Suez Canal revenue. Some economists believe that Egypt needs \$60 billion in foreign direct investment over the next four years if it is to consistently maintain a modest (around 5%) growth rate.<sup>35</sup>

During March 2015, the government sponsored the “Egypt Economic Development Conference,” an international showcase designed to signal a return to stability and stimulate foreign direct investment. According to the Egyptian government, over \$30 billion in hydrocarbon, electrical infrastructure, and real estate contracts were signed during the conference. General Electric announced that it had delivered gas-turbine generators to Egypt to immediately increase power production while new plants are under construction. Coca-Cola pledged to spend \$500 million in Egypt over the next three years.

Despite the relative success of that conference, Egypt’s overall business climate remains challenging. Security concerns continue while foreign investors routinely complain that excessive government bureaucracy raises the cost of doing business in Egypt. According to the *Economist Intelligence Unit*, “At present, new businesses are required to secure permits from over 70 governmental bodies.”<sup>36</sup> Egypt ranks 112<sup>th</sup> on the World Bank’s ease-of-doing-business index.

(...continued)

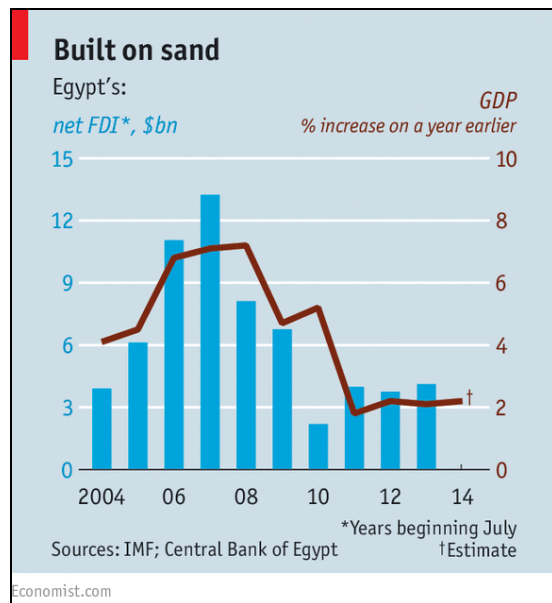
aid, which constituted 4% of GDP in 2014. Government subsidies on food and fuel consume nearly 43% of state revenue. The deficit, which is currently estimated at around \$36 billion per year, has been financed mostly by domestic banks, and the government is eager for foreign investors to buy Egyptian treasury bonds. Total domestic debt currently stands at \$261 billion. Egypt’s external debt is an estimated \$40 billion.

<sup>34</sup> Transcript of a Press Briefing by Gerry Rice, Director, Communications Department, International Monetary Fund, May 14, 2015.

<sup>35</sup> “Pyramid Scheme: The Arab World’s Biggest Country is Struggling to Revive its Fortunes,” *The Economist*, February 21, 2015.

<sup>36</sup> “Economic summit puts Egypt on investment map,” *Economist Intelligence Unit*, March 16, 2015.

**Figure 2. Net Foreign Direct Investment**



Source: Economist.com

## Terrorism and Insurgency in the Sinai Peninsula

One of the biggest concerns for Egyptian and regional stability over the past several years has been the Sinai Peninsula, where a reported mix of radicalized indigenous Bedouin Arabs, foreign fighters, and Palestinian militants from neighboring Gaza have formed terrorist cells<sup>37</sup> and targeted both Egypt and Israel. Egypt has declared a state of emergency in northern Sinai, where most of the attacks take place. Terrorists belonging to the Islamic State-affiliated Sinai Province organization (SP) have repeatedly attacked military bases and police check points, killing dozens if not hundreds of Egyptian soldiers.

Many observers have questioned whether the Egyptian military is capable of effectively waging a counter-insurgency campaign in the Sinai. The military claims that it is gaining ground against militants by increasing the army's troop presence, closing smuggling tunnels to Gaza, and engaging the local population. Some Sinai-based tribes have pledged to confront SP, which has tried to terrorize the local population by killing tribal members accused of cooperating with the

**Figure 3. SP Militant Fires Shoulder-Launched Surface-to-Air Missiles**



**Source:** Jane's Defence Weekly

authorities.<sup>38</sup> Beyond an emphasis on military measures, it remains to be seen whether Egypt will offer Sinai residents significant economic and political support (such as investments in infrastructure, payments to tribes, and employment opportunities) to try to counter local incentives that seem to encourage tolerating or supporting anti-government terrorism. According to one report, President Sisi ordered that \$127 million in government spending be channeled toward communities in the Sinai; however, a number of priority areas still have not received new aid.<sup>39</sup>

<sup>37</sup> On December 18, 2014, the U.S. State Department designated the Egyptian Ajnad Misr group as Specially Designated Global Terrorists under Executive Order (E.O.) 13224. Ajnad Misr splintered from Ansar Bayt al Maqdis (ABM), a designated (in April 2014) foreign terrorist organization (FTO) and Specially Designated Global Terrorist entity. In early November 2014, Ansar Bayt al Maqdis declared its allegiance to the leader of the Islamic State organization and changed its name to the Sinai Province (Wilayat Sinai) of the Islamic State (SP).

<sup>38</sup> "Egyptian Tribes Pledge to battle Islamist Militant Groups," *Reuters*, May 10, 2015.

<sup>39</sup> "Islamist Militants Entrench in Sinai," *Wall Street Journal*, July 9, 2015.

One major concern for U.S. policymakers and Egyptian officials is the prospect for terrorist attacks to increase in sophistication and spread into urban areas or key installations such as the Suez Canal. Security experts anticipate that groups such as SP may attempt to “break out” of the Sinai and expand their reach. According to *Jane’s*, “Although the Islamic State’s presence remains highest in North Sinai, the group will probably attempt to extend its operations in ‘mainland’ Egypt, and potentially to tourist facilities in the southern Sinai such as Sharm el Sheikh and Taba, in the six-month outlook, either by providing logistic and tactical support to existing militant groups... or by establishing its own cells.”<sup>40</sup>

In recent weeks, SP attacks in the Sinai and beyond have grown in scope and scale. SP militants claimed responsibility for a July 11 car-bomb-attack outside the Italian Consulate in Cairo that killed one Egyptian. The group also claimed responsibility for firing rockets into Israel on July 3. As previously mentioned, on July 1 SP militants launched a massive, coordinated attack against Egyptian security forces stationed at checkpoints and police stations in the northern Sinai town of Sheikh Zuweid. According to various press accounts, SP terrorists used anti-tank missiles and anti-aircraft missiles against Egyptian army vehicles. According to the risk assessment firm *Stratfor*, “this operation was no simple raid, ambush or suicide bombing—it was a complex assault that was skillfully planned, coordinated and executed.”<sup>41</sup> Reportedly, SP militants were attempting to seize control of Sheikh Zuweid, and after hours of fighting, were eventually forced to retreat when Egyptian-piloted F-16s fired on SP forces in urban areas.<sup>42</sup> Three days after the attack, President Sisi visited northern Sinai dressed in military uniform.

## Securing the Suez Canal

In mid-July, SP insurgents fired rockets at an Egyptian patrol boat off the coast of northern Sinai near Rafah. Maritime security is a major issue for the Egyptian navy, due to Egyptian control over the 120-mile Suez Canal, a vital international waterway important to global commerce,<sup>43</sup> U.S. naval operations worldwide,<sup>44</sup> and Egypt’s economy.<sup>45</sup> The Egyptian government is concerned that attacks against ships in its waterways could degrade international confidence in the Egyptian military’s ability to secure the canal. During a recent visit to Egypt, Admiral Jon Greenert, Chief of Naval Operations (CNO), praised Egypt’s securing of the Suez and its treatment of U.S.

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<sup>40</sup> “Militants’ Resilience in the Sinai increases likelihood of the Islamic State launching Sophisticated attacks in mainland Egypt,” *Jane’s Intelligence Weekly*, April 13, 2015.

<sup>41</sup> “For Egypt, Islamic State One Threat Among Many,” *Stratfor*, July 7, 2015.

<sup>42</sup> “Wilayat Sinai fails to Cripple Egyptian Army,” *Al Monitor*, July 6, 2015

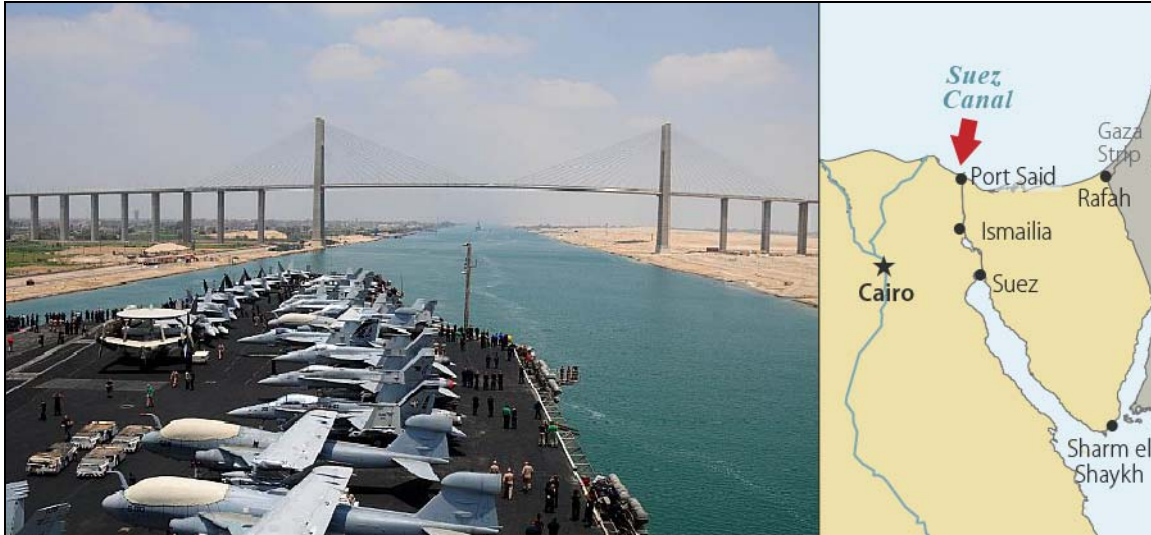
<sup>43</sup> An estimated 7% to 8% of global sea-borne trade, including oil and natural gas, passes through the Suez Canal each year. For container ships carrying Asian exports abroad, transiting the Suez Canal is the quickest route between Asia and Europe.

<sup>44</sup> The United States Navy is granted expedited passage through the canal and, according to the U.S. Fifth Fleet based in Bahrain, approximately 35 to 45 U.S. naval vessels, including nuclear-powered aircraft carriers, pass through the canal each year. Transiting the Suez Canal is the fastest route for Atlantic-based U.S. warships to reach the Persian Gulf. Without access to the canal, warships would need to sail either around the Cape of Good Hope in Southern Africa or take the Pacific route, adding significant sailing time to the journey. According to Michael O’Hanlon, a senior fellow at the Brookings Institution, “to be sure, one can reach the Persian Gulf faster from Norfolk or Jacksonville, Fla., than from California or Washington state - if the Suez is available. The distance via the Atlantic route is about 6,000 miles; the distance via the Pacific route is about twice that. At a comfortable cruising speed, the sailing time is roughly 10 to 12 days vs. 20 to 24.” See, “Suez access is Nice, but not a Must,” *Washington Post*, August 23, 2013.

<sup>45</sup> The Suez Canal generates an estimated \$5 billion a year in revenue from tolls, a vital source of foreign exchange for the Egyptian state treasury.

warships transiting through the Canal, remarking that “What they've been doing for us is keeping the US Navy safe.... They've been giving us priority in going through the canal with all the widening efforts going on.... They have been very good at putting us at the head of the line, or moving us more expeditiously through the canal. And they've cooperated at every security level we've asked for.”<sup>46</sup>

**Figure 4. The USS Dwight D. Eisenhower Transiting the Suez Canal**



**Source:** Graphic created by CRS using photograph from the Navy Office of Information and data from Esri and Google Maps.

## Foreign Relations

### Israel and Hamas

Israeli-Egyptian relations have markedly improved since the 2013 ouster of former Egyptian President Mohammed Morsi. Israel had been apprehensive about the long-term prospect of an Islamist-governed Egypt, and while its relationship with Egypt’s military is not without challenges, both sides maintain regular dialogue on defense and intelligence issues. In June 2015, Egypt appointed an ambassador to Israel for the first time since 2012.<sup>47</sup>

Israel and Egypt share a common adversary in the Palestinian terrorist group Hamas, which Egypt accuses of aiding anti-government militants in the Sinai Peninsula.<sup>48</sup> 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 in recent months it

<sup>46</sup> “CNO Greenert Reconnects with Egyptian Navy,” *DefenseNews*, July 12, 2015.

<sup>47</sup> Under former President Morsi, Egypt had recalled its ambassador to Israel in protest over Israel’s 2012 military operations in Gaza.

<sup>48</sup> Shlomi Eldar, “Is Hamas working with Wilayat Sinai?,” *Al Monitor Israel Pulse*, July 6, 2015.



has taken the unprecedented step of largely dismantling the town of Rafah along the Egypt-Gaza border. Egypt hopes to create a “buffer zone,” which it claims would dramatically curb underground weapons smuggling to Hamas. Egypt also controls the Rafah border crossing into Gaza, the only non-Israeli-controlled entry way into the Strip, which it periodically closes due to the security situation.

Other areas of Israeli-Egyptian cooperation include

- **Energy:** Egypt has been negotiating for the possible import of recently discovered offshore Israeli natural gas. Such imports could begin as soon as 2017. Before 2011, Egypt had exported natural gas to Israel, but repeated sabotage of pipelines traversing the Sinai Peninsula halted exports.
- **Maintaining the 1979 Peace Treaty:** The Israeli-Egyptian peace treaty limits the number of soldiers that Egypt can deploy in the Sinai, among other things, subject to the parties’ ability to negotiate changes to Egyptian deployments as circumstances necessitate. Egypt and Israel mutually agree upon any short-term increase of Egypt’s military presence in the Sinai. Both sides coordinate with the Multinational Force of Observers (MFO), which monitors force deployments.

## Libya

Egyptian officials argue 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.<sup>49</sup> Some Libyans view Egypt’s backing of Qadhafi-era general Khalifa 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. On February 15, Islamists allied with the Islamic State released a video in which 21 hostages, most of whom were Egyptian Coptic Christians, were beheaded on a beach near the central Libyan town of Sirte. The following morning, Egypt responded with air strikes against terrorist camps in Derna, another IS stronghold in eastern Libya. The air strikes mark the first time that Egypt publicly acknowledged its intervention in Libya, although the United States government has acknowledged that Egypt and some Gulf Arab states have militarily supported Haftar’s forces.<sup>50</sup> In August 2014, press reports speculated that Emirati fighter jets using Egyptian bases had conducted air strikes in Libya against militia positions around Tripoli’s international airport. It is unclear whether or to what extent U.S. equipment may have been used in these or any other such operations.

President Sisi attributes the violence in Libya to the increasing menace of radical Islam spreading across North Africa and the Middle East and has used the conflict there to call for greater pan-Arab solidarity, particularly in military matters. In March 2015, the Cairo-based Arab League announced that some of its members were planning on creating a 20,000- to 40,000-man rapid reaction force modeled after NATO that could be deployed to conflict zones in the region. This announcement coincided with the start of Saudi Arabia’s air campaign in Yemen. Although there have been no reported Egyptian military operations in Libya since February, the drive for greater

<sup>49</sup> “Egypt’s Sisi ‘reserves right of retaliation’ after mass killing of Copts in Libya,” *Al Ahrām*, February 16, 2015.

<sup>50</sup> According to *Jane’s*, Egypt has provided the Libyan National Army with Mig-21 fighter jets and armored vehicles. See, “Libyan National Army continues to receive Support from Egypt, UAE,” *Jane’s Defence Weekly*, May 28, 2015.

regional cooperation to stabilize failing Arab states could provide Egypt with political cover to more forcefully engage beyond its borders. It is unclear how supportive the Egyptian public is or would be of such foreign interventions.

## Arms Agreements with France and Russia

As the Egyptian military increases its procurement of foreign weaponry while the French government broadens its defense relationships in the Arab world, Egypt and France have bolstered long-standing defense ties. 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 other naval corvettes and a frigate in a deal worth \$1.35 billion.

Russia and Egypt are attempting to substantially improve bilateral relations. Presidents Sisi and Putin have exchanged visits, and both sides have pledged to increase trade and military cooperation. In February 2015, Russian President Vladimir Putin visited Egypt and pledged to help it construct a nuclear power plant. President Sisi, in an interview with a Russian newspaper, remarked that “in recent months special value has been attached to the position adopted by President Putin, who supports Egypt in matters relating to the fight against terrorism and is aware of the real situation in our country.”<sup>51</sup> In June 2015, Russia and Egypt held their first ever joint naval exercises in the Mediterranean Sea.

Recent Russian-Egyptian arms sales include:

- Antey-2500 (S-300) anti-ballistic missile system (\$1 billion contract)
- 46 MiG-29 multirole fighters (\$2 billion contract)<sup>52</sup>

## U.S. Policy: How Important is Egypt?

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

Demographically, Egypt, with a population of 83 million, is by far the largest Arab country, and by 2050 its population may exceed 140 million people.<sup>53</sup> Although it may not play the same type of leading political or military role in the Arab world as it has in the past, Egypt still has significant “soft power.” The Arab League is based in Cairo, as is Al Azhar University, which claims to be the oldest university still functioning and has symbolic importance as a leading source of Islamic scholarship. Additionally, Egypt’s 1979 peace treaty with Israel remains to this day one of the single most significant diplomatic achievements for the promotion of Arab-Israeli peace. While people-to-people relations remain cold overall, Israel and the military-backed

<sup>51</sup> “Russia’s Putin in Cairo for talks with Egypt’s Sisi,” *BBC News*, February 10, 2015.

<sup>52</sup> “Egypt reportedly to buy 46 MiG-29s,” *Jane’s Defence Weekly*, May 27, 2015.

<sup>53</sup> “The Too Fertile Crescent,” *The Economist*, June 6, 2015.

Egyptian government that has been in power since July 2013 have increased their cooperation in common cause against Islamist militants and instability in the Sinai Peninsula and Gaza Strip.

And yet, some U.S. policymakers may view Egypt as less strategically important to U.S. national security interests than in previous eras. In recent years, U.S.-Egyptian military cooperation has lacked a signature cooperative endeavor. The last significant U.S.-Egyptian joint military operation was in 1991, when Egypt contributed 20,000 troops to Operation Desert Storm.<sup>54</sup> With the United States continually engaged in military operations against terrorist groups across the broader Middle East, the U.S. military seeks partners that can provide intelligence, training, and counter-insurgency support. Analysts consider the Egyptian armed forces to be more oriented to fight interstate than asymmetric warfare.

Moreover, although Israeli-Egyptian relations are strong, a lack of definitive resolution of or robust negotiations on the Arab-Israeli conflict has contributed to Egypt playing a less prominent diplomatic role than it once did. Although Egypt still actively serves as a broker between Palestinian factions and between Israel and Hamas, this role garners it less global attention than it did during times of active peace negotiations.

The terrorist attacks of September 11, 2001 also may have profoundly and negatively impacted how some U.S. policymakers view Egypt. Whereas the bilateral relationship had previously focused on promoting regional peace and stability, the 9/11 attacks reoriented U.S. policy, as Americans considered the possibility that popular disillusionment from authoritarianism might contribute to terrorism. Egypt has been at the forefront of this reorientation, as several prominent Egyptian terrorists helped form the original core of Al Qaeda.<sup>55</sup> The Egyptian government has largely rejected the idea that its authoritarian governance has fostered transnational Islamist terrorism and has resisted changes in U.S. policy that have gradually increased calls for political reform in Egypt.

Egypt's role in the so-called Arab Spring of 2011 briefly elevated the country toward the top of the U.S. foreign policy agenda, as officials tried to delicately navigate a transitional period that witnessed an existential power struggle between Islamists and the military. After a two-and-a-half year period of U.S. efforts to promote a democratic transition in Egypt, the return of authoritarian rule that began with the military's July 2013 takeover has left U.S. policymakers in a quandary. President Obama and members of his administration continue to express the view that authoritarian governance and the denial of basic human and political rights create atmospheres conducive to the growth of violent extremism. Egypt's government describes its Islamist adversaries as terrorists and views U.S. attempts to dictate terms or impose conditions related to Egypt's internal affairs as naïve, malign or both. Instead, Egypt's rulers have welcomed the support of like-minded Arab governments in the Gulf region that view political Islam as an existential threat.

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<sup>54</sup> In Operation Enduring Freedom in Afghanistan, Egypt contributed a field hospital at Bagram.

<sup>55</sup> The Egyptian national Mohamed Atta was one of the leaders of the 9/11 attacks and the Egyptian cleric Ayman al-Zawahiri remains the head of Al Qaeda worldwide.

# 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.<sup>56</sup>

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

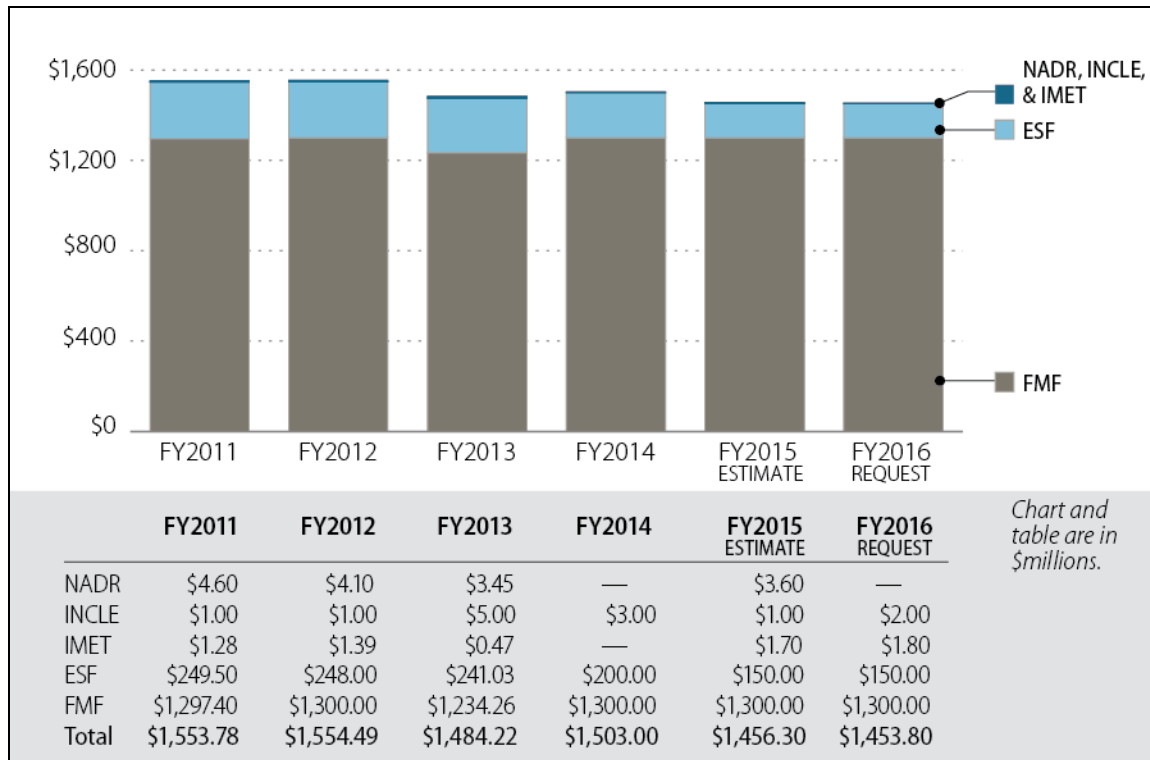
In some cases, an Administration may sign a bilateral “Memorandum of Understanding” (MOU) with a foreign country pledging a specific amount of foreign aid to be provided over a selected time period subject to the approval of Congress. In the Middle East, the United States has signed foreign assistance MOUs with Israel (FY2009-FY2018) and Jordan (FY2015-FY2017). Currently, there is no U.S.-Egyptian MOU specifying a specific amount of total U.S. aid pledged to Egypt over a certain time period. In July 2007, the Bush Administration had announced, as a part of a larger arms package to the region, that it would begin discussions with Egypt on a proposed \$13 billion military aid agreement over a 10-year period. Since Egypt was already receiving approximately \$1.3 billion a year in military assistance, the announcement represented no major change in U.S. aid policy toward Egypt. Since then, no such bilateral MOU on U.S. military aid to Egypt has been reached either by the Bush or Obama Administrations with the Egyptian government.

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<sup>56</sup> 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.

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).<sup>57</sup> The United States offers IMET training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term.

**Figure 5. U.S. Assistance to Egypt, FY2011-FY2016 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.

<sup>57</sup> Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement. The Administration typically requests these funds, but they are not usually specifically earmarked for Egypt (or for most other countries) in legislation. After the passage of a foreign operations appropriations bill, federal agencies such as the State Department and the U.S. Agency for International Development (USAID) allocate funds to Egypt from these aid accounts. They then submit a country allocation report (653a Report) to Congress for review.

## Military Aid and Arms Sales

### Overview

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

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

No. All U.S. military aid to Egypt finances the procurement of weapons systems and services *from U.S. defense contractors*.<sup>58</sup> 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 little 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 to a government-to-government foreign military sale of major U.S.-origin defense equipment valued at \$14 million or more, defense articles or services valued at \$50 million or more, or design and construction services valued at \$200 million or more. In practice, pre-notifications to congressional committees of jurisdiction occur and proposed arms sales generally do not proceed to the public official notification stage until issues of potential concern to key committees have been resolved.

### Realigning Military Aid from Conventional to Counterterrorism Equipment

For decades, FMF grants have supported Egypt’s purchases of large-scale conventional military equipment from U.S. suppliers. However, as previously mentioned, the Administration has announced that future FMF grants may only be used to purchase equipment specifically for “counterterrorism, border security, Sinai security, and maritime security” (and for sustainment of weapons systems already in Egypt’s arsenal).<sup>59</sup>

<sup>58</sup> 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).

<sup>59</sup> 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.

At this time, it is unclear how the Administration will determine which U.S.-supplied military equipment will help the Egyptian military counter terrorism and secure its land and maritime borders. In July 2015, the Defense Security Cooperation Agency (DSCA) notified Congress of a possible Foreign Military Sale to Egypt for a Border Security Mobile Surveillance Sensor Security System (estimated cost of \$100 million). According to the DSCA, “this procurement is intended for Egyptian Border Guard Forces, which currently lack any remote detection capability along unpatrolled areas of Egypt’s borders.”<sup>60</sup>

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.”<sup>61</sup>

### 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.<sup>62</sup> 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.

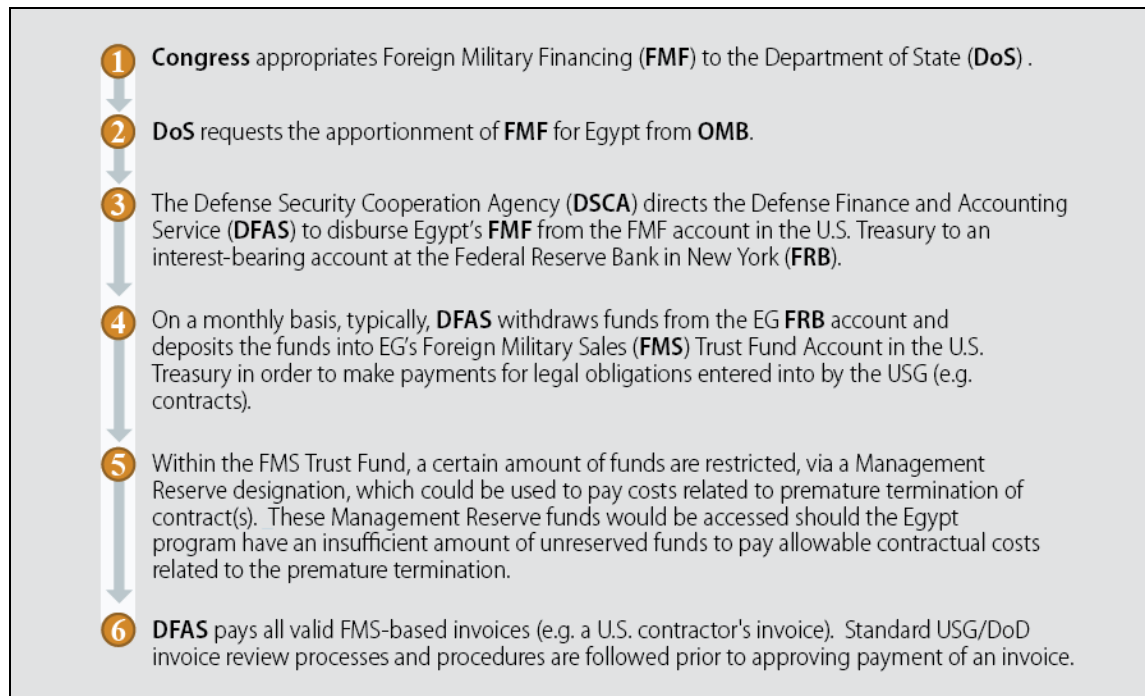
<sup>60</sup> DSCA Transmittal 15-25, July 8, 2015. Available online at <http://www.dsca.mil/major-arms-sales/egypt-border-security-mobile-surveillance-sensor-security-system-corrected>

<sup>61</sup> “Egypt’s Conventional Military Thinking,” *Stratfor*, June 12, 2015.

<sup>62</sup> 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. 112-74, the Consolidated Appropriations Act, 2012.

- Cash Flow Financing:** Section 23 of the Arms Export Control Act (22 U.S.C. §2763<sup>63</sup>) 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 multi-year purchases.<sup>64</sup> Known as “cash flow financing,” this benefit enables Egypt to negotiate major arms purchases with U.S. defense suppliers and acquire defense systems with payments scheduled over a longer time horizon. On March 31, 2015, the White House announced that beginning in FY2018, the United States would stop providing cash flow financing (CFF) to Egypt; successive Administrations have authorized CFF for Egypt since 1979. For more information, see CRS Report R44060, *Ending Cash Flow Financing to Egypt: Issues for Congress*, by Jeremy M. Sharp

**Figure 6. The Military Aid “Pipeline”**



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

<sup>63</sup> 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.

<sup>64</sup> 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 changed significantly over the years. In the early to mid-1970s, as the United States sought to expand its relationship with Egypt, encourage peace with Israel, and promote a capitalist economy, U.S. loans and grant aid helped Egypt modernize its national infrastructure.<sup>65</sup> 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.<sup>66</sup>

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.<sup>67</sup> However, as bilateral relations somewhat soured during the Bush Administration, an array of political and economic U.S. concerns (e.g., Egypt's poor human rights record, lack of protection for intellectual property) hampered any momentum for a U.S.-Egypt FTA.<sup>68</sup>

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<sup>65</sup> 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.

<sup>66</sup> 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.

<sup>67</sup> 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.

<sup>68</sup> 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, 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 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.”<sup>69</sup>

The FY2015 Consolidated Appropriations Act also contains several provisions on U.S. democracy assistance, including Section 7041(a)(C)(i), 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.<sup>70</sup>

In Congress, lawmakers began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached between the United States and Israel in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials, sensing that their economic growth had obviated the need for that type of U.S. aid at a time when Congress sought to reduce foreign assistance expenditures, negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3:2 ratio that long prevailed in the overall levels of U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40 million reduction for Egypt), but Egypt did not receive an increase in military assistance. Thus, Congress reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008.

The Bush Administration, whose relations with then-President Hosni Mubarak suffered over the latter’s reaction to the Administration’s democracy agenda in the Arab world, then requested that Congress cut ESF aid by half in FY2009 to \$200 million. Congress appropriated the President’s request. Upon taking office in 2009, President Obama sought a \$50 million increase in economic aid to Egypt for FY2010, which Congress then passed. From FY2010 to FY2013, Congress appropriated ESF to Egypt at the \$250 million Administration-requested level. In FY2014 and FY2015, Congress provided up to \$200 million and \$150 million respectively in ESF to Egypt, of which not less than \$35 million was specified for higher education programs and scholarships.

The FY2016 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 programs<sup>71</sup> (public health, education,<sup>72</sup> economic development, democracy and governance); and

<sup>69</sup> 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.

<sup>70</sup> “Egyptian Activists fear new Penalties for Foreign Funding,” *Al Monitor*, October 10, 2014.

<sup>71</sup> 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.

(2) the U.S.-Egyptian Enterprise Fund. The \$150 million FY2016 request is the eighth-largest bilateral ESF request to Congress behind Afghanistan, Pakistan, the West Bank/Gaza, Jordan, South Sudan, Ukraine, and the Syrian opposition. 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.<sup>73</sup>

## 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.<sup>74</sup> The goal of such a fund is to further develop Egypt’s private sector, particularly in the agricultural sector, by making equity investments in small to medium-sized businesses or providing entrepreneurs with start-up loans and technical assistance. In 2012, The Egyptian-American Enterprise Fund (EAEF) was formally incorporated in Delaware and in November 2012, the State Department notified Congress of its intent to obligate \$60 million in FY2012 ESF aid to capitalize the fund. A second notification of an additional \$60 million obligation in ESF was notified to Congress in October 2013. The fund is chaired by fund manager James A. Harmon.<sup>75</sup> 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

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(...continued)

<sup>72</sup> 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 “scholarships to Egyptian women for Master of Business Administration degrees in the United States; 2) scholarships to Egyptian women for Bachelor’s degrees in the United States in the fields of science, technology, engineering and math; 3) Fulbright scholarships to disadvantaged youth for Master’s degrees in the United States, through a transfer to the Department of State’s Bureau of Educational and Cultural Affairs; 4) scholarships to Egyptian civil servants for Master’s degrees in the United States; and 5) scholarships to economically disadvantaged men and women to pursue Bachelor’s degrees at select, high-quality Egyptian public and private universities that provide instruction in English. The HEI will also fund partnerships between Egyptian and U.S. universities.” Implementing partners for the HEI are: World Learning, Inc., American University in Cairo (AUC), Institute of International Education (IIE), Bi-national Fulbright Commission. See Congressional Notification #101, May 2, 2014, USAID Country Narrative, Egypt.

<sup>73</sup> op.cit. GAO, February 2015.

<sup>74</sup> 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).

<sup>75</sup> 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>.

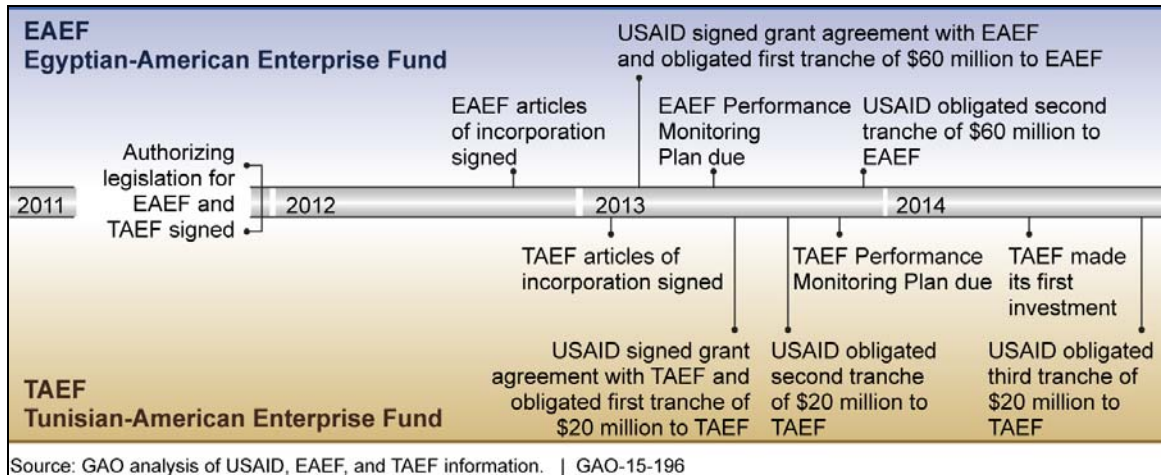
U.S. commitment of \$60 million annually over five years to produce a much bigger lending operation.”<sup>76</sup>

However, because the fund was formally launched during the rule of the former Morsi administration, some Members of Congress were concerned about plans to expand U.S.-Egyptian economic cooperation. In the fall of 2012, then Chairwoman of the House Foreign Affairs Committee Representative Ileana Ros-Lehtinen placed an informal hold on the initial \$60 million ESF obligation (it was eventually lifted). In 2013, after the military’s ouster of Morsi, Senator Lindsey Graham placed a hold on the second obligation of \$60 million in ESF, with a spokesman for the Senator saying “Senator Graham has placed a hold on these funds and until he sees Egypt moving toward democracy, he will continue to restrict funding.... Additionally, he believes American taxpayers deserve a much clearer explanation of what exactly is President Obama’s policy toward Egypt.”<sup>77</sup> 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.”<sup>78</sup>

**Figure 7. The Egyptian-American Enterprise Fund**



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

<sup>76</sup> David Ignatius, “An Egyptian Aid Package, Stuck in a D.C. Labyrinth,” *Washington Post*, July 19, 2013.

<sup>77</sup> “U.S. Aid to Egypt Stuck in Limbo,” *CQ News*, October 28, 2013.

<sup>78</sup> Government Accountability Office, GAO-15-196, February 2015.

## Egypt and the FY2015 Consolidated Appropriations Act

P.L. 113-235, the FY2015 Consolidated Appropriations Act, contains a number of provisions and conditions on U.S. assistance to Egypt similar to what Congress included in FY2014 (P.L. 113-76) with one significant exception: an executive branch national security waiver in Section 7041(a)(6)(C) of the FY2015 act effectively permits the removal of limits imposed by Congress that would otherwise prevent the provision of FY2014 and FY2015 assistance to Egypt until the Secretary of State certified that Egypt's government met democracy-based conditions.<sup>79</sup> The Secretary of State exercised the national security waiver on May 12, 2015. authorizes the Secretary of State to provide assistance to Egypt, *notwithstanding the certification requirements* specified both in the FY2015 Act<sup>80</sup> and in the FY2014 Act,<sup>81</sup> if the Secretary determines that it is important to the national security interest of the United States to provide such assistance. As of February 2015, the Secretary of State has not made a determination.

The FY2015 Act provides \$1.3 billion in FMF and \$150 million in ESF. Like the FY2014 Act, it requires, among other things, that

- FY2015 funds may only be made available if the Secretary of State certifies that Egypt is sustaining the strategic relationship with the United States and is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.
- FY2015 funds are provided to Egypt “notwithstanding any other provision of law,” an exemption that would allow aid to continue despite Section 7008 of 113-235, which prohibits foreign assistance to a country whose elected head of government is deposed by military coup d'etat or decree.
- For FY2015, if the Secretary of State cannot certify the democracy-based conditions mentioned in the act and chooses not use the national security waiver, then military aid may be made available at the minimum rate necessary to continue existing contracts, except that defense articles and services from such contracts shall not be delivered until the certification requirements are met.
- FY2015 funds may be made available without certification (and if the Secretary of State determines<sup>82</sup> it is in the interest of U.S. national security) provided that

<sup>79</sup> The conditions for FY2014 included, among other things, requirements that Egypt hold a constitutional referendum, take steps to support a democratic transition, hold parliamentary and presidential elections, and take steps to govern democratically. The conditions for FY2015 (placed on the obligation of each of two equal tranches of up to \$725.85 million) are specified in Section 7041(a)(6)(A) and include, among other things, requirements that Egypt take steps to advance the democratic process, protect free speech, protect the rights of women and religious minorities, and release American citizens who are determined to be political prisoners.

<sup>80</sup> These requirements are specified in Section 7041(a)(6)(A) and include, among other things, that the Secretary of State certify that Egypt has taken steps to advance the democratic process, protect free speech, protect the rights of women and religious minorities, and release American citizens who are determined to be political prisoners before specific sums (two tranches of \$725.85 million) of economic and military assistance are obligated.

<sup>81</sup> The certifications requirements in the FY2014 Act, among other things, required that the Secretary of State certifies that Egypt has held a constitutional referendum, is taking steps to support a democratic transition, has held parliamentary and presidential elections, and is taking steps to govern democratically.

<sup>82</sup> Section 7041(a)(5) (Egypt: Security Exemptions] of the FY2015 Omnibus Appropriations Act differs from the previous year's legislation in that funds may be provided only if “the Secretary of State certifies and reports to the appropriate congressional committees that to do so is important to the national security interest of the United States.”

they are used for counterterrorism, border security, nonproliferation programs in Egypt, and for development activities in the Sinai.

The FY2015 Act contains a new provision. It requires the Secretary of State to report on any defense articles withheld from delivery to Egypt. This report must include a detailed description of the conditions the Government of Egypt must meet to resume the delivery of such defense articles, and any actions by the Government of Egypt to meet such conditions. The report shall also include a description of the cost incurred for each category of defense article withheld, including the cost of storage and subsequent delivery of such articles. Another new reporting requirement in the FY2015 Act requires the Secretary to consult Congress on plans to restructure military assistance for Egypt, including cash flow financing.

## Proposed FY2016 Foreign Operations Appropriations

For FY2016, both House and Senate draft foreign operations appropriations bills (H.R. 2772 and S. 1725 respectively) would provide the President's full request for Egypt of up to \$1.3 billion in FMF and \$150 million in ESF.<sup>83</sup> However, unlike appropriations acts passed in FY2014 and FY2015, the House-proposed FY2016 bill does not condition the release of U.S. assistance upon an Administration certification that the government of Egypt is transitioning to democracy. Instead, the bill requires the Secretary of State to report to lawmakers on steps taken by the Government of Egypt to hold elections, govern democratically, and advance minority rights, among other things. The Senate bill does include democracy certifications but, like the FY2015 Appropriations Act, allows the Secretary of State to waive the certification requirement if it is important to the national security interest of the United States.

In Senate report language accompanying S. 1725, appropriators indicate that:

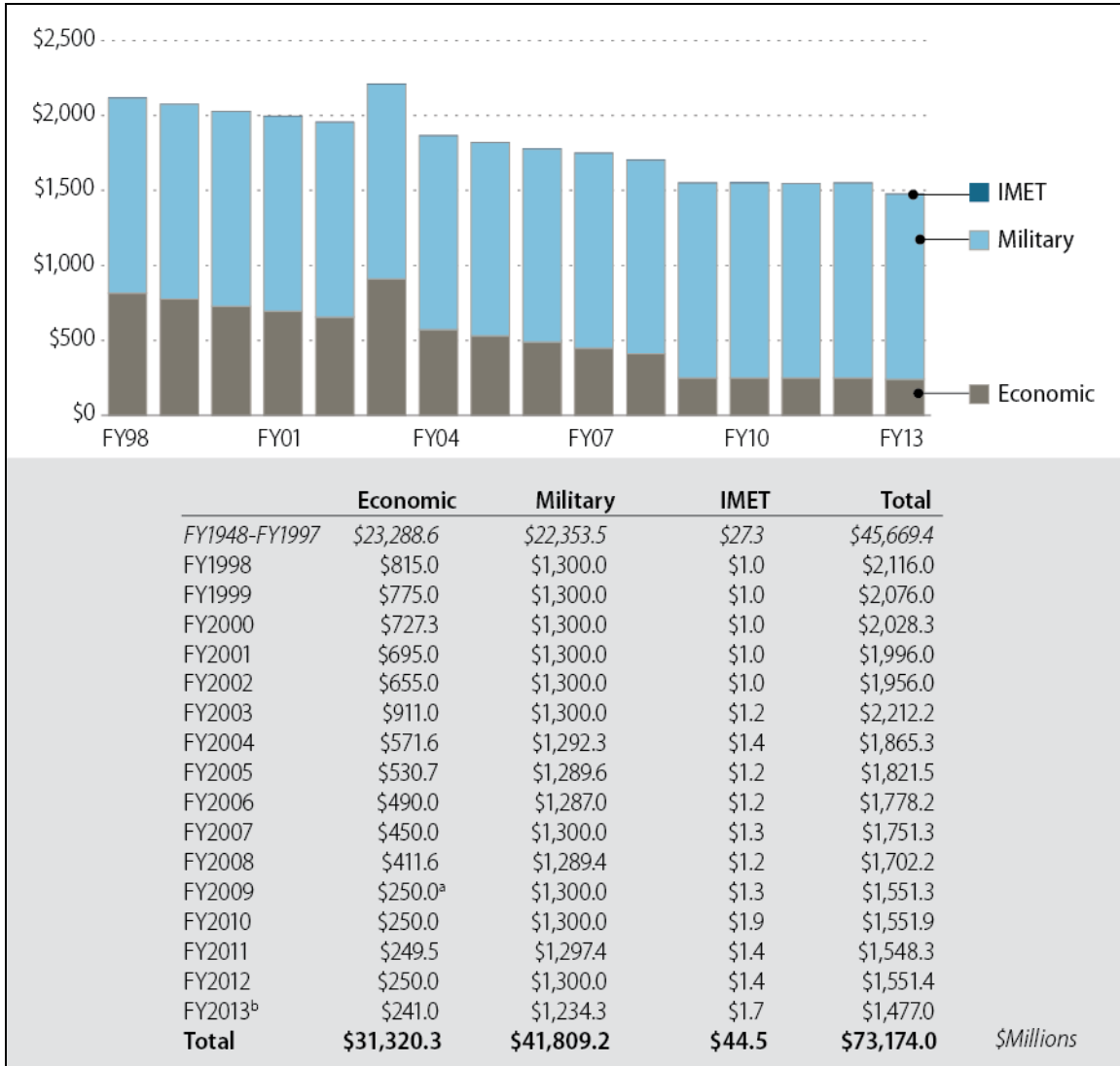
While the Committee shares the Government of Egypt's assessments regarding the threats posed by Islamic extremists in neighboring countries and the Sinai, the Committee remains concerned with the status of democracy, human rights, and the rule of law in Egypt. The Committee appreciates efforts by the Departments of State and Defense to update bilateral relations with Egypt, and expects that respect for human rights and the rule of law remain part of the strategic dialogue. The Committee notes that section 7041(a)(4) of the act requires the Secretary of State to take all practicable steps to ensure that mechanisms are in place for monitoring, oversight, and control of assistance for Egypt, and emphasizes that section 620M of the FAA applies to funds made available by the act for the Egyptian security forces. (S.Rept. 114-79)

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. For more information, see CRS Report R43361, "*Leahy Law*" Human Rights Provisions and Security Assistance: Issue Overview, coordinated by Nina M. Serafino

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<sup>83</sup> Of the \$1.3 billion in FMF that the Senate Appropriations Committee recommends for Egypt for FY2016, \$96.868 million would be designated as Overseas Contingency Operations (OCO) funding.

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



**Source:** Created by CRS.

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

**Table I. U.S. Foreign Assistance to Egypt, 1946-1997**  
(\$ in millions)

Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL 480 I	PL 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWR A	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167.3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1



Year	Total	Military Loan	Military Grant	IMET Grant	Misc. Econ Grant	DA Loan	DA Grant	ESF Loan	ESF Grant	PL 480 I	PL 480 II
1981	1,681.2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.3	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9
1983	2,332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

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

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

\* = less than \$100,000

IMET = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

DA = Development Assistance

ESF = Economic Support Funds

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

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

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