



Rethinking U.S. Economic Aid *to* Egypt

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I. INTRODUCTION

Among the many challenges facing the next U.S. administration in the Middle East will be to forge an effective approach toward Egypt. The years following the 2011 popular uprising that overthrew longtime U.S. ally President Hosni Mubarak have witnessed significant friction with Egypt over issues ranging from democracy and human rights, to how each country defines terrorism (Egypt's definition encompasses peaceful political activity as well as violent actions), to post-Qaddafi Libya, widening a rift between the two countries that began at least a decade ago. Unless the policies of the current Egyptian government shift, the United States can only seek to manage, not repair, this rift. The next U.S. administration has no choice but to continue to try to work with Egypt on core security interests. But it must not over-invest in the current military-backed regime, which is a difficult U.S. partner on many issues and whose harsh repression and economic management failures pose serious risks to the country's stability.

Egypt remains important to the United States, because of its peace treaty with Israel, its cooperation on counterterrorism and other security matters, its large population, and its strategic location. The U.S. military counts on reliable, expedited access through the Suez Canal and Egyptian airspace as a part of its power projection throughout the Middle East and beyond. But Egypt's role in the region began to decline toward the end of Mubarak's rule. And since 2011 its leaders have largely turned inward, consumed by domestic challenges, including a deteriorating economy with a severe currency crisis and an expanding budget deficit, an Islamist insurgency in the Sinai Peninsula, and political unrest due to the failure to reach a consensus on how the country should be governed after Mubarak. Moreover, the current Egyptian leadership diverges from the United States on many regional matters, and is pursuing a more independent foreign policy that includes building closer ties with U.S. antagonist Russia. Especially since July 2013, when the military ousted Egypt's first freely elected government that was led by the Muslim Brotherhood, Egyptian officials cast the Brotherhood and its affiliates across the region as no different than the Islamic State and other violent jihadists, a view that the U.S. government does not share, while declining to participate in the U.S.-led military campaign against the Islamic State in Iraq and Syria.¹ Furthermore, since 2013, Egyptian officials and commentators in the state-controlled media have taken aggressively nationalist, often hostile, stances against the United States. They have lashed out at the Obama administration for only tacitly accepting, rather than strongly backing, the toppling of the Brotherhood, have harshly condemned its calls for human rights and the October 2013-March 2015 suspension of some military aid over human rights abuses, and even have made outrageous claims that the United States is involved in nefarious "conspiracies" to undermine Egypt's national security.² In an unprecedented development, the Egyptian authorities also have detained several American citizens on trumped-up political charges.

In this complicated context, the next administration will need to figure out what to do about U.S. aid, which has been a hallmark of the relationship for the past 40 years. The Obama administration has introduced some overdue changes to align the \$1.3 billion annual military aid program more closely with Egypt's present-day security challenges and with current U.S. priorities; more restructuring will be needed, especially to make sure that the military aid is not being used in human rights abuses.³

1 Steven A. Cook, "Egypt's Nightmare: Sisi's Dangerous War on Terror," *Foreign Affairs*, November/December 2016, pp. 110-120.

2 See for example, "Al-Sisi: Don't listen to anyone except me," *Mada Masr*, February 24, 2016, which describes how President Al-Sisi warned of plots and conspiracies against Egypt, suggesting that the way to overcome them was to listen only to him. He swore that "whoever comes near [Egypt] would be removed from the face of the earth." See also Nour Rashwan, "Al-Sisi warning of fourth and fifth generation warfare," *Ash-Shorouk*, April 13, 2016 (Arabic) Al-Tayyib Hasan, "The conspiracy against Egypt prevents the implementation of human rights," *Al-Misriyun*, April 17, 2016 (Arabic).

3 See Jeremy Sharp, "Ending Cash Flow Financing to Egypt: Issues for Congress," Congressional Research Service, June 4, 2015, <https://www.fas.org/sgp/crs/mideast/R44060.pdf>

But neither the administration nor Congress has taken any steps to forge a coherent approach on economic, or civilian, aid.⁴ The bilateral economic aid program has long needed an overhaul, but it has especially struggled for purpose and direction since 2011. As frustration and fatigue among American officials has grown, some are questioning whether maintaining the aid is still worthwhile.

The operating environment has become ever more inhospitable for donors as the military-backed government has imposed new security controls and pursued nationalist policies that run counter to U.S. hopes for a more open economy and political system. U.S. assistance often is attacked in the state media as part of an effort to destabilize or even destroy Egypt. Recently, the United States transferred, in an unprecedented move, more than \$100 million to other countries because it was impossible to carry out the planned projects in Egypt.⁵ Two decades ago U.S. economic aid was close to \$1 billion a year, but after steady reductions it now stands at only \$150 million annually (the United States has not cut the military aid). The United States reduced the aid not because Egypt no longer needs foreign assistance, but because of disagreements with Egypt over the aid program and difficulties in spending all the funds. Egyptian officials and even U.S. Secretary of State John Kerry have disparaged the current economic aid amount as insignificant compared to the \$20 billion in largesse from wealthy Gulf countries provided since 2013.⁶ Egyptian officials also have expressed dissatisfaction with the large number of projects and requested that the aid be provided instead as a cash transfer, a request to which some U.S. officials may be receptive.

This paper argues that the next U.S. administration should continue the bilateral economic aid program, but must make significant changes to make the assistance more likely to achieve its objectives in an extremely difficult context. Compared to the ambitions of some U.S. and Egyptian officials 40 years ago that the aid program, anchored in Egyptian-Israeli peace, could achieve economic transformation in Egypt and a close partnership between the two nations, much more modest expectations are required today. No amount of aid from United States, or from any other outside actor, will transform Egypt on its own. Egyptians themselves must find solutions to the country's worsening economic conditions, political divisions, and growing human development challenges. U.S. aid, which has always been controversial in Egypt, cannot resolve the deep differences between Washington and Cairo on human rights, economic policy, or regional issues. The aid program has many shortcomings, in part because it is embedded in a highly complex, politically sensitive, and often fractious bilateral relationship.

But despite these limitations, U.S. economic aid remains an essential tool to help address Egypt's development challenges and to engage positively with Egypt's citizens in a relationship otherwise dominated by security cooperation with an authoritarian regime. To be sure, the traditional rationales for the aid—to support Egypt's peace with Israel and to bolster Egypt as a strategic ally—are no longer as compelling as in previous decades. Under the current government, Egypt's ties with Israel are stronger than ever. As argued earlier, Egypt cannot be a strong U.S. diplomatic or military partner in the Middle East at present. Rather, a more reasonable justification for economic aid now is that the stability of Egypt, the largest country in the Middle East and North Africa, is threatened by its government's failure to address economic, social and political challenges, and that the United States should do what it can, even on the margins, to direct resources and attention to some of these challenges. To make the assistance effort worthwhile, however, the United States

4 "Bilateral economic aid" in this context, the subject of this paper, refers today to Economic Support Funds (ESF) appropriated by Congress specifically for use in Egypt. This will be explained in greater detail and placed in historical context in the sections below.

5 Julian Pecquet, "U.S. Shifts Egypt Aid to Other Countries," *Al-Monitor*, October 17, 2016, <http://www.al-monitor.com/pulse/originals/2016/10/us-shift-egypt-aid-other-countries.html>

6 See for example Kerry's testimony before the Senate Appropriations Committee on the Obama administration's Fiscal Year 2017 foreign affairs budget request, February 23, 2016. <https://www.state.gov/secretary/remarks/2016/02/253142.htm>

needs to make several changes in its approach.

This paper reviews the history of the bilateral U.S. economic assistance program, including the many problems since 2011 and especially since 2013. It then explains the basics of how the aid program operates. The paper then analyzes some of the reasons why the assistance, despite important achievements and a nearly \$28 billion investment since 1975, has not accomplished more, especially with regard to the program's current stated objectives of promoting broad prosperity through private-sector led economic growth; encouraging more transparent, participatory, and responsive government; and continuing partnership with the Egyptian people.⁷

Finally, the paper describes the main changes that the next U.S. administration should pursue, with the support of Congress. The changes include: 1) Simplifying the program by focusing on a few practical initiatives, such as scholarships and job-creation through new businesses, that would benefit ordinary Egyptian citizens, that would play to American strengths and focus on themes that the Gulf countries and other donors are not emphasizing, and that would be less dependent on the cooperation of a repressive, nationalist government; 2) discontinuing ineffective efforts to use aid to encourage the government to undertake economic and democratic reforms for which it has no interest or political will, including through "democracy" projects with nondemocratic state institutions; 3) ending democracy assistance as part of the bilateral program and instead supporting genuine, independent pro-democracy organizations and individuals through more arms-length funding, and through high-level diplomatic advocacy for human rights and democratic values; and 4) providing more information about U.S. assistance to the Egyptian public. This would not quickly or easily transform the negative views of many Egyptians toward the United States, but would at least allow U.S. officials to present a more accurate picture than what is portrayed in the steady stream of hostile, often wildly inaccurate coverage in the Egyptian media.

II. BACKGROUND

From 1947 through 1967, during the Egyptian monarchy and then during Gamal Abdel Nasser's Arab Republic, the United States provided Egypt a total of nearly \$1 billion in economic assistance. Most of this aid took the form of soft loans to allow Nasser to import surplus U.S. wheat through the "Food for Peace" program, also known as the Public Law (PL) 480 program. With this aid, the United States sought, unsuccessfully, to encourage Nasser to be less hostile toward Israel. Relations with Nasser were volatile, leading the United States to freeze the aid several times and to terminate it entirely in early 1967. From the 1967 Six Day War until 1974, diplomatic relations between the United States and Egypt were severed.⁸

7 On the current stated objectives of the aid program, see Statement of Paige Alexander, Assistant Administrator, Bureau for the Middle East, U.S. Agency for International Development, Testimony Before the House Committee on Foreign Affairs Middle East and North Africa Subcommittee, "Assessing President Obama's Middle East and North Africa FY2017 Budget Request," April 13, 2016, <http://docs.house.gov/meetings/FA/FA13/20160413/104767/HHRG-114-FA13-Wstate-AlexanderP-20160413.pdf>

8 For background on the early period of post-1974 U.S. economic aid, see *inter alia* William J. Burns, *Economic Aid and American Policy toward Egypt, 1955-1981* (Albany: State University of New York, 1985) and Marvin G. Weinbaum, "Egypt's Infitah and the Politics of US Economic Assistance," *Middle Eastern Studies* (Vol. 21, No. 2), April 1985, pp. 206-222; and Jeremy Sharp, "Egypt: Background and U.S. Relations," January 10, 2014, Congressional Research Service, <http://fpc.state.gov/documents/organization/221319.pdf>. In addition to the primary goal of promoting Egypt-Israel peace, the United States also wanted to build closer ties with Egypt as a friendly Arab country that would support U.S. policy goals in the region, as part of the U.S. effort to find new Middle East allies in the wake of the loss of the Shah after the 1978 Islamic Revolution in Iran.

The bilateral aid program in its current form, as a symbol of close security ties and a U.S.-Egypt “strategic partnership,” with regular annual appropriations from Congress, and a large mission in Cairo for the U.S. Agency for International Development (USAID) to oversee projects, dates to 1975, following on the heels of the restoration of normal diplomatic relations in February 1974.

Following the successful negotiation of the Egypt-Israel Sinai Disengagement Agreement, U.S. President Richard Nixon offered Egyptian President Anwar El Sadat food aid and funding to rehabilitate infrastructure damaged in Egypt’s wars against Israel. Nixon wanted to create an incentive for Sadat to move toward peace with Israel and to turn away from the Soviet Union in favor of a Cold War alliance with the United States. Over the next few years, as Sadat took further steps toward peace and broke ties with Moscow, the United States increased the aid rapidly. In August 1978, even prior to the Camp David Accords, the two governments signed a bilateral Assistance Agreement, which gave the growing USAID presence in Cairo formal diplomatic status and established the terms of what both sides by this time clearly envisioned as a long-term aid relationship.⁹ In 1979, following the Peace Treaty, the United States provided Egypt a total of \$1 billion in economic aid (along with the first loans for weapons purchases), marking the second-largest economic aid package globally, behind only that for Israel. The immediate goals were to boost Egypt’s struggling economy in order to promote the stability of Sadat’s regime and to help him deliver the benefits of peace to a skeptical Egyptian public.

Over the next two decades, the economic aid package grew into a massive program of \$840 million annually, on average, and took its place, along with \$1.3 billion in annual military aid, as a linchpin of the ‘strategic relationship.’ From the beginning, the annual economic aid appropriation level was designed as a strong symbol of U.S. support for Egypt and the so-called Peace Process, not as a response to meet specific development needs in Egypt. As a U.S. Government Accountability Office (GAO) study noted, the aid was “justified more on the basis of a political symbol of even-handed economic support for stability in the Middle East than on the capacity of Egypt to absorb and use the available assistance effectively.”¹⁰ As the program grew, the overarching rationales remained consistent. They were to cement Egypt’s peace with Israel and to support Egypt as a strategic and security partner—first as a Cold War ally, then, after the demise of the Soviet Union, as a partner in regional security such as through the 1991 Gulf War and the U.S.-led Operation Desert Storm, and then, with the spread of violent jihadist groups across the region in the 1990s, as a counterterrorism partner.

Over the years, the United States added rationales and objectives to the aid program. For example, reflecting its own free-market economic policies and its concerns over Mubarak’s slow pace of reform, the Reagan administration emphasized, at least rhetorically, the development of the private sector and the need for economic reforms; this marked a shift from the Nixon and the Carter administrations which did not prioritize reform. The George H.W. Bush administration and the Clinton administration sharpened this private sector focus. The Clinton administration introduced the development of democratic institutions as one of the goals of the aid, mainly so that “good governance” could help advance the market-oriented economy the United States was pushing in Egypt. The George W. Bush administration heavily emphasized both economic and political reform as well as support for civil society. Following the 2011 uprising, the Obama administration

9 U.S. economic aid predates military aid to Egypt. The United States did not agree to give Egypt concessional loans to purchase weapons until the 1979 Peace Treaty. The Reagan administration increased the aid and converted the loans to Foreign Military Financing (FMF) grants. U.S. FMF aid for Egypt has remained at \$1.3 billion in grants since 1987. Also, please note that the full text of the August 1978 Assistance Agreement referenced here is available as Appendix A of this report.

10 Report of the Comptroller General of the United States, “Egypt’s Capacity to Absorb and Use Economic Assistance Effectively,” published September 15, 1977, publicly released December 1982, p. 1, <http://www.gao.gov/assets/120/119984.pdf>

emphasized the goal of helping or “partnering with the Egyptian people,” along with support for inclusive prosperity and democratic development.

Regarding the types of economic aid, in first years of the aid program, the United States provided a combination of grants and development loans. In 1984, all the aid was converted to grants, the most desirable form of assistance from Egypt’s perspective and a sign of the country’s growing importance to Washington. Historically, economic aid has been used in three broad categories: (1) direct budget support for the Egyptian government, (2) large infrastructure projects, and (3) a variety of development projects, many with multi-year timelines and multi-million-dollar budgets.

Budget support has helped to relieve some of the Egyptian government’s fiscal burden by financing its import of certain U.S. products or its payments on U.S. dollar-denominated debt. USAID offered budget support through the public sector Commodity Import Program (CIP) (1975-2005). This program gave concessional loans to the foreign currency-strapped Egyptian government to finance the importation of U.S.-made products, such as food, various other commodities, buses, and trucks, to help revive industrial output, and through loan repayments, supplied funds to the state budget.¹¹ (During the Reagan administration, USAID also began a private-sector CIP, and the public sector CIP was phased out by 2005.) USAID and the Department of Agriculture jointly managed the non-ESF program PL 480, or Food Aid (1974-2003), which made low-interest loans available to the Egyptian government to import surplus U.S. wheat and wheat flour.

In 1984, the Reagan Administration began a cash transfer program of \$100 million annually, which later grew to about \$200 million a year.¹² USAID attached very light economic reform conditions to the cash transfers, until the George W. Bush administration, which put stronger conditions to push a range of macro-economic reforms. Cash transfers represented a large portion of the annual funding until 2010, and made an appearance in the aid program again in 2012-13, when the Obama administration offered a \$450 million cash transfer to the government of President Mohamed Morsi of the Brotherhood, to encourage him to conclude a loan deal with the International Monetary Fund (IMF) to avoid a fiscal crisis (Morsi did not conclude the deal).

The second category of aid was large capital infrastructure projects intended to modernize Egypt’s crumbling infrastructure, initially through repairs to the war-damaged Suez Canal Zone and then through building and rehabilitation of sewage treatment plants, roads, public sector factories, and power plants. Infrastructure was a major focus of the first two decades of the aid program, as a way to help restart Egypt’s economy, as well as to spend large amounts of appropriated funds.¹³ USAID phased out funding for large infrastructure projects during the George W. Bush administration.

The third category of economic assistance has been for multi-year development projects, most often implemented by U.S. organizations, or occasionally carried out by the Egyptian government with USAID funding. Pressed by Congress in the late 1970s to include a long-term development component in the aid package, USAID used a portion of ESF grants for “basic needs” projects in

11 On the origins of CIP and PL-480 aid for Egypt, see Area Auditor General Near East, U.S. Agency for International Development, “Audit Report on Aid Security Supporting Assistance,” Audit Report Number. 5-263-77-4, December 10, 1976, http://pdf.usaid.gov/pdf_docs/pdaat546.pdf

12 On the origins of the cash transfer program, see USAID, “Status Report, United States Economic Assistance to Egypt,” November 1989, Report No. PB-ABE-197-77305, http://pdf.usaid.gov/pdf_docs/PDABE197.pdf

13 As a 1985 GAO report pointed out, these projects were “chosen for their ability to absorb large amounts of funds rather than as a priority toward achieving long-term economic growth.” See U.S. General Accounting Office, Report to the Administrator, Agency for International Development, “The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID,” GAO/NSIAD-85-100, July 31, 1985, p. 8, <http://www.gao.gov/assets/150/143123.pdf>.

health, water management, local development, and participant training.¹⁴ In 1979, USAID began the Peace Fellowships, which funded nearly 2,000 Egyptians for graduate study and professional development in the United States. During the Reagan administration, USAID began numerous additional projects in the areas of economic reform and private sector development, health, education, and other sectors.

As noted, during the Clinton administration, USAID launched the first democracy projects in Egypt and funded them with tens of millions of dollars. These projects, which began in the mid-1990s, were not a response to any political opening in Egypt, which remained at that time a stagnant, authoritarian state. Rather, they reflected the dominant post-Cold War foreign aid thinking that “good governance” was needed to bolster the market-oriented economic reforms that were the top U.S. priority in Egypt.¹⁵ They also came at a time when the United States was beginning to emphasize democracy promotion in many of its foreign assistance programs around the world. In line with what the Egyptian government would accept, the Clinton-era USAID “democracy” initiatives were cautious, technocratic projects, primarily carried out in close cooperation with Egyptian government counterparts.¹⁶ Two large projects aimed to improve the efficiency of the judiciary and parliament. Another sought to promote fiscal and administrative decentralization by training local authorities and by providing cash transfers to the Egyptian government for completing decentralizing reforms. Still other projects worked with the government-controlled labor union and with the Ministry of Social Solidarity to help improve the technical, managerial and financial capacities of Egyptian civil society organizations approved by the Ministry. During the George W. Bush administration, USAID also began direct support for civil society organizations that were not approved by the Egyptian government, as well as continued large projects with Egyptian government institutions.

Not surprisingly in light of its explicitly political, as opposed to humanitarian, origins, the aid program often was the focus of policy struggles within the U.S. government. Some officials, mainly in the State Department, preferred to use the funds to promote stability, support the government especially during one of Egypt’s recurrent fiscal crises, and build closer diplomatic and security ties. Others, including within USAID, preferred to prioritize economic, social, and political development, especially through pressing for reforms that the United States, and some Egyptians, believed were essential for long-term stability—and to justify the huge expenditure of taxpayer dollars. In fact, because the aid program was so large, the United States could use the money for different objectives, but always within the confines of support for the incumbent Egyptian regime. Congress, which appropriates foreign assistance, occasionally raised questions about the value of such a massive program, and complained that despite the aid Mubarak wanted only a “cold peace” with Israel and was not pursuing meaningful economic reform. Overall, however, the program enjoyed unshakeable bipartisan backing because it was seen as an extension of U.S. support for Israel and Arab-Israeli peace.

The economic aid also has served as a “shield” for U.S. military aid, the much larger aid program. As long as it provides Egypt with economic assistance, the United States can at least claim to be supporting the Egyptian people and Egyptian development, rather than supporting the military

14 See Weinbaum, “Egypt’s Infitah and the Politics of US Economic Assistance,” *op. cit.*, and Marvin G. Weinbaum, “Dependent Development and U.S. Economic Aid to Egypt,” *International Journal of Middle East Studies*, Vol. 18, 1986, pp. 119-134.

15 See Erin A. Snider and David M. Faris, “The Arab Spring: U.S. Democracy Promotion in Egypt,” *Middle East Policy*, Volume XVIII, No. 3, Fall 2011, <http://www.mepc.org/journal/middle-east-policy-archives/arab-spring-us-democracy-promotion-egypt>

16 “Strengthened democratic institutions and good governance are expected to become more important for enabling Egyptians to participate more effectively in sustaining their economic and social well being,” 2000 USAID Resource Request, http://pdf.usaid.gov/pdf_docs/Pdabq310.pdf

alone. Without any economic aid, the military aid could be exposed to greater scrutiny, criticism, and questioning in Congress.

The aid program was at times a source of conflict with Egyptian officials, as well. They resented that Egypt did not have full ownership or control over the aid, in particular that Egypt did not receive funds in the same form of unrestricted, unconditioned cash grants that the United States provided to Israel. They were frustrated by the bureaucracy and slow disbursement of aid, especially for multi-year projects. They chafed at the growing U.S. insistence on private-sector reforms and other liberalizing measures that did not fit with Egypt's state-dominated economy, or on measures such as cutting subsidies that they feared could threaten the regime's hold on power.¹⁷

But despite occasional flare-ups over such matters, both governments tried to cooperate and the program functioned in a mostly stable manner. The United States worked closely with the Egyptian government to determine priorities, directed funding only toward government or government-approved entities, and avoided carrying out any initiatives that Egyptian authorities strongly opposed. The two governments even managed to agree on a gradual reduction in funding, called the "Glide Path Agreement," over a ten-year period (1998-2008) from \$815 million to about \$415 million, which was carried out in parallel with a phasing out of U.S. economic aid to Israel.¹⁸ Several factors motivated this downsizing, including pressure from a fiscally-conservative Republican Congress to trim the foreign aid budget and Israel's announcement that it no longer needed U.S. economic aid but preferred increased military aid (which it received).¹⁹ The Clinton administration, weary of the aid relationship and looking to reinvigorate somewhat stagnant U.S.-Egypt ties, was eager to emphasize the need to move "from aid to trade and investment." The administration initially had great hopes for the new private-sector emphasis, and even launched a high-profile "Gore-Mubarak Initiative" in 1994 to promote it.²⁰ But the new trade and investment approach never gained traction due to Mubarak's lack of interest in the required reforms and the U.S. lack of interest in pushing him.

The first real period of turbulence came during the George W. Bush administration, as the Glide Path Agreement was nearing its end. Following the September 11 terrorist attacks, top Bush administration officials, along with some members of Congress, argued that repression and economic stagnation in Arab countries, including in Mubarak's Egypt, had contributed to the rise of Al Qaeda and to anti-American sentiment across the region. They contended political and economic reform in the Arab world must be an essential component of combating terrorism, and launched a new policy, the "Freedom Agenda," for this purpose. Ties with Egypt became strained by Mubarak's rejection of the Freedom Agenda and local Egyptian calls for democratization, as well as by Mubarak's icy relations with Israel, his sharp criticism of the 2003 U.S.-led invasion of Iraq, and his minimal involvement in the international campaign against Al Qaeda in Afghanistan.

17 See U.S. General Accounting Office, "The U.S. Economic Assistance Program for Egypt Poses a Management Challenge for AID," which describes Mubarak's requests to Reagan to make the funds more flexible and faster-using, to give Egypt the lead role, and for at least some of the aid to be provided in the form of a cash transfer. Reagan was eager to build a strong relationship with Mubarak as a Cold-War ally, and responded at least in part to Egypt's requests.

18 For background on the Glide Path Agreement, see Sharp, "Egypt: Background and U.S. Relations."

19 "Perry, in Egypt, Vows U.S. Will Not Cut Aid," *Los Angeles Times* wire service report, January 8, 1995, http://articles.latimes.com/1995-01-08/news/mn-17717_1_u-s-foreign-aid, and Serge Schemann, "Israelis to Discuss Phasing Out 1.2 Billion U.S. Economic Aid," *New York Times*, January 27, 1998, <http://www.nytimes.com/1998/01/27/world/israelis-to-discuss-phasing-out-1.2-billion-us-economic-aid.html>. For policy context to the Glide Path Agreement and debates on U.S. economic aid to Egypt during the mid-1990s, see Robert Satloff, "Congressional Testimony: U.S. Policy Toward Egypt," April 10, 1997, <http://www.washingtoninstitute.org/policy-analysis/view/u.s.-policy-toward-egypt>. Notably, Egypt's economic aid was reduced but unlike Israel, it did not receive increased military aid.

20 See "Fact Sheet on the Gore-Mubarak Partnership," <http://dosfan.lib.uic.edu/ERC/bureaus/nea/960529USEgyptianEconomic.html>.

U.S. Bilateral Economic and Military/Security Aid to Egypt, 1974-2017*



*The vast majority of funds in the "military and security assistance" category are from the Egypt's Foreign Military Financing (FMF) account, but these numbers also include much smaller amounts of funding from three other accounts: International Military and Education Training (IMET), Nonproliferation, Anti-terrorism, Demining, and Related Programs (NADR), and International Narcotics and Law Enforcement (INCLE) accounts. The remaining funds in the "economic" category are comprised of Economic Support Fund (ESF) and Food for Peace (PL 480 I and II) funds, in addition to infrequent, smaller levels of funds from the Development Assistance (DA) account. Food for Peace funds totaled \$3.84 billion from 1974 until 1996, when economic assistance to Egypt was consolidated under the ESF program. All of these figures are derived from Jeremy Sharp, "Egypt: Background and U.S. Relations," Congressional Research Service, October 6, 2016.

Determined not to accept the pre-September 11 “status quo” in Egypt, the Bush administration undertook a major review and restructuring of the economic assistance program. The new emphasis was on promoting reform, both to demonstrate a new policy approach to Egypt and to help ensure a stable transition from the aging Mubarak to his successor.²¹ Notably, the Bush administration did not carry out a similar review of the military aid program, which remained untouched. The United States phased out infrastructure and other legacy projects not considered sufficiently reform-oriented and enlarged the cash transfer program, focusing it around macroeconomic reforms to push Mubarak toward further economic liberalization.²² The administration also launched large technical assistance projects for supposedly business and reform-friendly ministries such as the finance and investment ministries run by officials close to Mubarak’s son, Gamal.²³

Most controversially, the Bush administration expanded funding for democracy and governance projects, the funds for which reached nearly \$50 million in 2007, at that time almost one-quarter of the annual aid budget. The projects included continuations or new versions of the large Clinton-era projects with government counterparts such as the judiciary. More significantly, in 2005, USAID began direct support to U.S. and Egyptian civil society organizations to work on human rights, elections, party training, and other political topics previously deemed far too sensitive and too objectionable to the Egyptian government even to consider.²⁴ Congress bolstered these efforts by passing legislation imposing political reform conditions on small portions of economic or military aid, prohibiting the Egyptian government from choosing the recipients of civil society funding, and setting earmarks for the level of democracy and governance programming. Mubarak was furious at U.S. plans to support groups that monitored rights abuses and criticized his rule and at the expansion of the aid program beyond the purview of the Egyptian government. But diplomats managed to hammer out a complicated arrangement that allowed the United States to fund civil society organizations registered under Egypt’s restrictive NGO law in coordination with Egyptian authorities. The arrangement eventually broke down as the Egyptian government refused to register several U.S. and Egyptian groups, and the Bush administration began to fund unregistered organizations, which were independent from the regime and thus more effective. During the last two years of the Bush administration, the two governments attempted to reach agreement on the size and composition of the aid program after the Glide Path. But acrimonious disagreements over the size and nature of the funding as well as over the presence of reform conditions (the Bush administration wanted to convert all the aid into reform-linked cash transfers, including for political reforms, while Mubarak wanted increased funding for debt relief and a condition-free endowment that would give his government more control over aid money) led the negotiations to

21 Charles Levinson, “\$50 billion later, taking stock of U.S. aid to Egypt,” *Christian Science Monitor*, April 12, 2004, <http://www.csmonitor.com/2004/0412/p07s01-wome.html>. Levinson writes, “In 2002, the US National Security Strategy articulated a new aid doctrine, saying that money should go to “countries whose governments rule justly, invest in their people, and encourage economic freedom.””

22 J. Scott Carpenter, “The Future of U.S. Assistance to Egypt,” *The Washington Institute for Near East Policy Policy-Watch No.1399*, August 21, 2008, <http://www.washingtoninstitute.org/policy-analysis/view/the-future-of-u.s.-assistance-to-egypt>.

23 See USAID/Egypt, “Strategic Plan Update for Fiscal Years 2000-2009,” March 2004, http://pdf.usaid.gov/pdf_docs/PDACA516.pdf. The revised plan stipulated the following funding breakdown for new priorities, with significant increases for economic growth, education, and democracy: economic growth, 39.5 percent; education, 21.6 percent; health, 17 percent; democracy and governance, 15 percent; infrastructure, 3.4 percent; environment, 2.6 percent. See also Gamal Essam El Din, “USAID’s new strategy in Egypt,” *Al Ahram Weekly*, March 3-9, 2005, <http://weekly.ahram.org.eg/2005/732/ec9.htm>.

24 For background on this period of democracy funding and the first direct grants, see Jacqueline Bell, “Audit of US-AID/Egypt’s Democracy and Governance Activities,” October 27, 2009, http://pdf.usaid.gov/pdf_docs/PDAC076.pdf. The report notes the significant increase in funding for USAID’s democracy and governance programs, which “averaged \$24 million from fiscal years (FYs) 1999–2009. USAID/Egypt’s funding increased in 2004 by 97 percent, which was sustained from 2006 to 2008.”

collapse. In 2007, Egypt froze cooperation on several projects, and Congress, at the request of the administration, slashed the funding in half, to \$200 million, in a clear sign of U.S. exasperation.²⁵

As soon as President Obama took office, his new administration was determined to distinguish its foreign policy from that of the controversial Bush era, and this included trying to improve relations with Mubarak. One initial step it took to reduce tensions and turn over a new leaf was to acquiesce to some of Egypt's Bush-era demands regarding economic aid. The administration convinced Congress to increase Fiscal Year 2009 funding to \$250 million. It also ceased funding unregistered civil society groups with bilateral aid money (i.e., through the USAID program). It worked with Congress to remove political reform conditions in the aid legislation, and began discussions about setting up a \$50 million endowment.²⁶ The Obama administration also emphasized education and other traditional development projects over big-ticket reform initiatives. Mubarak's economic reform agenda had lost momentum in the face of growing resistance from parts of the regime and mounting economic difficulties in the wake of the 2008 global financial crisis.

The 2011 popular uprising against Mubarak and the ensuing years of turmoil severely strained U.S.-Egypt ties, and upended the aid relationship. The Obama administration has struggled in the face of Egypt's tumult and its own policy confusion about whether to prioritize democratization or authoritarian stability to find an effective approach to assistance. Immediately after Mubarak resigned, the Obama administration announced its full support for a democratic transition. To demonstrate newfound U.S. support for "the Egyptian people," it announced in March 2011 that USAID would provide \$165 million for Egyptian and U.S. civil society groups to carry out economic and democracy activities to advance Egypt's political transition, including the country's first free elections. The United States moved quickly to reprogram unspent funds to fund the work of these organizations directly.²⁷

An infuriated Egyptian government decried this as an unacceptable intrusion on Egypt's sovereignty and a violation of the 1978 Assistance Agreement and launched a massive media campaign against the organizations and the Obama administration. Its real objection was that the funds were outside of government control, and that the United States was supporting organizations in favor of genuine democratic change. The interim military government wanted to clamp down on the revolutionary spirit and show its nationalist credentials by blaming the United States for Egypt's instability. Egypt cracked down on the groups receiving the aid and in June 2013, a court convicted 43 employees of American and German democracy organizations on trumped-up criminal charges in a deeply flawed trial. The Obama administration and Congress at first protested, but ultimately backed down and took no punitive actions out of fear of rupturing the relationship. Since 2012, the bilateral aid program has ceased funding independent civil society organizations and other non-governmental democracy activities in order to avoid antagonizing the Egyptian authorities.

U.S. efforts to deliver a large "signature" project to show support for a transition to democracy fared little better. Plans for a complicated debt swap foundered, and the Egyptian government stymied

25 For background, see J. Scott Carpenter, "Changing the Paradigm of U.S. Assistance to Egypt: Alternatives to the 'Endowment' Idea," Washington Institute for Near East Policy PolicyWatch No. 1656, May 14, 2010, <http://www.washingtoninstitute.org/policy-analysis/view/changing-the-paradigm-of-u.s.-assistance-to-egypt-alternatives-to-the-endow>

26 See Stephen McInerney, "A Closer Look at Mubarak's Trust Fund," *Foreign Policy*, April 19, 2010, <https://foreignpolicy.com/2010/04/19/a-closer-look-at-the-mubarak-trust-fund/> and Josh Rogin, "State Department considers new endowment as Egypt extends emergency law," *Foreign Policy*, May 12, 2010, <http://foreignpolicy.com/2010/05/12/state-department-considers-new-endowment-as-egypt-extends-emergency-law/>

27 For details, see USAID Office of the Inspector General, "Audit of USAID/Egypt's Transition Support Grants Program," Audit Report No. 6-263-13-002, October 22, 2012, <https://oig.usaid.gov/sites/default/files/audit-reports/6-263-13-002-P%20USAID%20Egypt%20Transition%20Support%20Grants%20Program.pdf>

the launch of various initiatives to provide financing for small businesses and entrepreneurs.²⁸ Negotiations with ministries over other new projects stalled after repeated cabinet changes, government disarray, and lingering tensions over the debacle in which staff of American democracy organizations were put on trial and convicted.²⁹ After initially emphasizing engagement with the Egyptian people, in 2012 the Obama administration changed course by offering a \$450 million cash transfer to the central bank to encourage the Muslim Brotherhood-led government that had just been elected to undertake economic reforms, and also to strengthen political ties to the new leaders. The Brotherhood never carried out the reforms, but in spring 2013 the administration delivered \$190 million of the cash as a goodwill gesture.³⁰

After the Brotherhood government was overthrown in the July 2013 military coup following mass demonstrations demanding Morsi's resignation, the aid program went through yet another period of turmoil. The administration froze several government-to-government projects in order to comply with U.S. law. Relations soured as many Egyptian officials and public figures angrily accused the Obama administration, which had neither publicly opposed the coup nor backed it, of backing the Muslim Brotherhood; anger rose when the administration postponed the delivery of some military aid in response to security forces' violent crackdown on Brotherhood followers. In the three years since, the United States sometimes has criticized the mass human rights violations and intense repression of the military-backed government. But overall, it has quietly accepted the new authoritarian reality and tried to return to business as usual, as if the uprising of 2011 never occurred. It has restored military aid and offered new arms and training to back the military's campaign against the jihadist insurgency in Sinai, actively supported an IMF loan to help Egypt's sinking economy stay afloat, and launched new economic assistance projects in areas described as priorities by Egypt's leadership, while continuing some existing programs deemed acceptable to the Egyptian authorities.³¹

The current USAID portfolio has more than 40 projects across eight sectors, all of which USAID has been working in for more than two decades, and in some cases, since the 1980s:

- *agriculture and food security*, including a range of projects to help farmers and the agribusiness sector;
- *democracy*, including projects with Egyptian government partners for election administration and voter education, women's political empowerment, judicial strengthening, decentralization, and legal training; and with civil society organizations (approved by the Egyptian government) on civic education;

28 See Danya Greenfield and Amy Hawthorne, "US and EU: Lack of Strategic Vision, Frustrated Efforts Toward the Arab Transitions," Report of the Rafik Hariri Center for the Middle East, Atlantic Council, September 2013, https://www.files.ethz.ch/isn/170559/US_EU_Lack_of_Strategic_Vision_Frustrated_Efforts_Toward_Arab_Transitions.pdf

29 "Update: The Campaign Against NGOs in Egypt," Project on Middle East Democracy Backgrounder, March 16, 2012, <http://pomed.org/wp-content/uploads/2013/12/Egypt-NGO-Backgrounder-IL.pdf>; Amy Hawthorne, "What the United States Should Have Said to Egypt about the NGO Trial," *EgyptSource* blogpost, Atlantic Council, June 6, 2013, <http://www.atlanticcouncil.org/blogs/menasource/what-the-united-states-should-have-said-to-egypt-about-the-ngo-trial>.

30 The announcement of the first tranche of this cash transfer appeared in remarks on Egypt policy and aid by U.S. Secretary of State John Kerry, "U.S. Support for the Egyptian People," March 3, 2013, <http://www.state.gov/secretary/remarks/2013/03/205579.htm>

31 See Stephen McInerney and Cole Bockenfeld, *The Federal Budget and Appropriations for Fiscal Year 2016: Democracy, Governance, and Human Rights in the Middle East and North Africa*, Project on Middle East Democracy, May 2015, pp. 21-30.

- *economic growth and private sector development* (also referred to as trade and investment promotion), including projects to promote entrepreneurship and the competitiveness of small and medium enterprises and increase access to finance for small businesses, including through the Egyptian-American Enterprise Fund, a USAID-funded private entity promoting financial inclusion, job creation, and investment in the private sector; for labor-market skills; and for the Ministry of Finance to develop electronic payment platforms to improve public cash management;
- *basic education*, including projects with the Ministry of Education to support the development of Science, Technology, Engineering and Mathematics (STEM) model high schools and to improve early-grade learning;
- *higher education*, including scholarship programs for Egyptian women to study STEM and business at U.S. universities, for Egyptians to attend Egyptian private universities as well as public ones (which are supposedly free, but in reality whose fees for books, tutoring, and other expenses are prohibitive for many Egyptians), and for Fulbright grants for Egyptians to obtain masters degrees at U.S. universities; and funding and technical assistance for the Ministry of Higher Education to send public servants to the United States for advanced academic studies.
- *health and population*, including projects with the Ministry of Health to train community health workers, improve maternal and child health, vaccinate children against polio, and carry out public information campaigns;
- *tourism and antiquities preservation*, to help the Ministry of Antiquities to preserve cultural heritage and promote tourism at several ancient sites across Egypt; and
- *water and sanitation*, to fund Egyptian state water utility and regulatory authorities for construction and other activities to increase access to potable water and sanitation in North Sinai and in Upper Egypt.³²

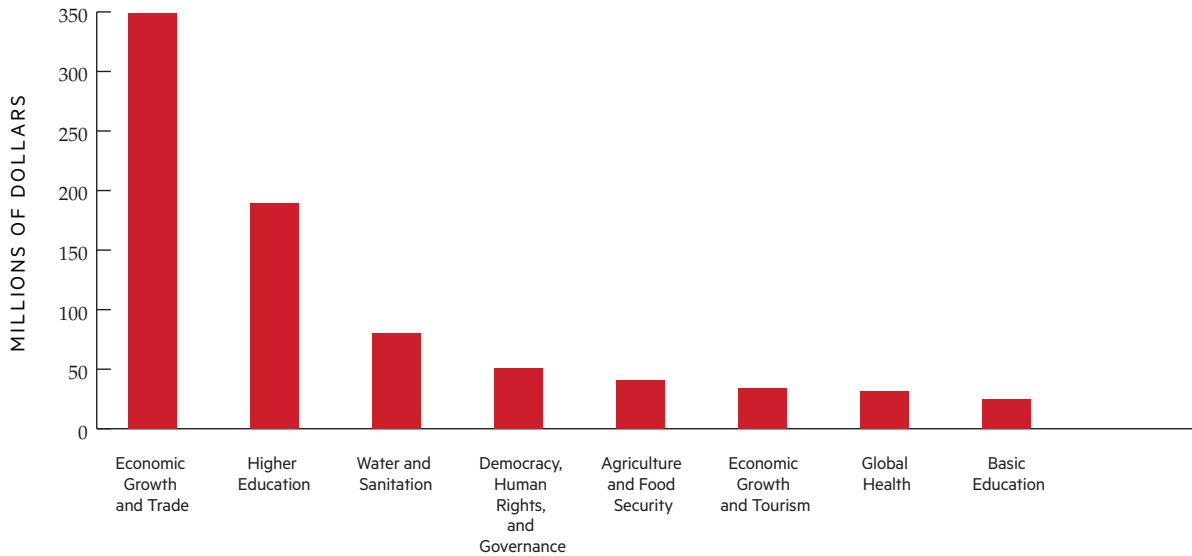
The U.S. attempt to return to business as usual in the aid relationship to reduce friction with Egypt has not enabled the assistance program to thrive. The role of Congress has been one complicating factor. Since 2011, Congress, like the administration, has lacked a coherent approach to Egypt. In 2011, some Members of Congress initially supported a democratic transition, as long as core U.S. security interests such as the Peace Treaty with Israel, were respected. They introduced conditions to U.S. assistance to certify Egypt's cooperation on security and its democratic progress.

Following the coup, Congress mostly acquiesced to the new authoritarian order, some enthusiastically supporting President Al Sisi and his cooperation with Israel and responding to entreaties from Israel and Egypt's Gulf allies, to keep aid flowing. Others have accepted the situation more reluctantly, but are hesitant to confront the Egyptian government or to propose ideas about what to do differently. Since 2013, legislators have included new conditions and earmarks on the shrinking economic aid appropriation, further limiting its flexibility.

But the main obstacles to the aid program are in Egypt. The situation has become far more restrictive, and Egyptian officials are determined to assert nationalist credentials toward a U.S. administration they neither trust nor respect. Negotiations over projects are often slow; in 2014 USAID's negotiations with the Egyptian Ministry of International Cooperation barely concluded before the

32 Information from USAID Egypt fact-sheets, available at USAID Egypt, "Our Work," <https://www.usaid.gov/egypt/our-work>, (accessed October 2016); see table and graph on p. 14 for information about current and planned funding levels by sector.

USAID Egypt – Planned Spending by Sector



**Please note that these figures are based on available information from the USAID/Egypt website as of October 2016 regarding planned total spending for current USAID projects, by sector. Most projects are multi-year activities, funded with appropriations over several years. Actual funding levels in current and future years may vary due to changes in appropriation levels, overall funding allocations, and other factors. Also, please note that USAID also uses a ninth category for funds, "Gender Equality and Women's Empowerment," for which \$68.29 million is planned to be spent in current projects. Unlike the other eight sectors above, however, this is a cross-cutting theme, which consists of various projects and activities overlapping the eight sectors in the graph above.*

Sector/Issue	Total Current/Planned Funding as of 2016
Economic Growth and Trade	\$348,700,000
Higher Education	\$189,100,000
Water and Sanitation	\$80,000,000
Gender Equality and Women's Empowerment (cross-cutting theme; project funding captured in other categories)	\$68,290,615
Democracy, Human Rights, and Governance	\$50,898,950
Agriculture and Food Security	\$40,500,000
Economic Growth and Tourism	\$33,700,000
Global Health	\$31,890,615
Basic Education	\$25,000,000

Source: Unites States Agency for International Development (USAID) Egypt Website, Accessed October 2016 (<https://www.usaid.gov/egypt>)

September 30 deadline after which the funds would have expired due to legislative restrictions on the time-period for obligation. Security officials have blocked several education and training projects on vague security grounds; U.S. organizations operating in Egypt, including those working on seemingly non-controversial issues such as economic development and agriculture, report increased harassment and pressure from security agencies. Airport officials also have prohibited some employees of U.S.-funded projects from entering Egypt. Conspiratorial coverage of U.S. aid is a regular feature in the Egyptian media, including those media outlets closest to Egypt's military and intelligence agencies. The Egyptian government has launched its most intense crackdown on human rights organizations ever, calling them national security threats linked to the West. It has taken steps to enact an even more draconian NGO law that would make foreign funding for civil society organizations, including those controlled by the state, even more difficult. Due in part to Egypt's lack of cooperation and to bureaucratic delays by the United States, a "pipeline" of approximately \$700 million in appropriated but unspent assistance funds has accumulated in recent years.³³ The Obama administration's response to this has been to request that Congress reduce funding to \$150 million, down from \$250 million in its first year in office in 2009, as well as to transfer \$108 million in unspent funds for use in other countries.³⁴

But the United States has not forged a clear strategic purpose for the smaller aid package. Nor has it figured out an effective approach in an Egypt whose increasingly repressive, nationalist, military-backed government does not share the stated U.S. objectives of promoting private-sector led, inclusive economic growth, democratic development, and partnership with the Egyptian people.³⁵ The Egyptian government, the traditional counterpart for U.S. aid, sometimes casts the aid as a violation of national sovereignty, sometimes as irrelevant to Egypt today, and sometimes as requiring increased levels as a symbol of Egypt's importance.³⁶

33 On the pipeline see USAID responses to Question for the Record from House Foreign Affairs Committee (HFAC) Chairman Eleana Ros-Lehtinen, HFAC MENA Hearing, April 13, 2016. p. 54, <http://docs.house.gov/meetings/FA/FA13/20160413/104767/HHRG-114-FA13-Transcript-20160413.pdf>

34 Julian Pecquet, "U.S. Shifts Egypt Aid to Other Countries."

35 The Obama administration's Fiscal Year 2017 request to Congress for Egypt assistance describes the objective of economic aid as to "continue to provide targeted support to the Egyptian people by promoting private sector-led job creation; broad-based economic reform and growth; better health and education outcomes; and more inclusive democratic institutions." See *FY 2017 Congressional Budget Justification - Department of State, Foreign Operations, and Related Programs*, released February 9, 2016, p. 92, <http://www.state.gov/documents/organization/252179.pdf>

36 See for example a recent interview with Egyptian Foreign Minister Sameh Shoukry in which he discusses U.S. economic aid, "Egypt's foreign minister affirms 'solid and stable' relationship with Israel," *Al-Monitor*, September 23, 2016, <http://www.al-monitor.com/pulse/originals/2016/09/egypt-interview-sameh-shoukry-foreign-minister-unga-cairo.html#ixzz4OcpQ2vBn>

III. THE BILATERAL ECONOMIC AID PROGRAM: UNDERSTANDING THE BASICS

With a 40-year history and as part of a complicated relationship, U.S. bilateral economic assistance for Egypt involves many actors, bureaucratic processes, and politics in both countries. As noted earlier, “bilateral economic aid” refers to Economic Support Funds (ESF) appropriated by Congress specifically for use in Egypt. ESF is a foreign assistance account whose stated purpose is to advance U.S. security and strategic interests (as opposed to humanitarian or development goals). In earlier decades a large part of economic aid for Egypt came through food aid, which is a separate foreign assistance account. But since the 1990s, the overwhelming majority of U.S. civilian, or non-security, aid has been bilateral ESF funds. The U.S. Department of State, often with the involvement of the White House due to the strategic nature of the relationship, oversees the policy level of the aid program. USAID contributes to policy decisions, is the lead U.S. counterpart with the Egyptian government, manages projects and funds, and oversees all implementation through a large Mission in Cairo that it has operated since the late 1970s.

Within the U.S. government, bilateral ESF operates on an annual federal fiscal year cycle. Each winter, the U.S. administration requests from Congress in the President’s Budget a certain amount for Egypt for the following fiscal year. The House and Senate Appropriations Committees hold hearings about the budget request and then in the spring and summer write their annual foreign aid spending bills, which specify the level of ESF for Egypt and any conditions on the use of the funds. Congress then hashes out differences between the two chambers’ bills to create a single bill. Because of the politics surrounding Egypt policy, frustrations with the Egyptian government, and the large size of the program (even today, Egypt is one of the largest recipients of bilateral economic aid), Congress typically includes a number of directives and conditions pertaining to the use of Egypt ESF. Since 2006, the annual bill has had an average of seven such provisions, more than for most aid recipients.

After Congress has appropriated the funds, the executive branch decides on priorities and specific projects. Many actors, in USAID, the State Department, the U.S. Embassy in Cairo, and often the White House, weigh in, often with conflicting ideas and goals for the funds; coming to agreement can be a protracted and messy bureaucratic process. USAID then must consult with Congress before spending the allocated funds, including by submitting a spending plan and congressional notifications about planned projects to the House and Senate Appropriations Committees and the two authorizing committees (the House Committee on Foreign Affairs and the Senate Foreign Relations Committee), any Members of which can request more information or place a hold on the funds. Egypt is one of a number of countries for which Congress requires a spending plan and notifications, illustrating another way in which Congress plays a hands-on role with Egypt aid.³⁷

USAID also negotiates with the Egyptian government—specifically, with the Ministry of International Cooperation, its main counterpart, as well as the relevant ministries that correspond to each of its programs—over the use of most or all of funding. Sometimes the Ministry of Foreign

37 USAID has two years from the fiscal year of appropriation to “obligate” ESF. In federal budget parlance, obligation refers to a legal commitment of appropriated funds toward specific expenditures. For example, ESF appropriated in Fiscal Year 2015 (which began on October 1, 2015) would need to be obligated before September 30, 2017, or would expire and be unavailable for use, unless Congress grants an extension. USAID obligates most Egypt ESF through bilateral project agreements with the Egyptian government (and then contracts directly with U.S. or Egyptian organizations who are carrying out related project activities), and obligates a smaller portion through direct agreements with U.S. or Egyptian organizations. Once obligated, the funds are counted as part of the USAID/Egypt “pipeline” until they are spent down.

Affairs becomes involved, as well. This is longstanding practice as the bilateral aid program was established as a government-to-government program. The 1978 Assistance Agreement states that the United States will provide assistance “as requested” by the Government of Egypt and as “agreed on” by both parties.³⁸

Several decades ago, such language was common in U.S. foreign assistance agreements with many countries around the world. Until about 15 or 20 years ago, when approaches to international development began to emphasize partnerships with civil society and the private sector along with the state, USAID typically provided foreign assistance either exclusively for or solely in partnership with governments. Many aid-recipient governments today are comfortable with USAID working directly with NGO and other private-sector partners on some projects and do not require every activity to be negotiated with state authorities. Egypt, however, is unique in its insistence upon continued adherence to the language of the Agreement and upon the need to negotiate and approve assistance priorities, funding amounts, goals, specific projects, and sometimes even U.S. implementing organizations.³⁹ In recent years, USAID has negotiated most, but not all, activities with the Egyptian government. In the past, USAID carried out some democracy projects unilaterally. Currently, it is funding the Egyptian-American Enterprise Fund, an investment vehicle for Egyptian small and medium businesses that operates as an independent nonprofit organization, outside of the bilateral aid agreement. This is to the annoyance of the Egyptian government, which would like to be directly involved in managing the Fund’s work. At present, about 80 percent of USAID’s projects are implemented under the auspices of project- or sector- agreements with the Egyptian government.

As mentioned earlier, historically USAID has spent the funds on a combination of budget support for the Egyptian government and infrastructure, development, and technical assistance projects, mostly working with Egyptian government institutions. At present, all of the funds are being used for development and technical assistance projects, most of which are implemented by U.S. contractors and grantees selected through USAID’s procurement process. Over the last decade, USAID has funded the work of some Egyptian organizations to carry out democracy and private-sector projects, but the bulk of project funds support work carried out by U.S. organizations. The Egyptian government does not have a formal role in selecting the implementing organizations, but in practice security agencies can block U.S. groups from carrying out certain projects.

Unlike other U.S. allies in the Middle East such as Israel and Jordan, Egypt does not have a formal multiyear aid agreement, or Memorandum of Understanding (MOU). MOUs typically are negotiated between the executive branch of the U.S. government and a foreign government counterpart. They state a clear intention to provide a certain level of aid over several years, contingent upon the availability of funding and the willingness of Congress to appropriate the assistance. Instead, the executive branch requests aid for Egypt for each year and does not make any longer-term commitments. The U.S. reluctance to negotiate an MOU with Egypt for FMF or ESF suggests the contentious nature of the assistance programs, as well as a desire to avoid opening a discussion in which Egypt may request significantly more aid. In addition, USAID has not had a Country Development Cooperation Strategy (CDCS) for Egypt since 2008. A CDCS is a five-year strategic planning document required for each USAID Mission that is developed in close coordination with host governments and citizens.

38 1978 Assistance Agreement, available as Appendix A of this report.

39 Because of the requirement in U.S. appropriations law (known as the 2004 “Brownback Amendment”) that the nature of U.S. democracy assistance projects and the choice of organizations to carry them out cannot be subject to the prior approval of the foreign government, USAID does not allow the Egyptian government to choose which NGOs USAID supports for democracy-related activities. Formally, Egypt does not have a role in choosing any grantees, but in practice it can block certain organizations.

Contrary to conventional wisdom, the United States is not legally obligated to provide economic or military aid to Egypt (or to Israel). Neither the 1978 Camp David Agreement nor the 1979 Egypt-Israel Treaty of Peace commits the United States to give aid on a continuous basis, or at a specific level, to either country. Rather, as with all U.S. foreign assistance, Congress appropriates aid each year at its discretion. Nonetheless, the close political association of Egypt's aid program with its peace with Israel contributed to strong bipartisan congressional support and consistent annual funding levels for both military and economic aid to Egypt for many decades.

IV. WHY HAS U.S. ECONOMIC AID NOT HAD A GREATER POSITIVE IMPACT?

The nearly \$28 billion in U.S. economic assistance has helped Egypt achieve some notable accomplishments. From the 1970s through the 1990s, USAID helped to rehabilitate ports and canals and to modernize water and sewage, power, telecommunications, and grain storage systems. U.S. economic assistance helped to extend electricity and clean water to millions of Egyptians. USAID has played a role in lowering rates of infant mortality, illiteracy, and several diseases, and in increasing the use of family planning and expanding educational enrollment and girls' education. The aid has helped to preserve Egypt's antiquities and has supported the American University in Cairo, a premier academic institution. Hundreds of USAID projects have given tens of thousands of Egyptians expanded access to health care and education, educational and professional scholarships, skills-training, and economic opportunity. Even the short-lived, controversial support for genuine pro-democracy civil society activities during the George W. Bush administration and immediately after the 2011 uprising helped young Egyptians spread democratic values among their peers.

An honest assessment, however, would acknowledge that the positive impact of U.S. assistance on Egypt's economic and political trajectories has been quite limited overall. To be sure, since the late 1970s, Egypt's economy has grown and diversified as it has moved away from the socialist model of the Nasser regime. But despite some reforms, many fundamental problems that plagued Egypt's economy when the aid program began remain today, and are central factors in its current economic crisis. Indeed, although the \$12 billion International Monetary Fund (IMF) loan that Egypt now is negotiating to help avoid a balance of payments crisis would be far larger than any past such financing, the measures that the IMF is asking Egypt to carry out in exchange for these funds are similar to those for which the IMF called in previous financing agreements in the 1970s, 1980s, and 1990s. The reforms would include devaluing Egypt's currency, reforming a bloated public subsidy program, and increasing tax revenue. Egypt's economy still depends on "rentier" sources of national income such as foreign aid, remittances from Suez Canal fees, tourism, and the repatriated earnings of Egyptians working abroad more than on domestic economic output, exports, and taxation. This makes the economy highly vulnerable to external shocks. The private sector, key to job creation, remains dominated by a small group of these firms and stifled by laws and practices that favor large firms and others with connections to powerful actors in the state.⁴⁰ The economic role of the military, which is exempt from taxes and from regulations that apply to civilian businesses as well as from public accountability, has grown even larger under the regime of former defense minister President Al Sisi.⁴¹

40 See "Arab Republic of Egypt More Jobs, Better Jobs: A Priority for Egypt," World Bank Middle East and North Africa Report No. 88447-EG, June 2014, <http://documents.worldbank.org/curated/en/926831468247461895/pdf/884470EG0repla00Box385343B00PUBLIC0.pdf>

41 Lina Attalah and Mohamed Hamama, "The Armed Forces and Business: Economic Expansion in the Past 12 Months," *Mada Masr*, September 9, 2016, <http://www.madamasr.com/en/2016/09/09/feature/economy/the-armed-forces-and-business-economic-expansion-in-the-last-12-months>

According to official statistics, about half of Egyptians live near or below the poverty line. Unemployment and under-employment remain high, by some accounts reaching as much as 30 percent among university-educated youth. The education system suffers from low quality and does not produce enough skilled and qualified workers to meet employers' needs. A large portion of the economy remains informal, with low wages and little job security or benefits (and no contribution of tax revenue to the state). Egypt's infrastructure and public services are straining under the weight of its growing population; in just one example, only 15 percent of villages are connected to sanitary sewage lines.⁴² More than 20 percent of children under age five suffer from stunted growth caused by inadequate nutrition. Affordable housing remains so hard to come by in many parts of Egypt that many Egyptians are not able to marry until well into their thirties. Inequality has increased in recent decades. According to a recent global wealth survey, the number of Egyptians belonging to the middle class and higher-income categories has been cut almost by half over the past 15 years, from 5.7 million to 2.9 million people. Those who are considered middle-class or above constitute just 5.4 percent of the population, but own two-thirds of the country's wealth.⁴³

The political development side of the picture is equally dismal. Except for the brief period of greater openness and electoral competition that Egyptians enjoyed immediately after Mubarak's ouster, which ended with the July 2013 toppling of the Brotherhood-led government, Egypt's governance remains highly authoritarian in law and in practice. Unaccountable security agencies and the military continue to dominate the political system. Human rights violations, including the detention of thousands of political prisoners and torture and other abuse at the hands of the state, are rampant. Egypt's current leaders appear intent on crushing all independent, peaceful civic activity, including the small but brave human rights movement that emerged in the 1980s and has attracted many young Egyptians in recent years, and on revoking even the limited freedoms that Egyptians enjoyed under Mubarak.⁴⁴

There are many reasons for the persistence of economic hardship and authoritarian rule in Egypt. U.S. economic assistance has not created these problems; primarily they are due to the policies and decisions of Egypt's authoritarian leaders, who consistently have prioritized maintaining their own power and benefits over improving the lives of the country's citizens. But certain shortcomings and dysfunctions in the aid program (and in U.S. policy more broadly) do help to explain why the assistance has not had more positive, transformative results and in some cases has helped to perpetuate some of Egypt's underlying development challenges. It is far beyond the scope of this paper to analyze the shortcomings of every unsuccessful assistance project since 1975 or to describe all the reasons why the positive impact has been limited. But it is possible to point in broad strokes to five central factors.

42 For a useful recent summary of official statistics on poverty, unemployment, access to basic services, and other economic and social data, see <https://www.middleeastmonitor.com/20161020-15-of-us-represent-all-of-egypt/>. For economic and development data, see also UN Data (<http://data.un.org/>) and the World Bank Databank (<http://data-bank.worldbank.org/data/reports.aspx?source=2&country=EGY>)

43 Data provided in Credit Suisse, *Global Wealth Report 2015*, October 2015, <https://publications.credit-suisse.com/tasks/render/file/?fileID=F2425415-DCA7-80B8-EAD989AF9341D47E>

44 For information on repression and human rights abuses, see *inter alia*: "Five years after the revolution: Egypt's Poorest Human Rights Record in its Modern History," the International Federation for Human Rights (FIDH), January 22, 2016, <https://www.fidh.org/en/region/north-africa-middle-east/egypt/five-years-after-the-revolution-egypt-s-poorest-human-rights-record>; the Arab Network for Human Rights Information, "There is Room for Everyone...Egypt's Prisons Before and After the January 25 Revolution," September 5, 2016, <http://anhri.net/?p=173532&lang=en&lang=en>; "Egypt: 'Officially, You Do Not Exist': Disappeared and Tortured in the Name of Counter-Terrorism," Amnesty International, July 2016, <https://www.amnesty.org/en/documents/mde12/4368/2016/en/>; Al-Nadeem Center for Rehabilitation of Victims of Violence, "2015 in Numbers," June 24, 2016, <http://www.alnadeem.org/en/content/2015-numbers>; Cairo Institute for Human Rights Studies et al., "Imminent Risk of Prosecution of Human Rights Defenders Accused of Committing Human Rights Work," September 15, 2016, <http://www.cihrs.org/?p=19002&lang=en>

THERE IS NO COHERENT VIEW ABOUT THE PURPOSE OF THE AID WITHIN THE U.S. GOVERNMENT

One key factor has been persistent ambivalence within the U.S. government about the purpose and goals of the economic aid program. This is typical of aid programs in strategically-important countries, but appears especially pronounced in Egypt. As explained earlier, from the outset the main rationale for the program has been Egypt's importance to U.S. national security interests and the related objective of *preserving the status quo*, by promoting stability and continued security cooperation from the Egyptian government. As also noted, the promotion of economic and political reform has assumed much greater prominence in U.S. thinking about the aid program over the past fifteen years, becoming most pronounced immediately after the 2011 uprising, which shattered American illusions about Egypt's authoritarian stability. But overall, development, reform and *change* have always been second-tier objectives. When asked why the United States gives aid to Egypt when its government holds thousands of political prisoners and has failed to carry out meaningful economic reform, USAID Administrator Gayle Smith responded frankly that:

...[there are] those places where we work as a matter of foreign policy and national security, where we have a presence and we have a need to impact the development agenda in some positive manner but quite frankly it is much harder, the conditions are not always aligned, [development] may not always be the priority that it is in some other environments...in those cases I would be dishonest if I said it isn't much harder to achieve progress there and I think we've got records in some cases where we have been able to achieve gains that are slow, and it is slower in those environments often times to build up the progress, and in some cases it has proved much more difficult...⁴⁵

The tensions between the foreign policy goal of cooperating on security and political interests with the incumbent Egyptian regime and the development goal of encouraging the regime to improve economic and political conditions in the country are almost always resolved by downplaying the latter objective. When Egyptian officials resist reforms that the United States (and some Egyptian citizens) considers important, U.S. officials tend to avoid raising such issues at all, or to balk and pull back from applying pressure through the aid program (as well as through diplomacy).⁴⁶ In addition, the overriding U.S. security focus has meant that the most attention-intensive, well-resourced, and overall-dominant parts of relations with Egypt are military aid, counter-terrorism cooperation, and other security support for the most powerful, most repressive and change-resistant actors in Egypt's political system. Economic aid that aims to promote development through economic and political reform is always far outweighed by aid and other engagement on the security side of the relationship, which involves no real pressure for reform.

The strategic importance of Egypt in U.S. policy toward the wider region, and the strong interest of close U.S. allies Israel, the United Arab Emirates, and Saudi Arabia in Egypt, also has led to the phenomenon of an unusually large number of actors within the U.S. government who seek to weigh in on how economic aid is used. This has been the case from the beginning of the bilateral aid program,

45 "U.S. Leadership in International Development," a Brookings Institution panel discussion on foreign aid with USAID Administrator Gayle Smith, Washington, DC, March 9, 2016; video of event available at <https://www.c-span.org/video/?406255-1/discussion-role-usaid>

46 For a frank discussion of the challenge of the competing goals and tensions between pressing for economic reforms and not antagonizing the Egyptian government, see this oral history interview with one of the early USAID Egypt Mission directors. Although the aid program has changed in many ways since this report was prepared, many of the basic dynamics it describes still hold true today. "The Association for Diplomatic Studies and Training Foreign Affairs Oral History Project Foreign Assistance Series – Donald S. Brown," interviewed by W. Haven North, 1998, <http://www.adst.org/OH%20TOCs/Brown,%20Donald%20S.toc.pdf>

but it has become more complicated since Mubarak's ouster as U.S. officials have struggled to develop a coherent approach toward Egypt and some U.S. decisions have angered close U.S. Middle East allies. Congress, with its many members and their multiple and competing points of view, and in the executive branch, the State Department, USAID, the White House, the Treasury Department, and sometimes even U.S. defense and intelligence agencies often are involved in shaping how the aid is used, and bring to the policy debate different, sometimes contradictory, institutional perspectives and goals. For example, USAID generally favors development-focused activities. Some State Department officials also prefer development and reform-oriented projects, but top State Department officials usually want to focus on aid that they believe will bolster political relations with the Egyptian government. The Treasury Department tends to prioritize technical assistance to the government to promote macroeconomic reforms. The hashing-out of divergent views to reach a policy decision often leads to protracted debate and bureaucratic paralysis, resulting in a lowest-common-denominator approach. A 2015 USAID report described the negative effects of "too many cooks in the kitchen," and how USAID officials sometimes receive political instructions about what projects to pursue, and then try to "work backwards" to find development reasons to justify certain projects. The report explained that on many occasions since 2011,

...[the State Department] steered USAID programs to address political rather than development needs. This dynamic had a profound effect on the Mission's ability to follow USAID's guidance on designing and implementing developmentally sound projects... [USAID] officials had to deal with new levels of bureaucracy and [also] were responding constantly to different requests and demands from outside the Agency...with so many differing voices and perspectives, USAID employees said they were not getting clear, consistent guidance...One [USAID official] wrote that State Department (or White House) has had a very difficult time making decisions on USAID programming for Egypt . . . USAID has been paralyzed and sent through twists and turns...there has been excessive indecision and mixed signals to USAID.⁴⁷

Even once decisions are hammered out within the executive branch, Congress, especially in recent years has its own strong, often multiple, views about how the aid should be used, and these views are important because Congress appropriates the funds. This situation has led to appropriations legislation with numerous earmarks, directives, and reporting requirements that make the aid program even more complicated and pull it in competing directions.

EGYPT DOES NOT SHARE MOST U.S. REFORM GOALS OR ACCEPT ANY CONDITIONS ON THE AID

In addition to policy divergences within the U.S. government, a second crucial factor hindering the economic aid program is disagreements between the United States and Egypt about the purpose of the aid. While the United States sometimes has sought to promote democratic and economic reform through certain projects and through attaching conditions to some of the funding, the enduring, strongly-held view of Egypt's leadership that Egypt is *entitled* to the assistance because it signed the Peace Treaty with Israel (and secondarily, because it cooperates on security with the United States), not because of its domestic economic or political policies or performance. For the United States, maintaining Egypt's peace with Israel of course remains very important, but as the achievement of the Peace Treaty has receded into history and the peace appears solid, it has become less of an animating feature in the current relationship. Certainly, some Egyptian officials have agreed with the United States about the need for economic reform, and have been willing

47 USAID Office of Inspector General, "Survey of USAID's Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen," Survey Report No. 8-000-15-001-S, April 30, 2015, pp. 7-9, <https://oig.usaid.gov/sites/default/files/audit-reports/8-000-15-001-s.pdf>

to accept U.S. assistance. But overall, for Egypt's leadership, for those who truly hold power in the system, U.S. economic aid remains a strategic entitlement, owed to the government, perhaps in perpetuity, because of Egypt's special status due to its peace with Israel and its geopolitical importance. In their view, the aid is provided as backing Egypt's government for these reasons, and a sign of prestige, and is not provided as a way for outsiders to try to change the country, especially in ways with which Egypt's leadership does not agree, especially concerning democracy and human rights. Some aid relationships have started out with strategic rationales at the center, but have evolved into partnerships whose primary purpose is to develop the recipient nation. This has not happened with Egypt. The two governments often do not agree, at base, about how the aid should be used or why the United States should keep providing it.

EGYPT INSISTS UPON MAINTAINING AN EXCLUSIVELY GOVERNMENT-TO-GOVERNMENT AID PROGRAM

A related third factor in the difficult aid relationship is the longstanding government-to-government nature of the program. This arrangement made sense in the earliest years of the aid program but is now outdated and confining for the United States because the two governments often disagree about the purpose and use of the aid. In earlier decades, USAID worked entirely with the Egyptian government to define Egypt's assistance priorities and to decide on and implement assistance projects. In the past decade or so, the United States has wanted to look not just toward the Egyptian government, but also to Egypt's citizens—including academic experts, private sector leaders, and civil society organizations, those who support the government's policies and those who hold a different perspective. Even in a political system such as Egypt's, there is a civil society and a private sector, and there are independent actors with whom the United States might wish to partner on priorities that are not necessarily shared by the government's priorities.

But the Egyptian government tends to see things very differently. It cites the 1978 Assistance Agreement when asserting its position that it is the only legitimate aid interlocutor on the Egyptian side. It alone should be able to control the aid resources and to determine, on behalf of all groups and constituencies in a country of 90 million people, how they are used. In many cases, Egypt's most vociferous objections have been in response to U.S. efforts to use a portion of bilateral aid funds to support independent pro-democracy activities chosen in consultation with civic groups, for recipients not chosen by the government. Invoking national sovereignty, Egyptian officials have argued that such "unilateral" funding is not acceptable according to the Agreement. They have contended that such activities are not government priorities and that the groups carrying them out are not legitimate and in some cases, quite remarkably, that they threaten national security. As a senior Egyptian official closely involved in the aid relationship explained,

What is most important to the Egyptian government is that there should be no unilateral actions with assistance funds by the United States. The Egyptian government has to agree on the priorities and how the aid is used, and it has become a problem [that the United States is not always doing so]. Democracy assistance in particular must be done in cooperation with the government--there should be no unilateral funding. The United States needs to follow Egypt's rules and support the Egyptian national agenda.⁴⁸

48 Discussion with a senior Egyptian government official, Cairo, May 2014. See also this op-ed by former minister of planning Fayza Aboulnaga, perhaps the most prominent and forceful Egyptian official objecting to unilaterally programmed aid, especially, democracy aid: "Why Egypt Moved Against Unregistered NGOs," *Washington Post*, March 12, 2012, https://www.washingtonpost.com/opinions/why-egypt-moved-against-unregistered-ngos/2012/03/05/gIQA-EHrf1R_story.html?utm_term=.27e6d14f460f. Aboulnaga wrote that in 2011 "Washington chose to direct economic assistance that previously had been allocated under conditions negotiated in the 1978 bilateral agreement and in a mutually agreed-upon exchange of letters. The letters stipulated that U.S. funding should be provided only to registered NGOs after consultation with the Egyptian government. This was the established practice. But in February 2011, Washington unilaterally declared that unregistered NGOs would be funded... The Egyptian government objected to the United States ignoring the bilateral agreement that governed how to handle the disbursement of U.S. assistance."

But it is not only unilateral democracy funding that the Egyptian government argues is in violation of the assistance agreement. Since 2011, and especially since Egypt's reversion to authoritarian rule since mid-2013, authorities also have complained about the use of bilateral assistance funds for independent (that is, not government-run or controlled) projects to expand financing to small and medium enterprises (SMEs) and to train entrepreneurs, and have demanded an Egyptian government role in managing such activities. Their opposition may be surprising, as economic growth and job creation is one of the government's stated priorities. It is revealing, however, that some pro-government figures recently have taken to the Egyptian media to criticize U.S. funding for SMEs and entrepreneurs as part of a U.S. plot to "infiltrate" Egypt and undermine national security. This language is identical to that used by pro-regime figures to lash out at and discredit U.S. funding for pro-democracy civil society organizations.⁴⁹ The real problem is that such U.S. funding is allocated without negotiating with the Egyptian government, and that the SMEs and entrepreneurs chosen for support are, like independent civil society organizations, not firmly under state control. This helps to clarify that Egypt's objection to U.S. funding outside the bilateral agreement is both ideological and more mundane. It is about national sovereignty, as defined by Egyptian officials, and it is about blocking U.S. support for independent economic and political activity and about controlling aid resources.

When the United States has tried to work outside the confines of the Agreement, this has sometimes caused major conflicts that have disrupted the entire relationship, such as when the Obama administration in 2011 gave \$65 million directly to Egyptian and American civil society organizations for democracy promotion projects. But even when the United States pursues projects that respond to government priorities and that are to be carried out with government counterparts, the negotiation process that has built up as a result of the Agreement can be cumbersome and lengthy, due to the complexities of Egyptian state bureaucracy and politics. This is especially the case when the Ministry of International Cooperation plays a strong centralizing role, because its priorities do not always align with those of line ministries, such as the ministries of health, education, and others, with which USAID works directly. This has been one reason for the slow dispersal of aid and has contributed to the large pipeline of unspent funds.

USAID ASSISTANCE GENERALLY HAS NOT BEEN AN EFFECTIVE TOOL TO PROMOTE GOVERNMENTAL REFORM

A fourth problem is that U.S. economic assistance has not, on the whole, been effective as a lever to encourage the Egyptian government to carry out meaningful economic or political reform. This is certainly the case with the more than \$7 billion that USAID has spent on budget support of one form or another since the mid-1970s. Until the 1990s, the United States did not attach any economic reform conditions to such budget support. The Egyptian government opposed linking such aid to reforms to liberalize the economy, in some cases arguing that the reforms suggested by the United States would trigger unrest and thus were too dangerous to carry out, or in others rejecting such suggestions as unacceptable U.S. interference in Egypt's domestic affairs. The reform conditions that the United States added to the cash transfer program in the 1990s were not necessarily effective in promoting substantive and lasting changes in economic policy. The conditions either were not stringent in the first place, or were relaxed to give Egypt more time to pursue the reforms.⁵⁰ Some have argued that the problem was that the cash transfers, worth up to \$200 million annually, were not large enough to motivate Egyptian officials to carry out difficult or politically-controversial

49 See for example the discussion on Amr Adeeb's popular television program "Al Qahera Al Yowm" (Cairo Today), October 12, 2015, Part 3, <http://www.video.egy4.com/2015/10/12102015.html>

50 For details, see report by the United States Government Accountability Office, "Foreign Assistance: USAID's Cash Transfer Program in Egypt Supports Economic Reform Activities, but Various Factors Have Limited Its Influence," Report No. GAO-05-731, July 2005.

economic reforms. But it is more likely that fundamentally they did not see these steps as in the regime's interest and that no amount of foreign aid would entice them to do more.

In other cases, the U.S. government did not want to antagonize Egyptian officials by pushing too hard for reforms, or, as was the case with the \$190 million cash transfer provided to the Morsi government, in spring 2013, it was perhaps more interested in smooth relations than in pressing for reforms, so the cash transfer had very light conditions. Perhaps the greatest amount of economic reform "progress" occurred during the government of former prime minister Ahmed Nazif (2004-2010), but the change ended up being counter-productive in many ways, and illusory.⁵¹ USAID offered a cash transfer, focused on the Ministry of Finance, which it considered a key ministry in Nazif's business-friendly government, and funded large, multi-year technical assistance projects worth more than \$130 million to assist with the desired reforms.⁵² Egypt did carry out some of the sought-after financial-sector reforms, including tax reforms, privatization of state industries, and banking reforms. Although it is not clear if the United States was aware at the time, many of these reforms were deeply unpopular with vested interests in the Egyptian power structure, especially those in the military, which saw its economic interests threatened and strongly opposed a market-based economy more broadly. They were also very controversial among significant constituencies outside of government, who perceived Mubarak's reforms as enriching a corrupt elite and weakening state institutions and government services through privatization while many Egyptians got poorer. This opposition was a significant factor in generating the widespread discontent that led to the mass protests to oust Mubarak in 2011, and since that time, economic liberalization has had an even greater public stigma. Thus the reforms that the cash transfer encouraged and supported did little, ultimately, to improve the economy.

Another main way in which USAID has tried to encourage government reforms—through technical assistance projects that offer management suggestions, training, equipment, and other resources for state institutions—often has been ineffective as well. Due to the heavy government focus of the assistance program, such projects have constituted perhaps the largest number of USAID projects. The concept, at least on the U.S. side, typically has been that providing expertise, training, equipment, and other support for Egyptian officials will spur or move forward reform, generate improvements in governance, and achieve other change deemed positive by the United States. But U.S. ambitions for change often have outstripped those of the Egyptian government, and as a result many USAID projects have not been able to achieve their stated objectives.

Several USAID project reports and evaluations from throughout the last decade shed light on many of the reasons for these shortcomings. Reading through such documents, one is struck by the contrast between high expectations for the activities on the U.S. side, and the often limited support, lack of political will, and sometimes outright resistance from the Egyptian side. Often this is because project activities and goals are formulated by USAID, sometimes based on a need to figure out how to spend aid funds, not in response to clear signs of a real appetite for reform within the Egyptian government. Projects often are then proposed to Egyptian officials, who may not share U.S. goals but decide to go along with for reasons such as resource-capturing or even keeping U.S. efforts

51 For a good overview of Egypt's economic policies under the Nazif government and their associated shortcomings despite strong U.S. and other Western backing, see David Butter, "Egypt in Search of Economic Direction," Chatham House Briefing Paper, November 2013, https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Middle%20East/bp_butter1113.pdf

52 For more information on this project titled Technical Assistance for Policy Reform (TAPR), see the final report, by James Hanson, Donnie Harrington, Joseph Lieberson, and Emily Miller, "TAPR-II Final Evaluation Report," September 2010, p. 23, http://pdf.usaid.gov/pdf_docs/pa00jmx.pdf. One notable and controversial feature of the TAPR project was the use of project funds to pay large (by Egyptian standards) salaries for Egyptian experts who were brought in from outside the government to work in high-level Ministry offices as special employees, outside of regular civil service positions.

absorbed in activities they do not consider vitally important. The evaluations, of course, offer only a snapshot of projects and their results. Nonetheless, they still provide many insights into some of the profound disconnects between the donor and the recipients of U.S. economic aid. Certainly, in some cases the United States has erred in carrying out technical assistance projects that did not match with Egyptian priorities at the time. The deeper impression conveyed by these reports and evaluations, however, is that an effective U.S.-Egypt government-to-government development partnership is lacking. This is because of the limitations of the United States as an agent of change in Egypt. Perhaps more important, it is because Egypt is not a “developmental state,” such as the “Asian Tigers”:

A state [that] possesses the vision, leadership and capacity to bring about a positive transformation of society within a condensed period of time...[with] a leadership that places national development over personal success...[it is] impossible to ‘manufacture [a developmental state].⁵³

Some project evaluations point to the wariness of Egyptian officials toward U.S. assistance. In some cases, the officials who were slated to be the key project partners or the immediate beneficiaries of training and other technical assistance were uncooperative. For example, an evaluation of a \$10-million project to expand Egypt’s foreign exports concluded that the project “suffered delays from the beginning because it got mixed support from partners at various levels of the Egyptian government,”⁵⁴ and at times certain officials “were unresponsive and refused assistance altogether.”⁵⁵ A report on an \$18-million project to improve the governance capacity and effectiveness of the state-appointed, regime-controlled National Council for Women describes the Council members’ “resistance” to many project activities and their outright “interference” with others.⁵⁶ Suggesting the acrimony surrounding the project, the evaluation also noted that of the more than 2,600 Egyptian government officials who received training, all but two refused to speak with the evaluation team.⁵⁷ The evaluation cautioned that “any future activity needs to take account of the restrictive environment and the perceived high risk of engaging with foreign donors such as USAID.”⁵⁸

An evaluation of a project that included technical assistance for the Central Bank of Egypt (CBE) stated that “many of the proposed tasks were politically sensitive and the CBE does not want foreign advisors involved.”⁵⁹ A USAID audit of \$24 million worth of democracy and governance projects carried out over several years bluntly acknowledged that the Egyptian government “has shown reluctance to support many of [these programs] and has impeded implementers’ activities.”⁶⁰ An evaluation of an \$18-million education project to improve student reading and writing skills noted some cooperation from the Ministry of Education, but also pointed to “distrust of outsiders

53 Verena Fritz and Alina Rocha Menocal, “Developmental States in the New Millennium: Concepts and Challenges for a New Aid Agenda,” *Development Policy Review*, (25:2), 2007, pp. 531-552; citation from p. 533.

54 Catherine M. Trujillo, “Audit of USAID/Egypt’s Trade Facilitation Project,” March 25, 2013, p. 6, <https://oig.usaid.gov/sites/default/files/audit-reports/6-263-13-009-p.pdf>

55 *Ibid.*, p. 7.

56 Ghada El Sharif, Brenda Lee Pearson, and Hanan Kwinana, “End of Project Performance Evaluation of the USAID/Egypt Combating Violence against Women and Children (CVAWC),” January 25, 2015, p. 8, http://pdf.usaid.gov/pdf_docs/pa00k99w.pdf

57 *Ibid.*, page ii.

58 *Ibid.* p. iii.

59 “TAPR-II Final Evaluation Report,” p. 23.

60 Jacqueline Bell, “Audit of USAID/Egypt’s Democracy and Governance Activities.” October 27, 2009, p. 1, <http://oig.usaid.gov/sites/default/files/audit-reports/6-263-10-001-p.pdf>

and donor projects.”⁶¹ A \$12-million project to provide training for the Parliament ran into similar nationalist opposition, with the result that project activities had to be limited to designing and installing a computer network for Parliament and training some staff on how to use it, as working directly with members of Parliament, as initially planned, was not possible.⁶²

In other cases, some in the Egyptian government cooperated effectively with USAID-funded projects, but resistance from more powerful parts of the bureaucracy blocked the activities or thwarted the reforms that the projects sought to advance. For example, an evaluation of a \$130 million-project to promote economic liberalization through market-oriented reforms and to support the agenda of “reform-minded” ministers in the Nazif cabinet noted that “in several cases top Egyptian officials were extremely interested in specific reforms but after a year or two...government ministers were changed or other political changes...ended those efforts.”⁶³ The report also noted that a “loss of momentum on major policy reform” and “the lack of inter-ministerial coordination” severely limited reform progress.⁶⁴ Another problem was that sometimes reforms did not go forward because “the minister who was the champion moved to a different job” or “lower-level staff enthusiasm was lacking.”⁶⁵ An evaluation of \$21-million large government decentralization project, part of the more than \$1 billion spent by USAID since the late 1970s to promote decentralization of Egypt’s highly-centralized, security-dominated political system, noted that there are “political and institutional factors that work against decentralization reforms” including “the security and intelligence forces.”⁶⁶

This touches upon a core problem: the schizophrenic nature of U.S. policy toward Egypt, specifically the U.S unwillingness to push back against regime opposition to certain reforms that its very own economic aid programs ostensibly seek to promote. In the case of decentralization for instance, the United States has continued to fund projects designed to encourage Egyptian officials to decentralize power. But it has never invested any serious political capital to try to convince the security and intelligence agencies of the value of decentralization or to dissuade them from being so hostile to U.S. efforts to work with those Egyptians who do support it. Part of the unfortunate division of labor on Egypt within the U.S. government is that USAID officials obviously do not have the purview or influence to engage with security and intelligence officials on such issues, but those U.S. officials who do have close ties to the military and security agencies generally are either uninterested in reform, or unwilling to antagonize their Egyptian counterparts.

Another theme apparent in many evaluations is the lack of sustainability of project achievements, often due to an absence of Egyptian government follow-through on or ownership of the changes. For example, a \$3.6-million project to improve nursing skills in public hospitals in Upper Egypt failed to achieve sustainable impact in part because many of the nurses trained “admitted that they no longer followed the procedures they had learned” soon after the project ended, and that the Ministry of Health and Population saw the project as a “donor initiative” and did not intend to use its own funds to finance a continuation of the activities.⁶⁷ Similarly, a \$40-million project to improve management

61 Ahmed Gabr, Megan Gavin, Sherine Mourad, Virginia Lambert. “Final Performance Evaluation: Education Support Program (ESP) USAID/Egypt,” April 2015, p.3, http://pdf.usaid.gov/pdf_docs/pa00khhq.pdf

62 Ibid.

63 “TAPR-II Final Evaluation Report,” p. 2.

64 Ibid., p. 3.

65 Ibid., p. 52.

66 Chris Borden, Dana Fischer, Nemat Adel Guenena, Robert Springborg, “Evaluation of the Egyptian Decentralization Initiative: Mid-term Evaluation Report,” December 5, 2009, p. 5, http://pdf.usaid.gov/pdf_docs/pa00jmxq.pdf

67 Dr. Madiha Said Mohamed Abdul Razik, Waleed El Feky, Chris McDermott, “End of Project Performance Evaluation for USAID/Egypt: Improving the Performance of Nurses in Upper Egypt,” January 21, 2015, p.3, http://pdf.usaid.gov/pdf_docs/pa00kcgq.pdf

of water and waste-water met its infrastructure and construction targets,⁶⁸ but evaluators noted “backsliding” after the project concluded because the “[Egyptian] management had not internalized the value of performance management and customer care tools” that USAID had tried to impart.⁶⁹ For similar reasons, a \$110-million project to improve the government’s capacity to improve health outcomes “did not translate into sustained institutional capacity” in the public health system.⁷⁰ A project intending to promote financial and tax reforms spent some \$10 million on the installation of a new information technology system for the Egyptian Customs Authority, but an evaluation found that the system, which faced repeated delays due to USAID errors and insufficient cooperation from Customs officials, likely was “not sustainable” by the Egyptian government.⁷¹

THERE IS NO STRONG CONSTITUENCY FOR U.S. ECONOMIC ASSISTANCE IN EGYPT

A fifth main exacerbating factor is the lack of a visible constituency for U.S. economic assistance among the Egyptian public and the negative image of the program. The overall environment in which the United States provides the aid is not exactly favorable since according to public opinion polls, most Egyptians hold negative views of the United States. A 2014 survey by Pew Research, for example, found that 85 percent of Egyptians queried held an “unfavorable opinion” of the United States.⁷²

Economic assistance in particular is controversial for several reasons. For many pro-regime, ultra-nationalist figures, economic aid is a prime example of American nefariousness. The Egyptian media regularly feature histrionic and wildly exaggerated or fabricated stories about how USAID projects are aiming to destroy Egypt and are part of a U.S. conspiracy to harm the country.⁷³ This sort of Egyptian media coverage has been common throughout the four decades of the aid program. But arguably it has become more frequent and more unpleasant since 2011. The regime-controlled media regularly plays up themes of foreign instigation and funding of the January 25 uprising, to try to discredit Egyptians’ indigenous demands for democracy. Under the post-2013 regime, Egypt’s top officials, including President Al Sisi, and pro-regime media commentators often blame Egypt’s economic and security problems on conspiracies involving foreign actors (including the United States). They warn about the new threat of “fourth-generation warfare,” understood to mean Western infiltration of Egyptian society through the use of civil society funding, media, and information technology.⁷⁴

There are dozens of examples of this ugly, even dangerous, narrative on U.S. economic aid, but just a few will suffice here to convey the tone. An article from March 2016 described a U.S. NGO working on education projects in Egypt as “one of the arms of the Pentagon [that] is used to infiltrate certain countries under the guise of a civil society organization, with the goal of executing suspicious plans plotted by the Pentagon, the most important of which is to sow dissent in the country in which it is

68 Anthony Kolb; Heather Skilling; Raouf Youssef, “Egypt Capacity Building and Policy Support in the Water and Wastewater Sector: Performance Evaluation Report,” February 2012, p.11, http://pdf.usaid.gov/pdf_docs/pdact561.pdf

69 Ibid., page 6.

70 Dayl Donaldson, Waleed El Feky, Mahinaz El Helw, et al. “Health Systems 20/20 Project in Egypt: End of Project Performance Evaluation,” April 15, 2013, p .5, http://pdf.usaid.gov/pdf_docs/pdacx182.pdf

71 “TAPR-II Final Evaluation Report,” p. 19.

72 Pew Research Center, “Global Trends and Attitudes, Opinion of the United States,” Middle East/North Africa, indicators database, Egypt, 2002-2014.

73 This is the despite the fact that the 1978 Assistance Agreement requires the Egyptian government to publicize USAID’s activities.

74 See Dalia Rabie, “Technology, mind-games, and ‘fourth-generation warfare,’” *Mada Masr*, September 8, 2015, <http://www.madamasr.com/en/2015/09/08/feature/politics/technology-mind-games-and-fourth-generation-warfare/>

operating.”⁷⁵ A different article in a similar vein asserted that “American organizations are seeking to stir up sedition in the Egyptian state through provoking minority rights and inciting against the state.”⁷⁶ Another commentator wrote, “American aid is being used to finance foreign and Egyptian civil society organizations that are undermining Egypt...America constantly funds suspicious organizations and [justifies] these subversive practices by repeating the slogan of democracy. I say the aid...can go to hell.”⁷⁷ Security agencies that control Egypt’s media may promote such views not only because they reflect their own nationalist worldview that is deeply suspicious, perhaps at times even paranoid, of U.S. and Western intentions, to deflect the Egyptian public’s attention from their own close security ties to the United States and the regime’s reliance on U.S. military aid. Notably, criticism of the much larger U.S. military assistance program never appears in the Egyptian media, except to castigate the United States for placing human rights conditions on the aid.

Other Egyptians criticize the aid because they argue that it allows the United States, a mistrusted outside power, to influence Egyptian government decision-making and because it is a manifestation of the asymmetric relationship between the two countries (donor and recipient, rather than equal partners). As one commentator wrote, “aid limits our capacity to make decisions and compromises our independence...Egyptians will become more proud if we reject aid...”⁷⁸

Still other Egyptians do not oppose the aid in principle, but do not see it as helping Egyptian citizens. They argue that the Egypt’s government’s “dependence” on aid from the United States and other donors has distorted the economy, allowed leaders avoid difficult reforms, and provided resources to key state institutions in support of the authoritarian status quo. Many reject the close association of U.S. economic assistance with unpopular economic reforms and specifically with highly controversial IMF programs. Some view the aid as fueling cronyism connected to corruption in the Egyptian state. Indeed, successive authoritarian governments in Egypt have been more concerned about directing foreign assistance resources toward their own interests than about benefitting the population at large. As an Egyptian analyst wrote,

The aid does not meet or take into consideration Egyptians’ most pressing needs... [such as] permanent jobs to enable citizens to earn a living with dignity, as well as providing direct assistance to the most impoverished citizens...the so-called economic reforms recommended by the United States and the IMF have caused an unprecedented surge in unemployment and have increased income inequality over the past three decades... the current focus on helping businessmen, particularly powerful ones, and on U.S.-chosen infrastructure projects that create few permanent job opportunities will keep USAID unpopular in Egypt.⁷⁹

75 Youssef Ayoub, “al-Youm al-Sabea (Youm 7) infiltrates the American spying file on Egypt...Washington plants RTI to ignite sectarian strife and incite minorities through aid money. The organization held training workshops for Egyptians abroad on supporting gay rights,” *al-Youm al-Sabea*, April 6, 2016, (Arabic), <https://goo.gl/Wyq6ep>

76 Mohammed Abdel Hadi Allam, “The rights of Egyptians is the president’s comprehensive vision... and the civil society is debilitated,” *al-Ahram*, September, 2, 2016 (Arabic), <http://www.ahram.org.eg/NewsQ/548954.aspx>

77 Abdel Fattah Abdel Moneim, “American Aid, Along with the Brotherhood, Can Go to Hell,” *Youm 7*, October 10, 2013 (Arabic), <https://www.youm7.com/story/2013/10/10/>

78 Saaed Al Lawendi, “Talking About U.S. Aid,” *Al Ahram*, October 19, 2013 (Arabic), <http://www.ahram.org.eg/NewsQ/237883.aspx>

79 Ahmad Al Sayed El Naggar, “U.S. Aid to Egypt: The Current Situation and Future Prospects,” *Sada Journal*, Carnegie Endowment for International Peace, June 17, 2009, <http://carnegieendowment.org/2009/06/17/u.s.-aid-to-egypt-current-situation-and-future-prospects-pub-23282>

Other Egyptians argue that the aid is too small to notice or make a difference in Egypt: “America’s economic aid to Egypt does not exceed two percent of our Gross National Income, and it adds nothing to our economy,” one article complained.⁸⁰ Another frequent criticism is that much of the funding is “tied aid,” that is, the aid dollars must be spent to purchase U.S. commodities or to pay U.S. debts (this is the case for the cash transfer program, for example). Egyptians also express resentment that much of the aid funds, at least for projects, go to U.S. organizations and companies, specifically to pay generous salaries for the U.S. contractors who implement most USAID projects, rather than to Egyptian citizens directly. Many complain that these contractors are unimpressive and poorly-informed about Egypt.⁸¹

The United States has contributed to the image problems of the economic aid program and the stigma that surrounds it. U.S. officials sometimes cite past USAID achievements—such as installing Cairo’s telephone lines and sewage system—that occurred decades ago and are not known or relevant to most Egyptians, who are under the age of 25. Despite the Obama administration’s frequent pledges of “support for the Egyptian people,” nearly six years after Mubarak’s ouster the United States failed to deliver promised significant aid.⁸² The United States on the whole does not publicize effectively the valuable initiatives it does have to help Egyptians more directly, nor has it pushed back effectively against misinformation in the Egyptian media.

V. THE WAY FORWARD

Moving forward, the U.S. government should take steps to focus the economic aid program on initiatives that: respond to Egyptian citizens’ needs in employment, education, and welfare in practical, direct ways; do not fund the Egyptian government or seek to reform its policies unless there is demonstrable political will for significant change, which currently does not exist; and are straightforward enough to be feasible in the current, difficult environment in Egypt. This would involve making changes in what the assistance program does, and how it operates. These changes will require tradeoffs, including possible adjustments to staffing and the phasing out of some longstanding activities. Some of these changes may be opposed by the Egyptian government. But the need to align the aid program more squarely with the human development needs of Egyptian citizens, and away from backing a particular ruling regime, should override this concern.

To reform the assistance program to align it more effectively with U.S. goals and interests in Egypt, the United States should make the following changes.

First, the United States should narrow the program from the current eight priority areas to concentrate on two or three initiatives that reach non-elite Egyptians and help to address their human development and welfare needs (such as employment, education, and health). This would mean directing new funds to these initiatives only. It also could involve ending some ongoing projects and redirecting their funding to these flagship projects. Reviewing and making some changes to the current portfolio would be a complicated bureaucratic process and involve some

80 Abdel Fattah Abdel Moneim, “U.S. Aid and Obama’s Conditions for Undermining Egypt,” *Youm 7*, August 28, 2014 (Arabic), <http://bit.ly/2eUU5ZD>

81 See the well-researched summary of different criticisms of U.S. economic aid from various Egyptian stakeholders, “Whither American Aid to Egypt?,” prepared by the Price Alwaleed Bin Talal Bin Abdelaziz Alsaud Center for American Studies, the American University in Cairo, September 23, 2012.

82 Secretary of State John Kerry, “The United States will support the political and economic and social aspirations of the Egyptian people as well as their universal human rights,” remarks in Cairo, Egypt, June 22, 2014. <http://www.state.gov/secretary/remarks/2014/06/228234.htm>

political sensitivities, especially since every project has a constituency in the U.S. government (and in some cases, in the Egyptian government). But it may be necessary to reorient the aid program in the ways needed. To be sure, carrying out fewer projects would mean not working on many important and worthy issues, but a more targeted program is more likely to make an impact, especially with the current \$150 million in annual funding. One candidate would be to expand the Enterprise Fund, currently capped at \$300 million of ESF, whose objective is to invest in and provide technical assistance to new businesses with a development or social benefit, to help them grow and create jobs. Another compelling idea would be to increase the number of merit-based scholarships for Egyptian students to study in the United States and in Egypt, where the cost of public and private higher education is growing rapidly, beyond the reach of many young people.⁸³ The United States also could either expand USAID's current polio immunization program or provide funding or technical assistance support for one of the social welfare funds, Takaful and Karama, that the World Bank has helped to set up to provide cash support to some of Egypt's neediest citizens who are likely to suffer the most from the government's anticipated austerity measures. The Enterprise Fund, scholarships, and immunizations are existing projects that could be expanded with more funding, and support for the social welfare funds would be a new activity.

Two notable advantages of the Enterprise Fund and scholarships are that they showcase U.S. excellence in entrepreneurship, business, and higher education, and they operate as independent, citizen-facing activities, separate from the government (although the Egyptian authorities certainly can interfere with them in various ways). In this regard, it is worth considering whether a large component of the current scholarship program that provides higher education funding for selected civil servants and is managed directly by the Ministry of Higher Education should continue, or whether this funding would be better used to benefit students who are not part of the state bureaucracy. On the one hand, helping to build the skills and competence of senior civil servants can be valuable for the functioning of the state bureaucracy. On the other hand, if not carefully overseen, such a program could become a source of government-controlled patronage for certain state employees and reinforce the role of the bureaucracy, which would conflict with U.S. policy goals. Health and social welfare projects would need to be carried out with government ministries, but in and of itself this should not be prohibitive—such programs require state institutions to reach large numbers of citizens. The United States must ensure that the funding goes toward services for the intended beneficiaries, Egyptian citizens, not for government salaries or computers, is transparent and accountable, and is not aimed toward engineering reforms or other complicated changes. It is also crucial that such assistance does not inadvertently fund or otherwise strengthen the military's role in delivering health, education, and other social services, which reportedly is expanding.⁸⁴

Some may point out that such projects are not designed to address the underlying causes for development challenges—the distortions in the economy that prevent the creation of enough jobs for young people, inadequate public health care, insufficient social safety nets for the poorest citizens, or a higher education system that is unaffordable for many, and does not provide sufficient quality education. It is true that the proposed assistance does not focus on systemic change, but instead is humanitarian or palliative and is focused on immediate needs, not on deeper structural problems that give rise to those needs. If successful, the aid would help deliver jobs, education,

83 On the problem of increasing fees for undergraduate and graduate study, including in the nominally free public university system, see inter alia Sarah Lynch, "Calculating the Cost of a 'Free' Education," *Al Fanar*, February 1, 2015, <http://www.al-fanarmedia.org/2015/02/calculating-cost-free-education/>, and Mai Shams el-Din, "The Price of Master's and Doctoral Degrees Jumps in Egypt," *Al Fanar*, September 8, 2016, <http://www.al-fanarmedia.org/2015/02/calculating-cost-free-education/>.

84 George Mikhail, "Egyptians Ponder: How Much Military Control is Too Much?" *Al-Monitor*, September 22, 2016, <http://www.al-monitor.com/pulse/originals/2016/09/egypt-ponder-military-control-minister-supply.html>.

health care, and welfare to a relatively small number of citizens. But in light of the difficult donor environment in Egypt, limitations on U.S. resources, and the failure of past efforts to make a transformative impact on many systemic problems because of a lack of interest on the Egyptian side for major change, it is most important to be realistic, rather than ambitious. Under the present circumstances, the United States should concentrate on what is feasible to accomplish in Egypt, and this requires keeping things as simple and direct as possible.

Another useful innovation would be to involve Egyptian experts in a new effort to monitor and evaluate U.S. assistance. USAID carries out extensive monitoring and evaluation of its projects, and often Egyptians are part of the evaluation teams. But the findings are barely noticed in Egypt, and the fact that monitoring and evaluation is seen to have an American, rather than an Egyptian, face has contributed to resentment about U.S. aid. Giving Egyptian experts the leading role in evaluating the flagship projects would help to expand the constituency for the assistance program in Egypt, would produce valuable insights and recommendations about impact and how to improve projects, and would help to expand the cadre of Egyptian development experts. In addition, Egyptian-led evaluations also could improve the process by which U.S. officials determine priorities and associated funding needs. This may help the United States develop funding requests to Congress that are based more closely on actual needs rather than a symbolic amount of funding that typically signals U.S. pleasure or displeasure with the Egyptian government, and creates too many situations in which USAID is trying to fit projects into the available funding in order to spend the money.

Just as important is what the assistance program should *not* do. The United States must not use any funds for a new cash transfer program, a loan guarantee, or other forms of budget support for the government. In the past, using aid funds for such purposes often has been the path of least resistance. As noted, many Egyptian officials have long preferred budget support, especially cash transfers whose funds go to the state budget, under their control. American officials also sometimes prefer cash transfers, in large part because this is what Egypt's leaders want. Now, U.S. officials may be attracted to this choice once again, out of a desire to avoid the headaches sometimes associated with carrying out projects, to help Egypt overcome its current economic crisis, and to inject a note of goodwill into often-strained relations with Egypt's leadership. Recently, some in Egypt have proposed that most or even all of economic assistance, including funds tied up in pipeline projects, go toward a cash transfer. They argue that this would show U.S. backing for the Egyptian government as it pursues an expected IMF-financed economic reform program.

This would be exactly the wrong thing for the U.S. government to do. The United States already is supporting the IMF loan by virtue of the fact that it is the largest shareholder in the Fund and has lobbied extensively on Egypt's behalf for the financing, which would be the largest IMF loan ever in the Middle East. Any budget support provided by U.S. bilateral economic aid would be modest and symbolic compared to overall IMF package; it is not going to make or break Egypt's budget. In addition, such budget support is highly likely to disappear into the black hole of the corrupt Egyptian state, with no direct benefit to Egypt's citizens. As discussed earlier, the U.S. track record on using cash transfers as leverage for meaningful, sustainable economic reforms is not impressive, because the strategic rationale for providing funds with few strings attached often trumps a tougher approach. And this government's commitment to reform is highly uncertain. Its own poor policy decisions and self-inflicted economic wounds, all revolving around a preference for statist policies and cronyism, have helped to create the current economic crisis. Egypt may follow through with the major economic reforms required by the IMF. Or it may not, as the military-backed leadership's interest in pursuing the kind of changes that would open up the economy to competition and scale back patronage appears weak at present, and previous Egyptian governments have not completed IMF-sanctioned reform programs.

One could make the case that U.S. efforts to help Egypt obtain IMF financing are necessary because otherwise Egypt would face a balance of payments crisis that could threaten the country's stability. But it would be entirely ill-advised to go beyond this to give additional, symbolic aid to a government that is harshly repressing its own people on an unprecedented scale, holds American citizens in prison on trumped-up charges, obstructs development projects, and attacks U.S. assistance in the media.

The United States also should stop doing democracy assistance projects through the bilateral aid program. The reason is not to appease the Egyptian government, but to avoid wasting resources. With the Egyptian government staunchly opposed to democratic change and to meaningful democracy promotion work by donors, the only activities that are possible for USAID to carry out are technical assistance and training for authoritarian state institutions or "civil society" projects with quasi-governmental, toothless organizations. The current projects do not involve any democrats, because the Egyptian authorities do not tolerate genuine advocates of democracy, especially in state or state-linked institutions. These are precisely the kinds of projects on which the United States spent tens of millions of dollars starting in the mid-1990s. According to USAID's own evaluations, the results were dismal, primarily because of opposition from the immediate project counterparts or from deeper inside the Egyptian regime. Although some current USAID projects target the same institutions as in the past, the situation today is even more closed and authoritarian rule is even harsher than in past years, making the prospects for any positive results even dimmer.

Some U.S. officials have argued that in closed environments such as Egypt's, such apolitical, technical projects are good investments because they are nonthreatening and eventually can lead to openings for change. But such a result is not common, and there is simply no evidence to suggest that these projects will be catalysts for democratic change in Egypt. The citizen-based, bottom-up demands for democracy and human rights that fueled the 2011 uprising did not originate in such institutions. The real reasons for funding these projects are different. The main purpose is to demonstrate to constituencies in Washington, such as Congress (which usually mandates that a portion of Egypt assistance be spent on democracy assistance), that democracy and human rights in Egypt is important to the United States, and sometimes, simply to find ways to spend funds. But these toothless projects do not constitute U.S. support for democracy and human rights in Egypt. Rather, they make a mockery of it. Such projects involve significant time and effort but grant certain state institutions democratic legitimacy they do not deserve, give the Egyptian regime democratizing credentials before the donor community and its own public, and in some cases, provide resources that are captured by authoritarian actors, the last thing the United States should be doing under the guise of "democracy promotion." It is better not to continue the farce, and until conditions change, to use the funds instead for meaningful activities, such as scholarships, immunizations, or the Enterprise Fund.

When USAID briefly did support meaningful democracy activities that addressed real issues of power, democratic change, civic values, and political organizing, such as in the immediate period after the 2011 uprising, the Egyptian authorities found such projects deeply offensive and threatening. They pushed back hard, unleashing media attacks, interrogating project staff, putting them on trial, and closing down offices. The U.S. government failed to respond in any effective way, backed off on all such projects, and abandoned its Egyptian and U.S. grantees. Moreover, more than three years later, the United States has not even managed to convince President Al Sisi that vacating the outrageous criminal sentences handed down to U.S. and other nationals is a prerequisite for better relations. Sadly, because the United States fears (incorrectly) that pushing too hard on such issues may lead Egypt to retaliate by withholding security cooperation or taking other punitive actions, there is little hope for a stronger response if a similar situation occurs in the future. Regrettably, any genuine democracy funding through the bilateral aid program simply puts

grantees at risk because U.S. diplomacy will not stand up for them when needed most.

This call to cease democracy assistance does not mean that the United States should stop promoting democratic change and pushing for the protection of human rights, which are crucial to Egypt's long-term stability and part of American values. But it should do so in different ways. U.S. officials, in the executive branch and in Congress, should intensify diplomatic efforts, speaking out more often and more forcefully in public, pressing Egyptian authorities in private, meeting with brave democracy and human rights advocates, and joining with our democratic allies in multilateral efforts whenever possible. The United States should also fund democracy projects through other funding channels outside the bilateral aid program, such as private foundations or funding from the State Department's Bureau of Democracy, Human Rights, and Labor, which funds low-profile projects to support democracy activists in closed societies. The kind of democracy assistance that is most needed for Egypt right now is support for genuine, independent, pro-democracy actors such as human rights defenders. This is best pursued through quiet, modest projects that have an arms' length from the USAID Mission in Cairo, are small-scale and flexible, and do not require oversight from the Egyptian government.

The United States also should make two significant changes in how the bilateral assistance program operates. First, it should provide more information, in Arabic, about U.S. assistance to the Egyptian public, through a more robust public communications presence in the country using traditional and social media. This should include direct, straightforward descriptions of the goals and accomplishments of the assistance programs as well as honest acknowledgments of the constraints that it faces that have prevented certain projects from moving forward. Such communications efforts are not going to transform the longstanding skepticism among the Egyptian public about U.S. assistance or negative views of the United States in general. And, in an environment rife with anti-Americanism, pursuing a more pro-active approach will be challenging. But these efforts may resonate among those Egyptians who are receptive to hearing about aid that addresses the needs of ordinary Egyptian citizens. And they could strengthen U.S. credibility by showing that the United States believes in how it is using its taxpayer dollars and by standing up to falsehoods propagated in the Egyptian media.

Second, the United States should give serious consideration to updating the 1978 Assistance Agreement. Such an undertaking may be more than the diplomatic traffic can bear at present, as statist, nationalist currents in the Egyptian government may refuse to renegotiate more flexible terms for the United States. And there are provisions in the agreement, such as relief from customs fees and other taxes, that are important for the operation of the USAID Mission and U.S. assistance projects in Egypt and that the United States may not want to put in jeopardy. But in most ways the agreement is badly outdated. Its government-to-government nature is from another era in U.S.-Egypt relations, and a long-ago world of how the United States used to provide foreign assistance. The agreement has not been modified over the years despite dramatic and relevant changes to the U.S.-Egypt aid relationship. And as much as the assistance relationship is viewed differently by the two countries, so is the agreement. Egypt's insistence on a strict interpretation on the parts of the document pertaining to its role in approving all assistance has become an obstacle to the flexibility and creativity the United States needs to provide worthwhile aid in a place like Egypt, where the government is the right partner for some initiatives, but not for all, and citizens, not just the state, have valid ideas about how to develop and improve their country.

The United States does have grounds to begin discussions about modernizing this nearly 40-year-old document. The Egyptian government repeatedly has accused the United States of not abiding by Article 1 of the agreement, which states that "shall be made available in accordance with arrangements agreed upon between [the two governments]," perhaps most notably with the \$165

million in transition funding that the Obama administration provided to Egyptian and American NGOs in 2011. But the Egyptian government itself has on occasion ignored or failed to uphold other parts of the agreement. For example, Article 2 commits the Egyptian government to cooperate fully on the implementation of the aid program, including by providing “full and complete information” regarding the aid programs and other relevant information to the U.S. government as needed and also by publicizing the aid appropriately to the Egyptian public. It is clear that the Egyptian government has fallen short of these commitments. In addition, Article 1 of the agreement states clearly that “the furnishing of such assistance shall be subject to applicable United States laws and regulations,” but the Egyptian government has fiercely resisted following some U.S. laws governing aid (which of course have changed over time) – most obviously the Brownback Amendment, but also legislation requiring certain conditions and reporting before Congress will release the aid. The agreement also does not explain exactly what should happen when Congress appropriates funds but the required “arrangements agreed upon between the [two governments]” are not agreed upon easily, or within the time limit required under U.S. law – a problem that has occurred frequently, especially in the past decade. Overall, the general spirit of government-to-government cooperation and partnership conveyed in and implied by several parts of the agreement simply does not exist in the relationship today.

Ideally, the United States would negotiate a new assistance agreement that would give it the flexibility to carry out some projects with and under the auspices of the Egyptian government, while implementing others with non-governmental partners, depending on what is most likely to achieve good results for Egyptian citizens. If this is impossible because the Egyptian government continues to demand that it alone can agree to and supervise assistance projects, the United States should not be afraid to take other steps to move away from a strictly government-to-government aid program. One way to do this may be for Congress to craft new legislative language that directs the majority of new funding for projects to be carried out with non-governmental entities, and a smaller portion for projects with the Egyptian government. Congress should make the latter funding contingent upon the Egyptian government ceasing media attacks and security agencies’ harassment of project staff.

VI. CONCLUSION

As this paper has explained, U.S. economic assistance to Egypt is extraordinarily complicated, both bureaucratically and politically. It has a long and often difficult legacy and is not widely appreciated in Egypt. Events in recent years have sharpened the debate in the United States about whether it is worth continuing. The paper has argued that the United States should continue the assistance if it can make significant changes to make the program more valuable for ordinary Egyptians, to show U.S. support for Egypt’s citizens rather than only for its rulers, and to promote a successful, stable country in the long-term. The United States should make every effort to improve the aid program along these lines. But the Egyptian government may resist these changes, and if they prove impossible, it will be time to bring the aid program to an end. The aid is provided by U.S. taxpayers, to advance U.S. interests. But ultimately, the United States cannot want the aid more than Egypt does.

TABLE 1: U.S. BILATERAL ECONOMIC AND MILITARY/SECURITY AID TO EGYPT, 1974-2017*

Year	Economic	Military and Security
1974	\$21,300,000	\$0
1975	\$370,100,000	\$0
1976	\$1,016,800,000	\$0
1977	\$907,800,000	\$0
1978	\$942,900,000	\$200,000
1979	\$1,088,100,000	\$1,500,400,000
1980	\$1,166,400,000	\$800,000
1981	\$1,130,400,000	\$550,800,000
1982	\$1,064,900,000	\$902,400,000
1983	\$1,005,100,000	\$1,326,900,000
1984	\$1,104,100,000	\$1,366,700,000
1985	\$1,292,100,000	\$1,176,700,000
1986	\$1,293,300,000	\$1,245,800,000
1987	\$1,015,300,000	\$1,301,800,000
1988	\$873,400,000	\$1,301,500,000
1989	\$966,700,000	\$1,301,500,000
1990	\$1,101,400,000	\$1,296,000,000
1991	\$998,300,000	\$1,301,900,000
1992	\$933,300,000	\$1,301,800,000
1993	\$751,100,000	\$1,301,800,000
1994	\$602,800,000	\$1,300,800,000
1995	\$1,113,300,000	\$1,301,000,000
1996	\$815,600,000	\$1,301,000,000
1997	\$815,000,000	\$1,301,000,000
1998	\$815,000,000	\$1,301,000,000
1999	\$775,000,000	\$1,301,000,000
2000	\$727,300,000	\$1,301,000,000
2001	\$695,000,000	\$1,301,000,000
2002	\$655,000,000	\$1,301,000,000
2003	\$911,000,000	\$1,301,200,000
2004	\$571,600,000	\$1,293,700,000
2005	\$530,700,000	\$1,290,800,000
2006	\$490,000,000	\$1,288,200,000
2007	\$450,000,000	\$1,301,300,000
2008	\$411,600,000	\$1,290,600,000
2009	\$250,000,000	\$1,301,300,000
2010	\$250,000,000	\$1,301,900,000
2011	\$249,500,000	\$1,298,800,000
2012	\$250,000,000	\$1,301,400,000
2013	\$241,000,000	\$1,236,000,000
2014	\$200,000,000	\$1,300,000,000
2015	\$150,000,000	\$1,306,300,000
2016 [estimate]	\$150,000,000	\$1,306,300,000
2017 [request]	\$150,000,000	\$1,303,800,000

*All of these figures are derived from "Egypt: Background and U.S. Relations," Jeremy Sharp, Congressional Research Service, October 6, 2016.

APPENDIX A

ARAB REPUBLIC OF EGYPT
ECONOMIC, TECHNICAL, AND RELATED
ASSISTANCE AGREEMENT

The Government of the United States of America and the Government of the Arab Republic of Egypt have agreed as follows:

1. The Government of the United States of America will furnish such economic, technical, and related assistance hereunder as may be requested by representatives of the appropriate agency or agencies of the Government of the Arab Republic of Egypt and approved by representatives of the agency designated by the Government of the United States of America to administer its responsibilities hereunder, or as may be requested and approved by other representatives designated by the Government of the United States of America and the Government of the Arab Republic of Egypt. The furnishing of such assistance shall be subject to applicable United States laws and regulations. It shall be made available in accordance with arrangements agreed upon between the above-mentioned representatives.
2. The Government of the Arab Republic of Egypt will make the full contribution permitted by its manpower, resources, facilities, and general economic condition in furtherance of the purposes for which assistance is made available hereunder; will take appropriate steps to assure the effective use of such assistance; will cooperate with the Government of the United States of America to assure that

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procurement will be at reasonable prices and on reasonable terms; will, without restriction, permit continuous observation and review by United States representatives of programs and operations hereunder, and records pertaining thereto; will provide the Government of the United States of America with full and complete information concerning such programs and operations and other relevant information which the Government of the United States of America may need to determine the nature and scope of operations and to evaluate the effectiveness of the assistance furnished or contemplated; and will give to the people of the Arab Republic of Egypt full publicity concerning programs and operations hereunder.

With respect to cooperative technical and economic assistance programs hereunder, the Government of the Arab Republic of Egypt will provide sufficient support as to ensure the attainment of agreed program goals; will, to the maximum extent possible, seek full coordination and integration of technical and economic cooperation programs being carried on in the Arab Republic of Egypt and will cooperate with other nations participating in such programs in the mutual exchange of technical knowledge and skills.

3. In any case where commodities or services are furnished on a grant basis under arrangements which will result in the accrual of proceeds to the Government of the Arab Republic of Egypt from the import or sale of such commodities or services, the Government of the Arab Republic of Egypt, except as may otherwise be mutually agreed upon

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by the representatives referred to in paragraph 1 hereof, will establish in its own name a Special Account in the National Bank of Egypt; will deposit promptly in such Special Account the amount of local currency equivalent to such proceeds; and, upon notification from time to time by the Government of the United States of America of its local currency requirements for programs and operations hereunder, will make available to the Government of the United States of America, in the manner requested by that Government, out of any balances in the Special Account, such sums as are stated in such notification to be necessary for such requirements. The Government of the Arab Republic of Egypt may draw upon any remaining balances in the Special Account for such purposes beneficial to the Arab Republic of Egypt as may be agreed upon from time to time by representatives referred to in paragraph 1 hereof. Any unencumbered balances of funds which remain in the Special Account upon termination of assistance hereunder to the Government of the Arab Republic of Egypt shall be disposed of for such purposes as may be agreed upon by the representatives referred to in paragraph 1 hereof.

4. The Government of the United States of America and the Government of the Arab Republic of Egypt agree that a special mission will be received by the Government of the Arab Republic of Egypt to carry out and discharge the responsibilities of the Government of the United States of America under this agreement. The Government of the United States of America and the Government of the Arab Republic of Egypt further agree that the special mission will enjoy the same

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inviolability of premises as is extended to the diplomatic mission of the United States of America and that the Government of the Arab Republic of Egypt shall accord all United States Government employees who are United States citizens and their families in Egypt to perform work in connection herewith the same immunity as is accorded by the Government of the Arab Republic of Egypt to the Personnel of comparable rank of the Embassy of the United States of America in Egypt. These employees will be subject to the same obligations and responsibilities as apply to members of the Embassy of the United States of America.

5. In order to assure the maximum benefits to the people of the Arab Republic of Egypt from the assistance to be furnished hereunder:
 - (a) Any supplies, material or equipment introduced into or acquired in the Arab Republic of Egypt by the Government of the United States of America, or any American contractor financed by that Government for purposes of any program or project conducted hereunder, shall, while such supplies, material or equipment are used in connection with such a program or project, be exempt from any taxes on ownership or use of property and any other taxes in the Arab Republic of Egypt, and the import, export, purchase, use, or disposition of any such supplies, material or equipment in connection with such a program or project shall be exempt from any tariffs, customs duties, import and export

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taxes, taxes on purchase or disposition of property, and other taxes or similar charges in the Arab Republic of Egypt. No tax (whether in the nature of an income, profit, business, or other tax), duty, or fee of whatsoever nature shall be imposed upon any American contractor financed by the Government of the United States of America hereunder. For the purposes of this agreement the term "American contractor" shall include individuals who are citizens or legal residents of the United States of America, corporations or partnerships organized under the laws of the United States of America, foreign corporations a majority of whose total stock is owned by United States shareholders, and joint ventures or unincorporated associations consisting entirely of individuals, corporations or partnerships which fit any of the foregoing categories.

- (b) All United States citizen personnel (and their families), whether (i) employees of the Government of the United States of America or any agency thereof, (ii) individuals "under contract with, or employees of public or private organizations" under contract with the Government of the Arab Republic of Egypt, or any agency thereof, or (iii) individuals under contract with or financed by, or employees of public or private organizations under contract with or financed by, the Government of the United States of America, or any agency thereof, who are present in the Arab Republic of Egypt or perform work in connection with this

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agreement shall be exempt from income and social security taxes levied under the laws of the Arab Republic of Egypt and from taxes on the purchase, ownership, use or disposition of personal moveable property (including automobiles) intended for their own use. Such personnel (and their families) shall be exempt from customs, import, and export duties on all personal effects, equipment and supplies (including food, beverages and tobacco), imported into the Arab Republic of Egypt for their own use, and from all other duties and fees.

(c) Funds introduced into the Arab Republic of Egypt by the Government of the United States of America for purposes of furnishing assistance hereunder shall be convertible into currency of the Arab Republic of Egypt at the highest rate prevailing and declared for foreign currency by the competent authorities of the Arab Republic of Egypt.

6. The Government of the United States of America and the Government of the Arab Republic of Egypt will establish procedures whereby the Government of the Arab Republic of Egypt will so deposit, segregate, or assure title to all funds allocated to or derived from any program of assistance undertaken hereunder by the Government of the United States of America as to assure that such funds shall not be subject to garnishment, attachment, seizure, or other legal process by any

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person, firm, agency, corporation, organization, or government when the Government of the Arab Republic of Egypt is advised by the Government of the United States of America that such legal process would interfere with the attainment of the objectives of the program of the program of assistance hereunder.

7. All or any part of any program of assistance provided hereunder may, except as may otherwise be provided in arrangements agreed upon pursuant to paragraph 1 hereof, be terminated by either Government if that Government determines that because of changed conditions the continuation of such assistance is unnecessary or undesirable. The termination of such assistance under this provision may include the termination of deliveries of any commodities hereunder not yet delivered.
8. This Agreement may be modified by mutual agreement in writing of the parties hereto.
9. This Agreement shall enter into force upon signature and any necessary ratification.
10. This Agreement shall remain in force until thirty days after the receipt by either Government of written notification of the intention of the other to terminate it. Notwithstanding any such termination, however, the provisions hereof shall remain in full force and effect with respect to assistance theretofore furnished.

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11. The Point IV General Agreement for Technical Cooperation between the parties signed at Cairo on May 5, 1951 and the agreements effected by exchanges of notes between the parties hereto, dated February 21 and 25, 1952, February 23 and 24, 1954, and November 6, 1954 are hereby terminated with respect to their application in the Arab Republic of Egypt.

IN WITNESS WHEREOF, the respective representatives, duly authorized for the purpose, have signed the present agreement at Cairo, Egypt in duplicate on the 16th day of August, 1978:

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

By Hermann Fr. Eilte

Title American Ambassador

Date August 16, 1978

FOR THE GOVERNMENT OF THE
ARAB REPUBLIC OF EGYPT

Muhammad Ibrahim Kamel I

Title Foreign Minister

Date August 16, 1978

ABOUT THE AUTHOR

Amy Hawthorne is POMED's Deputy Director for Research. She is a Middle East specialist with extensive policy, research, and program experience on Arab politics and a long focus on Egypt. Prior to joining POMED in October 2015, Hawthorne served as Resident Senior Fellow with the Atlantic Council's Rafik Hariri Center for the Middle East, where she focused on U.S. policy toward Egypt and on U.S. and European strategies to support political and economic reform in Tunisia. Before joining the Atlantic Council in April 2013, Hawthorne was an appointee at the U.S. Department of State for two years, where she helped to coordinate U.S. support for Egypt's transition and advised on the U.S. response to the Arab Spring. Ms. Hawthorne previously served as founding executive director of the Hollings Center for International Dialogue, a nongovernmental organization operating in Washington and Istanbul that promotes mutual understanding between the United States and predominantly Muslim countries. She was also an Associate at the Carnegie Endowment for International Peace, where she was the founding editor of the Arab Reform Bulletin (now Sada). At the International Foundation for Electoral Systems, Hawthorne was Senior Program Officer for the Middle East, managing democracy programs across the Arab world.

Ms. Hawthorne graduated with honors in history from Yale University, with a focus on the Middle East, and obtained her MA in modern Middle Eastern studies at the University of Michigan, where she concentrated on Islamic law. She has advanced skills in Arabic and has lived and traveled extensively throughout the Arab world (especially Egypt) as well as in Turkey.

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