**Whither American Economic Aid to Egypt?**

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Introduction

            Economic aid to Egypt remains a central factor in the Egypt-United States relationship.  The funds allocated to Egypt continue to play a conspicuous role in this relationship despite large increases in bilateral trade between the two nations and the diminution of economic aid levels.  American economic aid to Egypt derives its salience both from the policy impact of sponsored programs and from the history and high-profile nature of the program.

            First, economic aid formed a central tenant in the Obama administration's reaction to the Egyptian revolution.  Shortly after Mubarak's resignation in February 2011, the Obama administration channeled $65 million to supporting political transition in Egypt, in addition to $100 million for support to the Egyptian economy.  These funds were reprogrammed from aid that had already been appropriated by the U.S. Congress.  It was these reprogrammed funds that US Ambassador to Egypt Anne Patterson referred to in June 2011 when she testified in front of the U.S. Senate Committee on Foreign Relations  about funding Egyptian civil society organizations.  This funding sparking a heated disagreement between the Egyptian and American governments in February 2012.  Clearly, American economic aid had a highly consequential role in the period after February 2011.

            Second, economic aid retains its importance due to its prominent history and symbolic character.  Economic aid is closely associated with the 1979 Camp David Accords, Sadat's infitah economic reform policies, and with privatization, cronyism, and the rhetoric of decentralization under Mubarak.  For decades, USAID programs have been a target of criticism from regime dissidents, and economic aid remains a deeply politicized issue in Egyptian public life.  In the 1990s, dissidents in the People's Assembly like Ayman Nour and El-Badry Farghaly regularly thundered against USAID programs.**[[1]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn1)**

            More than eighty percent of the Egyptian people oppose U.S. economic aid to Egypt, according to a February 2012 Gallup poll.**[[2]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn2)**  This number was 30 percentage points higher than in April 2011, when opposition stood at 52 percent.  This opposition takes on increased significance after the Egyptian presidential elections in summer 2012 and transfer of power to a civilian president.  Across the Arab world, publics are demanding to be heard and their opinions will have increased weight in political calculations as democratic institutions develop.

            Despite economic aid’s centrality to the Egyptian-American relationship and its salience in the Egyptian public debate, discussions of Egyptian opposition to the aid are rarely precise.  Economic aid is often conflated with military aid, which in 2011 totaled over a billion dollars more than economic aid.**[[3]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn3)**  The extent to which opposition to one of these programs is connected to opposition to the other remains unclear.  Also, Egyptian opposition to ESF is variously attributed to anti-Americanism, or to opposition to the 1979 Accords, or to Third-worldism, without a clear vision of these arguments and who is making them in Egyptian society.

            Finally, important decisions about ESF are necessarily made by a limited number of policymakers who are not acquainted with a diversity of views regarding USAID.  The future of American aid to Egypt will be determined by high-level American and Egyptian delegations of economists and politicians.  In late August 2012, U.S. Undersecretary of State Robert Hormats arrived in Cairo with a delegation of officials from the White House, U.S. Department of the Treasury, and Overseas Private Investment Corporation to discuss the future of American aid to Egypt.**[[4]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn4)**  Undersecretary Hormats' delegation met with Egyptian officials from the ministries of finance, foreign affairs, and planning and international cooperation.   Earlier, in April 2011, an Egyptian delegation headed by Minister of International Cooperation Fayza Abul Naga visited Washington to push for alleviation of the $3.3 billion debt owed by Cairo to the United States - a measure that would undoubtedly have great impact on USAID programs in Egypt.

            This report seeks to address these shortcomings in the public discussion of ESF by presenting the perspectives of Egyptian stakeholders - not only those represented in inter-governmental negotiations.  Additionally, attitudes regarding ESF reveals much about the distribution of attitudes and power relations within post-February 2011 Egyptian society with regards to a range of questions about state-society relations and foreign policy issues.  ESF can be a prism from which to view numerous angles of the Egypt-United States relationship, and is related to a number of the most important debates within modern Egyptian society including: How should the Egyptian government organize its relationship with civil society?  Should the Egyptian economy rely on private- or public-sector led development?  Finally, what role should the 1979 Camp David Accords play in the future Egyptian-American economic relationship?

Methods

            This study examines the views of Egyptian stakeholders, including members of the Egyptian government, major political parties, and NGOs regarding the recent history of ESF and its future role in the Egypt-US relationship.  For the purposes of this study, stakeholders are defined as actors affected politically or financially by the continuation or cessation of ESF to Egypt.

            This study examines a variety of Egyptian views surrounding the United States ESF program to Egypt as a means of clarifying tensions and competing constituencies within Egyptian society over a number of salient issues within the modern Egyptian state, including the role of foreign funding in Egyptian civil society, the desired extent of state control over Egyptian civil society, and foreign policy in the post-January 2011 era.  In this analysis, attitudes toward ESF will play the role of a dependent variable, in the sense that these views are formed by orientations to the questions mentioned above.

            Attitudes of Egyptian stakeholders in Egyptian civil society (NGO workers), the Egyptian government, and political parties are examined through ethnographic interviews.  These interviews are supplemented by secondary sources, such as articles in newspapers and other media.  Primary and secondary sources from the period following February 2011 are prioritized.  Discussion of actors' views will focus on the post-February 2011 period and especially on the future Egypt-U.S. economic relationship.

Chapter 1: American Economic Aid and Conditionality

Background

          Since the earliest days of American economic aid to Egypt in the 1950s, the political dimensions of American aid provision have attracted criticism.  Aside from their comments on the merits of the projects selected for USAID funding, Egyptians often speak of conditions (or “terms”) attached to American aid.  These conditions refer to a number of aspects of the American aid, although what is usually referred when speaking of conditionality to is the association of American economic and military aid with the 1979 Camp David Peace accords.  However, there is one other major political aspect of ESF: the restrictions on USAID expenditures.  This set of restrictions includes the Cash Transfer Program, which provides Egypt with cash payments to incentivize the Egyptian government to undertake specified political reforms, and stipulations requiring the expenditure of ESF funding on goods produced in the United States.  While these dimensions are distinct, Egyptians refer to them all to provide evidence of the conditionality of American aid.

          The United States does not conceal the fact that aid to Egypt is provided to advance American political objectives.  The United States has three major foreign economic assistance programs: Development Assistance, the Food for Peace program, and the Economic Support Fund.  Development Assistance is given to relatively impoverished countries on the basis of the recipient country’s development needs.**[[5]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn5)**  Egypt received Development Assistance in the 1950s, but this funding mostly ended for Egypt in the mid-1960s, with the exception of small grants in 1989 and 1995.**[[6]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn6)**  The Food for Peace program provides low-interest loans to foreign governments to purchase American agricultural products (Title 1) and provides donations of American-produced food (Title 2). Egypt was the recipient of U.S.-produced products from both Title 1 and Title 2 Food for Peace programs.  These programs also began in the 1950s and continued until the early 1990s.**[[7]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn7)**  While these programs are not explicitly politically oriented, they are not designed without political restrictions.  For example, certain percentages of Food for Peace shipments are subject to the Cargo Preference which requires U.S.-flagged ships to be used for delivery, effectively subsidizing the U.S. Merchant Marine.**[[8]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn8)**

          However, the most manifestly political aid program is the Economic Support Fund (ESF).  According to the Foreign Assistance Act of 1961, as amended, “the intent of ESF is to provide economic assistance to certain countries important to U.S. security and political interests.”**[[9]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn9)**  This economic assistance is given “to support U.S. economic, political, and security goals.”**[[10]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn10)**  In other words, ESF is explicitly given to countries to achieve American political goals, in contrast to Development Assistance which is given on the basis of economic need.  Egypt does not receive loans or grants Food for Peace loans or grants, nor does it receive Development Assistance; since 1992 ESF has been the source of the vast majority of Egypt’s economic aid.

The Camp David Accords

          Egyptian-Israeli relations have been the driving force of American economic aid to Egypt since at least the 1970s.  In the 1950s, American offers of economic aid had been contingent on a peace agreement between Egypt and Israel.**[[11]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn11)**  In 1975, during the Egypt-Israeli Sinai II disengagement talks, the United States offered Egypt serious levels of economic aid for the first time.  The aid levels discussed for Egypt in the 1950s - in the region of $40 million - were no longer sufficient.  Americans thought a high level of aid was necessary to “demonstrate the U.S. commitment to broadening the base of the present Egyptian-Israeli peace agreement.”**[[12]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn12)**  The United States also wanted to support Sadat’s adoption of capitalist economic policies.  A capitalist Egypt would be an asset in the global rivalry with the Soviet Union.  For these two reasons, Henry Kissinger offered Egypt an annual economic aid package of $750 million at the March 1975 Sinai talks.**[[13]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn13)**  The American aid that resulted from the Sinai talks (given mostly in the form of loans) did not match these levels,**[[14]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn14)** yet Government Accountability Office (GAO) drew the conclusion that Egypt was not able to absorb even these pre-1979 levels of aid.  A 1977 GAO report diagnosed the reason why more money was given to Egypt than it could effectively allocate: “The U.S. level of assistance to Egypt is based on political considerations, not on Egypt’s economic capacity to accelerate its development process.”**[[15]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn15)**   The underlying logic of American aid had been established: American aid would incentivize an Egyptian-Israeli peace deal, whether in the opinion of USAID Egypt could use the money or not.

          The Camp David Accords were negotiated in 1979 between Egyptian President Sadat and Israeli Prime Minister Begin and signed in 1980.  The signing of the Accords caused a cutoff in funding from Arab states to Egypt, which totaled $7 billion between 1973 and 1977 from Saudi Arabia alone.  It was in response to the perceived need to compensate Egypt for the lost revenue incurred by the accords that ESF was created.**[[16]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn16)**

          The Economic Support Fund was created by Public Law 95-384 of September 26th 1978,**[[17]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn17)** nine days after the 1979 Camp David Accords were signed.**[[18]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn18)**  According to the Egyptian government, it was agreed during the Camp David negotiations in 1978 that the United States would provide aid at a ratio of 2 to 3 to Egypt and Israel, respectively.**[[19]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn19)**  PL 95-384 created the separate ESF in order to shield domestic criticism of the United States’ decision to provide a small number of countries very high levels of funding, thereby allowing President Carter to follow through on his promises to Presidents Sadat and Begin.**[[20]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn20)**  American aid to Egypt and Israel at this ratio was formally established in Public Law 96-35, known as the “Special International Security Assistance Act of 1979.”  PL 96-35 provided economic aid to Egypt “in order to promote the economic stability and development of that country and to support the peace process in the Middle East.”**[[21]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn21)**

          The United States annually provided Egypt with an average of $811 million in ESF grants between 1979 to 1998 (in 1998, Egypt and the United States mutually agreed to lower aid levels).**[[22]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn22)**   A 1985 GAO report found that the level of ESF funding was determined according to the political symbolism of large numerical ESF amounts provided to Egypt, rather than according to Egypt’s ability to absorb aid.  For example, in 1984, USAID requested $750 million in economic aid for Egypt for 1985.  However, Congress increased allocated ESF to $815 million, with proponents of an increase arguing that “any diminishment in U.S. aid would convey a negative signal that would adversely affect U.S. political objectives.”**[[23]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn23)**  As a result of these political considerations stemming from the 1979 Accords, ESF levels were kept high without regard to Egypt’s development needs or aid absorption capability.

Constraints on Aid Expenditures

          Other forms of conditionality were built into the way that ESF funding was distributed in Egypt.  Much of American ESF funding to Egypt is “tied” aid, meaning that much of ESF funding was required to be spent on American-made products.  Additionally, ESF appropriations included cash payments that were only released to the Egyptian government after it implemented U.S.-specified policy reforms.**[[24]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn24)**

          The 1979 Camp David Accords set the stage for massive American aid programs to Egypt and Israel.  However, the aid was given in very different ways.  Economic aid to Israel after the 1979 Accords was delivered directly through a cash transfer from the U.S. Treasury to the Bank of Israel, the Israeli central bank.**[[25]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn25)**  While ESF is legally required not to be spent for military purposes, Israel was free to spend economic aid as it saw fit for the development of its economy.  However, Congress placed a number of restrictions on the way ESF to Egypt would be spent.  According to the 1978 Bilateral Agreement between Egypt and the United States, ESF funding is distributed in Egypt through USAID on projects agreed upon by both the Egyptian and American governments.**[[26]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn26)**  With this ESF funding, USAID runs a number of programs in Egypt, including traditional project assistance in areas such as healthcare, education, and agriculture.

          Aside from project assistance, ESF funding has contributed to two programs that have significant conditionality components.  Through the Commodity Import Program and Sector Policy Reform/Development Support Program, Egypt was provided with funds denominated in US dollars that were converted into Egyptian currency through Egyptian purchases of American goods.  These programs financed large Egyptian purchases of American wheat, airplanes, and farming equipment.  However, the “tied” nature of the aid represents another aspect of the conditionality of American economic aid.  According to the United States Department of State, tied aid is defined as aid that is “conditional on procurement of goods and services from the donor-country or a limited group of designated countries.”**[[27]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn27)** The funds provided to the Egyptian government under the Commodity Import Program and Sector Policy Reform/Development Support Program fit this definition of tied aid.

          The most straightforward example of the tied nature of ESF funding was the Commodity Import Program (CIP), which was introduced in 1975 with the establishment of USAID in Egypt and ended in 2008.  From 1975 to 1991, the CIP funded Egyptian public sector imports of American-made products.  In 1986, a private sector CIP was established, for Egyptian companies to import American goods.  The CIP program had the result of generating large amounts of Egyptian currency for the Egyptian government.  The CIP worked by paying American firms to ship goods to Egypt when Egyptian companies ordered American products.**[[28]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn28)**  These products included coal, chemicals, and typewriting equipment.**[[29]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn29)**  Egyptian companies would pay for the goods to a local bank, which would in turn deposit the principal generated in Egyptian currency into a special “private account” at the Central Bank of Egypt (CBE).**[[30]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn30)** This program was intended to benefit the American private sector (by expanding demand for its products), the Egyptian banking sector (which would charge fees for administering loans), and the Egyptian government (which would end up with the Egyptian currency in a private account at the CBE).  Egyptian importers were especially targeted as beneficiaries of the program, since they were able to pay for American goods at a constant exchange rate, with long grace periods on the loans they received from Egyptian banks.**[[31]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn31)**  Finally, Egyptian companies were able to purchase American products without converting currency.  Between 1986 and 2008, the private sector CIP was annually allocated $200 million in ESF funding and arranged a total of $3.7 billion in loans to the Egyptian private sector.**[[32]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn32)**

          In addition to the CIP, starting in 1991 USAID ran a program that offered Egypt cash payments in exchange for reforming a number of public policies.  This program introduced another layer of conditionality into American aid.  In addition to providing tied aid,**[[33]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn33)** the Cash Transfer Program (CTP) required the Egyptian government to implement specific reforms to receive aid.**[[34]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn34)**  In May 1991, the IMF approved a $372 million loan to Egypt after three years of negotiations.  The loan required Egypt to deregulate its farming sector, remove price controls on oil and other commodities, and cut public spending.**[[35]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn35)**  In the same year, USAID started the CTP to incentivize the Egyptian government to privatize state-owned companies and implement other reforms in parallel with IMF-mandated reforms.

          The CTP was conditional in two ways: aid was conditional on the implementation of specified reforms, and once aid was released to the Egyptian government, it was required to be spent on American products. Egypt and the United States signed periodical Memoranda of Understanding, identifying specific U.S.-desired reforms.  These reforms were divided by sector (i.e. financial, trade, fiscal/monetary policy).  In 1992, 196 specific reforms were identified for the program.**[[36]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn36)**  When Egypt implemented one of these 196 reforms, USAID released funds for use by the Egyptian government.  Funds released were denominated in US dollars and placed in a bank account accessible to the Egyptian government.  The Egyptian government, in turn, could use up to 25% of these funds to make debt repayments to the United States, and the rest to purchase American-made commodities.  The Egyptian government, having received the American goods, would deposit the equivalent amount of Egyptian currency in a special bank account at the Central Bank of Egypt.  This account was the same “private account” into which Egyptian banks deposited the proceeds from the CIP. **[[37]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn37)**

          The CTP was associated with a number of reforms in Egypt.  The most salient of these reforms was the controversial privatizations of publicly-held Egyptian companies.  Between 1993 and 2002, the Egyptian government privatized 118 companies, receiving $169 million from USAID.**[[38]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn38)**  Some individual reforms brought Egypt large disbursements on their own.  For example, the CTP paid Egypt $150 million for passing an anti-money laundering law in 2002.**[[39]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn39)**

          Between the CIP and the CTP, billions of guineas were paid by Egyptian importers to Egyptian banks, who transferred these funds to a private account at the CBE.  This “special” or “private” account was the final repository of a majority of ESF funding.**[[40]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn40)**  Between 2002 and 2006, for example, ESF levels descended from $655 million to $490 million.**[[41]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn41)**  During the same period, the CIP and CTP were each funded at constant levels of $200 million.**[[42]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn42)**  These programs both contributed to the Egyptian government’s private account, and together representing 81.6% of ESF funding for 2006.  During this period, the great majority of ESF funding eventually made its way to the Egyptian government’s private account denominated in Egyptian pounds.

          The Egyptian Ministry of Foreign Affairs and USAID jointly determine how to spend the funds in the private account.**[[43]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn43)**  Private account funds are divided between closing the Egyptian government’s budget deficit, paying USAID operating expenses, making extra contributions to USAID projects, and other projects.**[[44]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn44)**  In effect, much of the ESF funding for the CTP and the CIP went to paying for Egyptian subsidies, Egyptian public sector salaries, and USAID worker salaries.**[[45]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn45)**  USAID finances much of its own overhead costs through the Egyptian government’s private account.  For example, in 2003, USAID’s total operating costs were $14.5 million.  80% of this budget was paid for with Egyptian currency generated from the CIP.**[[46]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn46)**  Another notable project on which funds from the private account were spent was the construction of a new campus for the American University in Cairo.  $34.2 million in total was spent on this project in 2003.**[[47]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn47)**  While the private account officially belongs to the Egyptian government, USAID has an important role in its allocation decisions.**[[48]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn48)**  As a result, American officials in Washington D.C. have had a say in how funds in the Egyptian government’s private account are spent.  For example, a U.S. House of Representatives Committee on Appropriations Report from 1999 recommends “the use of local currency generated by the Commodity Import Program to assist in the relocation of the American University in Cairo.”**[[49]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn49)**

          Due to the conditions placed on a substantial portion of ESF funding to Egypt, the aid either benefitted (in the case of the CIP) or continues to benefit the American economy.  American contractors were employed by USAID in both the public and private-sector stages of the CIP program and in the CTP, in addition to the widespread use of American contractors in USAID’s project assistance programs.  Additionally, the Egyptian government must spend CTP and CIP proceeds in the American economy in order to receive Egyptian currency in the private account.  In addition, Subsequently, USAID must assent as a condition to Egypt’s use of the private account.  These terms are significant forms of “conditionality” associated with USAID in addition to maintenance of the 1979 peace treaty with Israel.

Views of Stakeholders

GOE Officials

          Employees of Egyptian government ministries interviewed emphasized that Egypt has benefitted greatly from ESF funding, singling out the CTP as a particularly helpful program.  Government employees generally did not object to the association of American aid with the 1979 Peace Accords.  Employees also generally did not object to the requirement that the Egyptian government pursue market-based reforms prior to receiving aid.  Government employee criticism focused instead on USAID’s reliance on American contractors, and USAID’s disregard for development priorities and aid protocols developed by the Government of Egypt (GOE).

          The Cash Transfer Program attracted specific praise from GOE employees.  A Councilor at the Ministry of Foreign Affairs commented that Cash Transfers were very helpful for the budget support they provided.**[[50]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn50)**  A former employee at the Ministry of Finance who now works at the Ministry of Planning and International Cooperation said that the CTP was appreciated by the Egyptian government for two reasons.  First, the CTP provided a “roadmap” for the government for reforming fiscal policy, customs policy, the national tax code, and implementing performance-based budgets.  Second, the CTP allowed the Egyptian government to have “ownership” over the actual implementation of the policy reforms and spending of CTP proceeds in the private account, even though both of these actions were technically taken in cooperation with USAID.**[[51]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn51)**

          The former Ministry of Finance employee remarked that the Ministry prefers economic reform assistance from the United States over the European Union or World Bank.  This preference is because the CTP provides grants in exchange for reforms, while the World Bank provides only Economic Reform Loans.  Additionally, European Union donors fund only provide technical assistance to GOE ministries, without funding the necessary upgrades to ministry equipment.  Meanwhile, ESF-provided technical assistance would take what the employee called a “comprehensive approach” to technical assistance.  In addition to hiring consultants to provide advice and guidance to ministries, USAID purchased new equipment for workers to ensure that advice was implemented.  The former Ministry of Finance employee remarked that European donors would assume incorrectly that the GOE would purchase this equipment on its own.**[[52]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn52)**

          However, USAID’s involvement with GOE ministries elicited a number of complaints from employees regarding ESF’s conditionality.  The former employee at the Ministry of Finance objected that conditionality was used as a way for USAID to interfere with the internal dynamics of GOE ministries.  USAID would earmark funds from the GOE private account for technical assistance projects, which would go to purchasing ministry equipment and paying employee salaries.  However, these funds would only be released when employees favorable to USAID were involved.  For example, in the early 2000s USAID earmarked $17 million for a project to support customs reform at the Ministry of Finance.  No funds, however, were released until 2004, when a new Minister of Finance was instated.  The former Minister of Finance employee remarked that “suddenly” USAID released the funds without even coordinating with the Ministry of International Cooperation.**[[53]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn53)**  This arrangement created an environment in which Ministers and GOE employees prioritized maintaining positive relations with USAID in order to ensure the flow of funds necessary to fund employees salaries and purchase equipment.  Some GOE employees view USAID as possessing undue influence on GOE ministries due to arrangements such as these.  For example, according to the Assistant to the Minister of Planning and International Cooperation (MIC) for US economic cooperation, it is common for USAID to find preferred partners and work only with them within ministries.  The result, the MIC official said, was that USAID possessed a “deep state” of supporters in the Egyptian government, borrowing a term often used to refer to unelected officials in the Egyptian state that oppose democratizing reforms.**[[54]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn54)**

          A major concern for the Assistant to the Minister of Planning and International Cooperation (MIC) for US economic cooperation is that USAID’s reliance on American contractors have dampened the efficacy of its programs in Egypt.  The MIC official attributed the success of the Japan International Cooperation Agency’s projects to its willingness to rely on non-Japanese contractors.

          Finally, at no point during conversations did government employees express disapproval of the strong association between American economic aid and the 1979 Camp David Accords.  According to the MIC official, American ESF funding is “one of the fruits of Egypt being a pioneer in peace.”  The official emphasized that Egypt and the United States have significant shared interests in the post-revolution period, and regional issues such as the Egyptian-Israeli relationship would not jeopardize cooperation on these issues.

Political Parties

          A central criticism of American economic aid voiced by the Freedom and Justice party is that this aid is associated with the 1979 Camp David Accords.  The FJP supports continued military aid as well as a modified form of the current economic aid arrangement.  Indeed, the Freedom and Justice Party views the Camp David Accords as effectively obliging the United States to pay Egypt and Israel yearly economic and military aid.  However, the FJP believes that accepting aid from the United States incurs significant political costs for Egypt due to the conditional nature of the aid.  Regarding the current form of U.S. economic aid, the party believes that these political costs signal a lack of real partnership and mutual respect between the United States and Egypt.

          In contrast to the nature of U.S.-Mubarak government relations, which the FJP views as based on corruption and subordination, the chairman of the FJP's economic committee says that the FJP desires a partnership based on cooperation between the United States and Egypt.  The FJP views economic aid as less central to the Egypt-U.S. relationship than it was in the past.  This partnership, according to the FJP, will be aligned according to mutually agreed upon interests both within Egypt and regionally.**[[55]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn55)**

          According to the Free Egyptians party, aid levels in the past were incommensurate with the capabilities of local bureaucracies.  By Egyptian standards, USAID contracts were enormous and ill-audited.  Meanwhile, aid channels across the country could not accommodate the funding levels offered by USAID.  The Free Egyptians party alleges that USAID pressured the Egyptian government to spend money allocated despite an inability to plan effective thrifty programming.  As a result, ESF funds ended up wasted on graft and wasteful contracts.  In the party's view, this mismatch is partially to blame for the Mubarak government's manipulation of NGO registration.  In the Free Egyptians party's view, it was the excessiveness of aid levels that attracted the interest of politicians in controlling the distribution of aid.**[[56]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn56)**

          The fact that American economic aid is associated with the 1979 Camp David Accords bothers neither the Wafd Party nor the Free Egyptians party.  The parties believes that it is natural that donor countries would expect policy coordination in exchange for aid provision.  Any aid, in other words, comes with its terms.  The Wafd party believes that Egypt and the United States have mutual interests and they should be achieved.  After three wars in the region between 1947 and 1973, the Wafd party believes that the Palestinian issue can only be addressed once Egypt is stable.  For the Wafd party, this is why the Camp David Accords were signed in 1979.**[[57]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn57)**

          Farid Zahran, founding member of the ESDP, views American aid as primarily benefitting the United States rather than Egypt, and believes that Egyptians would not suffer from a cutoff in American economic aid.  In this respect economic aid is distinct from military aid, which the ESDP views as important for the maintenance of Egyptian national security.**[[58]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn58)**

          The ESDP opposes American economic aid for two reasons.  First, the ESDP believes that the aid itself perpetuates American supremacy over Egypt and the corruption and mismanagement endemic to USAID have the effect of exacerbating inequalities within Egyptian society.  Second, the ESDP views ESF as carrying conditions which serve American and Israeli regional goals that conflict with Egyptian interests.

          Regarding the first reason for opposition, as a socialist party the ESDP generally opposes the free flow of capital internationally.  Party leadership pointed out that Egyptian workers are not able to travel to work abroad due to visa restrictions on Egyptian citizens, and import tariffs in the United States and Western Europe prevent the export of Egyptian goods.  Under conditions where workers and goods do not flow freely, the ESDP asks, why should capital flows pass freely internationally?  Consequently, the ESDP opposes the IMF, USAID and other international institutions that, according to the ESDP, perpetuate the disparity of economic power between exporters of raw materials and producers of processed goods.  In this view, the global south produces and exports raw materials, and the global north produces processed goods from these materials.  The ESDP views USAID as one of these institutions due to its privatization support programs and cash transfer policy program.**[[59]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn59)**

          Furthermore, the ESDP objects to the USAID model of competitive bidding for contracts.  In ESDP's view, this process favors large, well established companies at the expense of smaller companies.  These contracts are often priced exorbitantly high for the Egyptian market in ESDP's view and as a consequence the companies that are able to win the contracts are disproportionately compensated, increasing these companies' competitive advantage and increasing national income inequality.

          The party is likewise skeptical about the final recipients of ESF.   In the ESDP's estimation, America supports organizations in a manner that prioritizes American regional interests over Egyptian interests.  Due to restrictions on supply sourcing, much of USAID money returns to the United States, and much is lost to corrupt Egyptian officials and businessmen.  What remains, in the ESDP's view, goes to benefit wealthy Egyptians who are schooled at the American University in Cairo.**[[60]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn60)**

          The second reason for the ESDP's opposition to ESF is what it sees as the connection between ESF and Israeli regional goals.  The ESDP views Egyptian acceptance of ESF as implying Egyptian acceptance of a set of conditions regarding Egyptian foreign policy.  Accepting these conditions, in the opinion of the ESDP, conflicts with Egyptian interests.**[[61]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn61)**

Chapter 2: The Future of American Economic Aid to Egypt

Views of Stakeholders

GOE Officials

            Officials in the Egyptian government differed regarding their desired level of annual ESF funding and the changes they envision to ESF distribution.  Regarding aid levels, GOE officials generally support continued ESF funding at current levels ($250 million) or higher.  However, most expressed their preference that this funding not include democracy and governance programming.   A senior official at the Ministry of Foreign Affairs supports higher ESF levels, with “a smaller role” for democracy promotion programming.  The MFA representative questioned how useful ESF is to Egypt now that yearly allotments have declined from over $1 billion in the 1980s to $250 million today.  The MFA emphasizes that the small size of economic aid is demonstrated by the fact that annual Egyptian debt payments to the United States are greater than the amount of ESF apportioned in 2012.**[[62]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn62)** The head of US economic cooperation at the Ministry of Planning and International Cooperation (MIC) indicated that the Egyptian government does not desire the elimination of ESF funding, because “the Egyptian government is keen on good relations with the US Government” and the program is therefore not threatened if it remains as is “in the short term.”**[[63]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn63)**  A former Minister of Finance employee now at the MIC said that continued ESF funding should be conditioned on the need for public sector reform.  In this view, cash transfers helped Egypt make important reforms to its banking sector.  These reforms, in turn, helped the country weather the global financial crisis and post-January 2011 economic turbulence.  For the former Ministry of Finance official, aid should be given only while ministries’ capabilities and regulations remain below international standards.**[[64]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn64)**

            Both MFA and MIC representatives suggested changes to the way ESF is currently administered in Egypt.  The MFA representative argued that the Egyptian government should play a central role in the distribution of ESF funds. The ministry indicated that the Egyptian government pays a "political price" for accepting American aid, and therefore should have a say in its expenditure.**[[65]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn65)**  Accordingly, MIC official emphasized that the Egyptian government’s priorities should guide the allocation of aid, according to its five-year development plans.  The MIC official indicated current USAID programming focused on improving Egyptian competitiveness as one example of a mismatch between USAID’s programming priorities and those of the GOE, which currently prioritizes short-term economic stabilization over long term competitiveness-focused programs.  One way the MIC official suggested that this could be achieved would be to direct all ESF funding toward a single highly visible project yearly.**[[66]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn66)**

            The MIC official suggested that ESF should be distributed more quickly, expressing frustration with what was perceived as the United States’ foot-dragging after the Egyptian

revolution.  Despite the US’ promises and meetings with numerous American aid negotiation delegations, the MIC representative stated that there had been no tangible result or commitment from the United States.  This contrasted with what the MIC viewed as China’s swift donations of police cars to the Egyptian Ministry of the Interior and laptop computers to the Ministry of Planning of International Cooperation.**[[67]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn67)**

            Regarding the debt swap proposal, the MFA official stated that the Egyptian government prefers debt relief to setting up a debt swap.**[[68]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn68)**  The MIC official prefers that projects resulting from a Debt Swap be limited to a small number of major projects.  The MIC also discounted the Obama administration’s $1 billion debt relief plan for Egypt.  The MIC was disappointed that the relief plan is allegedly financed by detractions from future ESF payments and from funds already in the ESF pipeline.  The MIC prefers debt relief resembling the plan offered to Egypt after the first Gulf war.

Political Parties

            Despite the Freedom and Justice Party's objections to the association of economic aid with the Camp David Accords, the FJP welcomes economic aid as long as that aid is spent on funding Egyptian infrastructure projects and technical assistance.  The FJP emphasized repeatedly that the development of Egypt's infrastructure was a priority for the party in shaping the future of the Egypt-U.S. economic relationship.  In addition to infrastructure projects, the FJP desires USAID research and development partnerships, worker training programs, student exchange programs, and transfers of industrial technology.  If economic aid is constrained to these types of programs, the FJP welcomes economic aid whatever level the United States sets.**[[69]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn69)**

            The Freedom and Justice Party objects to USAID employing what it considers to be underqualified, overpaid foreign technicians.  An FJP representative remarked that "so-called" foreign experts are often inexperienced and can spend years without making project contributions.  The representative took exception to an attitude among these contractors that US economic aid funds should ultimately return to the United States, recounting one particular individual who remarked "I'm an American taxpayer, shouldn't I get some back?"  In the future form of American economic aid to Egypt, the FJP desires a higher level of USAID contractor expertise.**[[70]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn70)**

            The FJP made clear that the Egypt-U.S. relationship it desires, based on "partnership and cooperation," will depend much more on trade and investment than on economic aid.  A free-trade agreement with the United States is a high priority for the party.

            The FJP hopes to use its debt payments for national development by setting up debt swap arrangements with "as many countries as possible."   In a future debt swap arrangement with the United States, the FJP hopes to redirect development funds to infrastructure projects and technical assistance.**[[71]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn71)**

            The Wafd party has a very positive view of ESF, but believes that American investment and trade with Egypt will be of more benefit than continued aid.  However, the party does not object conditionality placed on the aid welcomes American-sponsored democracy and governance programs.  While the party does not support direct funding of non-registered NGOS, the Wafd believes Egyptian political parties sorely need the training and capacity building that democracy and governance programs provide.**[[72]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn72)**

            The Free Egyptians party believes that the problems that plagued USAID in previous decades have subsided, and therefore aid levels should be preserved or increased.  In the Free Egyptians party's view, the main problem was that aid levels in the past were incommensurate with the capabilities of local bureaucracies.  USAID contracts were allegedly ill-audited and enormous by Egyptian standards.  Meanwhile, aid channels across the country could not accommodate the funding levels offered by USAID.  The Free Egyptians party alleges that USAID pressured the Egyptian government to spend money allocated despite an inability to plan effective thrifty programming.  As a result, ESF funds ended up wasted on graft and wasteful contracts.   In the party's view, this mismatch is partially to blame for the Mubarak government's manipulation of NGO registration.  In the Free Egyptians party's view, it was the excessiveness of aid levels that attracted the interest of politicians in controlling the distribution of aid. **[[73]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn73)**

            Today, the Free Egyptians party believes that aid channels have developed to be able to effectively distribute larger amounts of aid.  Now that capacity has been developed, the Free Egyptians party believes that aid should return at 1980s levels with a focus on concerns shared by both the Egyptian and U.S. governments, like renewable energy.

            The Free Egyptians party hopes to couple higher aid levels with a clearly defined focus for USAID programs.  The party hopes that developing institutions of sub-national governments at the governorate level would be one focus of future USAID programs, as this is a priority for the party. **[[74]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn74)**

            The al-Nour Party believes that “any funds entering Egypt are very helpful.”  The al-Nour Party is less concerned with conditions relating to human rights and minority treatment than the Reform and Development.   However, the al-Nour party urges the United States to relax provisions regarding the tied nature of ESF, for example requirements regarding shipping via the United States Merchant Marine.**[[75]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn75)**

            A number of other parties held the view that continued ESF to Egypt should be transformed if not eliminated.

            Abdullah Helmy of the Reform and Development Party encouraged the United States to focus exclusively on technical development projects rather than governance projects, estimating that “100,000 Egyptians care about elections, while 80 million Egyptians care about clean water.”  Helmy advocates eliminating conditionality language on the treatment of Egyptian minorities and funding that directly or indirectly benefits domestic political actors.  In the view of the Reform and Development Party, these measures have the paradoxical effect of “causing them to be viewed as American agents,” marginalizing the very groups they seek to empower.**[[76]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn76)**

            The al-Wasat party conditioned its acceptance of continued ESF to Egypt on a cessation of funding to NGOs at least until Egypt becomes a “stabilized democracy.”  As a result of the Egyptian revolution, the al-Wasat party sees “popular surveillance” of Egyptian government decisions as a highly positive development for governance in Egypt.  As a consequence, the al-Wasat party is more open to ESF because the type of corruption that the party views as endemic under Mubarak is no longer possible.  However, in the party’s view this aid must eschew “imposing liberal social ideas” by focusing on apolitical activities such as running medical workshops.**[[77]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn77)**

            Of all public figures interviewed, Farid Zahran of the Egyptian Social Democratic Party was the most adamantly opposed to continued American aid.  However, the ESDP believes that if USAID is to be kept, it should be changed.  ESDP believes that a reorganization of USAID leadership would lessen the association of USAID with corruption.  Furthermore, the ESDP objects to the USAID model of competitive bidding for contracts.  In ESDP's view, this process favors large, well established companies at the expense of smaller companies.  These contracts are often priced exorbitantly high for the Egyptian market in ESDP's view and as a consequence the companies that are able to win the contracts are disproportionately compensated, increasing these companies' competitive advantage and increasing national income inequality.**[[78]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn78)**

Non-Governmental Organizations

          Egyptian employees at Non-Governmental Organizations offered specific criticisms of USAID Democracy and Governance programs and suggestions for how USAID interactions with NGOs could be improved.

          Dareen Khalifa of the International Mobilization Program at Amnesty International, views ESF funding to Egypt as largely serving as a detriment to sustainable civil society development in Egypt.  In contrast, Magdy Abdelhamid, chairman of the Egyptian Association for Community Participation, considers ESF funding for NGOs a necessary lifeline for organizations that operate in a hostile political environment with few other options for support.  In Khalifa’s opinion, the reason the United States provides Egypt with economic aid is twofold: the United States wants to have leverage over Egypt by threatening to remove the aid, and to incentivize reform (i.e. through the cash transfer program).**[[79]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn79)**  The former reason is why Khalifa supports gradual lowering of aid levels.  Aid levels can be cut for reasons entirely unrelated to NGOs, and NGOs are made vulnerable by depending on politicized aid.  For example, Khalifa cites the Bush administration’s unilateral decision to cut aid levels by half in FY 2009 to $200 million.  This decision demonstrated to Khalifa that it is preferable for NGOs to depend on more stable funding sources.  In addition, Khalifa notes that a widespread perception of USAID selecting NGOs based on whether they are critical of the Egyptian government has meant that USAID’s funding has been detrimental to the credibility of civil society in broader Egyptian society.**[[80]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn80)**

          Magdy Abdelhamid supports continued ESF funding, especially when directed towards unregistered NGOs.  Abdelhamid sees both the Freedom and Justice Party and long-serving public sector officials as deeply hostile to democracy promotion organizations, since NGOs “are their number one enemy.”  Abdelhamid cites the Ministry’s Social Affairs refusal to issue new licenses for foreign funding as evidence of this hostility, and as the prelude to a coming crackdown on Egyptian civil society.  For this reason, Abdelhamid believes that despite problems with current USAID operations ESF should continue in order to maintain some level of democracy and human rights-oriented civil society activity in Egypt.**[[81]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn81)**

          Both Abdelhamid and Khalifa suggest improvements in USAID’s process for selecting grant recipients.  Khalifa views USAID as characterized by a belief that an NGO that has been successful and accountable in the past will thrive when given large grants to expand.  However, in her experience NGOs have been chosen based on their positive reputation and history of successful program execution, despite the fact that the organizations may not have program ideas to spend all of the funds granted.  Khalifa suggests a move away from what she views as USAID’s excessive reliance on NGO reputation when selecting partners.  She also suggests that USAID more strongly examine an NGO’s capacity to actually execute programs using the allotted grant size.**[[82]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn82)**  Abdelhamid suggests that USAID review and reselect funded NGOs, with “clearer selection criteria” and better supervision of project implementation.  Abdelhamid alleges that NGOs are either improperly selected for funding or insufficiently scrutinized by USAID, complaining that “the same organizations that accepted aid 25 years ago are the same ones that receive aid today, with some small additions and subtractions.”**[[83]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn83)**

          Khalifa suggests that USAID’s program assessment move from a quantitative approach to a more holistic view of a program’s success.  Khalifa criticizes what she sees as an overly simplistic view of successful program performance, in which the gender component of a program means “counting how many women attend your workshops.”  Additionally, Khalifa believes that the way that USAID currently plans its annual focuses for sponsored programs should be improved by sustaining focuses for two years for maximum impact.**[[84]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn84)**  
Conclusion

            This study presents a survey of stakeholder views on three major issues associated with U.S. economic aid to Egypt.  These views illuminate how GOE officials, political parties, and NGOs view a variety of domestic and international issues affecting Egypt today, and how these organizations are politically oriented within the Egyptian political landscape.

            Overall, Egyptian public figures interviewed were notably supportive of continued American aid to Egypt, albeit in a modified form.  GOE officials and political party representatives were uniformly unenthusiastic about American aid continuing in its current form, but most interviewees did express openness to American aid in some specified form.  While Egyptian political actors were specific and articulate about their reasons for dissatisfaction with the current state of American economic aid, these actors are largely not opposed to accepting American aid in principle.  For example, MFA and MIC both signaled their acceptance of continued ESF funding if direct funding of NGOs were removed, and the FJP is opened to continued ESF funding if it focuses on infrastructure projects.  This acceptance in principle is highlighted by the mention by some parties of military aid.  While this study did not directly address American military aid to Egypt, many interviewees made clear that they consider this aid to be in a very separate category from economic aid.  Even fervent critics of ESF such as the FJP and ESDP expressed their support for continued American military aid to Egypt.  The relationship between support for ESF and support for military aid is tenuous due to the domestic sensitivity of military aid, but both types of aid raise similar issues surrounding the Egyptian-American political relationship.

            One way to understand the general lack of opposition to the principle of accepting conditioned American economic aid is in light of the general view expressed in interviews that ESF levels are so low as to make them inconsequential.  A commonly repeated viewpoint in discussions with Egyptian public figures was that American economic aid is insignificant in relation to the size of the Egyptian economy.  Almost every discussion returned to the observation that American economic aid is no longer as consequential as it used to be.  Interviewees brought up a number of reasons for this shift.  First, aid levels have decreased in absolute terms as a result of the Glide Path Agreement and the Bush administration’s unilateral aid level cut in 2009.  ESF grant levels fell from a high of $1.07 billion in FY 1986 to $250 million in 2011.**[[85]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn85)**  A senior official at the Ministry of Foreign Affairs stressed that American economic aid was less than the annual debt interest that Egypt pays the United States.**[[86]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn86)**  Second, the size of the Egyptian economy has increased over the same period from below $50 billion throughout the 1980s to $236 billion in FY 2011.**[[87]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn87)**  Total foreign aid represented 14% of Egyptian GDP in 1991, but dwindled to about 1% by 2010.  Third, American aid is no longer relatively alone as a source of external aid rents for the Egyptian economy.  This view is demonstrated by an official at the division within the MIC that deals with USAID, who remarked that a Chinese delegation visited her offices in recent months to give her entire staff new laptops.**[[88]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn88)**  As former Minister of Planning and International Cooperation Fayza Abou al-Naga commented in March 2012, “the US comes in at the bottom of the ladder of countries that give grants or loans to Egypt.”**[[89]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn89)**  While Egyptian public figures accept American economic aid in principle, this acceptance was strongly coupled with the perception that Egypt has alternatives to the United States’ economic aid, and that economic aid levels are currently very low compared to Egyptian GDP.

            It should be noted that while many political actors do not at present support an end to American economic aid, calls to end economic aid become much louder when the United States threatens to withdraw aid.  At these times, opposition to American “interference” in Egyptian affairs is a rallying cry for Egyptian politicians.  During the controversy over USAID distributing ESF funds to unregistered NGOs, the United States threatened to end economic aid to Egypt.  At the same time, Egyptian politicians from across the political spectrum called loudly to end aid.  FJP member and People's Assembly Foreign Affairs Committee chairman Essam al-Erian said that “U.S. economic aid is part of the Accords and if America decided to cut off [aid to Egypt], we will change or cancel the agreement.”  Amr Moussa called for ending U.S. aid,**[[90]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn90)** and prominent television preacher Mohammed Hassan called for replacing military aid with domestic funding.**[[91]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn91)**  For the most part these calls have subsided since the end of tensions in March 2012.

            Rather than calling for the end of American economic aid, public figures present various plans for its reform.  These plans offer insights into the diverse political priorities of Egyptian political actors.  At times, the changes they propose would clearly strengthen their own domestic political positions.  GOE officials, for example, were clear in their preference for the maintenance of cash transfer programs.  These programs generate funds that the government can disperse from the private governmental account at the CBE, directly strengthening the public sector's hand vis-a-vis other actors.  The FJP prefers that ESF funding be directed principally towards infrastructure projects.  In the 1980s, USAID focused on infrastructure projects for electric power generation, telecommunications, and port facilities.  However, in the realm of project assistance, USAID has shifted focus to activities such as education, healthcare, and developing civil society.  This shift was justified by the logic that international capital markets are willing to finance infrastructure projects, but not improve the educational or healthcare sectors in Egypt.**[[92]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn92)**  A return to infrastructure projects for USAID would, in other words, remove US involvement from politically sensitive Egyptian sectors and redirect it to projects that would otherwise incur private debt.  Finally, Magdy Abdelhamid, chairman of a prominent Egyptian NGO, fears the elimination of funding for registered and unregistered NGOs.  These proposed changes represent the ways that actors’ proposals for USAID reform reflects the domestic interests of each.

            While public figures offered very different proposals for reforming USAID, some viewpoints were widely held across the political spectrum.  Many political figures interviewed shared the perception that USAID exists in Egypt to spend sums of money incommensurate with Egypt's ability to absorb this aid.  Almost all political parties agreed that in the end this aid mainly serves to enrich an already wealthy segment of Egyptian society, but disagreed about whether this effect is an intentional effort by USAID or simply a unintended outcome of poorly planned programming.  NGO leader Magdy Abdelhamid, for example, views the political elite’s capture of USAID funds under the Mubarak regime as the result of collusion between USAID and NDP officials.**[[93]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn93)**  The Reform and Development Party believes that ESF has been intentionally “oriented toward securing and benefitting the old [Mubarak-affiliated] elite.”**[[94]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn94)**  Meanwhile, the Wafd party believes that corruption and political controversy resulting from American aid is a product of lax American generosity and internal Egyptian political controversies rather than an intentional effort to enrich a particular stratum of society.**[[95]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn95)**

            Non-Egyptian observers may be surprised to note that the segments of Egyptian politics most agitated by the association of economic aid with the 1979 Camp David Accords are not Islamists.  When asked about the parties’ overall view of American economic aid, neither the chairman of the FJP economic committee nor the chairman of the Nour party economic committee at any point mentioned Israel.**[[96]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn96)**  The chairman of the FJP economic committee mentioned the Accords once to note that it obligated the U.S. to provide economic aid to Egypt, and referred obliquely to “political costs” that Egypt incurs for accepting the aid’s conditions.  Mohammed Morsi even directly criticized Muhammad Hassan’s campaign to do without American economic aid because “this is military aid linked to the Camp David treaty, and it’s not the time to talk about it now.”**[[97]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn97)**  The Nour party did not even mention the accords.  The Nour party economic chairman instead stated that he views aid conditionality as generally a positive factor, since conditions related to human rights and minorities in Egypt resonates with what Nour economic committee chairman calls “the Salafi and Muslim Brotherhood’s experiences as one of the most discriminated against groups in Egypt.”**[[98]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn98)**

            Instead of Islamists, American aid conditionality associated with the 1979 Camp David Accords was raised repeatedly when speaking with the socialist Egyptian Social Democratic Party.  While the positions of the Muslim Brotherhood and, to a lesser extent, the Nour Party regarding Israel have been well documented, the importance that the Revolutionary Socialists and the parties of The Revolution Continues Alliance place on opposition to Israeli policies has been less prominently discussed.  The only party interviewed that brought up the connection of aid to the 1979 Accords was the Egyptian Social Democratic Party, a member of the International Socialist Organization.

            This study’s discussion of the NGO controversy between the Egyptian and American governments demonstrates that suspicion of USAID direct funding of NGOs does not correlate with rejection of American economic aid in principle.  A number of public figures support a form of continued American economic aid, but call for the end of USAID direct funding to unregistered NGOs.  Overall, three distinct views emerged regarding this funding.  First, a number of government officials objected to USAID funding being used to fund unregistered NGOs due to the terms of the 1978 bilateral agreement and the perception that distribution of funding is the prerogative of the Egyptian government.  Second, many interviewees demonstrated a generalized suspicion of American motives in providing financing to non-registered NGOs.  These interviewees viewed American financing to non-registered NGOs as a violation of Egyptian sovereignty, but did not necessarily demonstrate a belief that the Egyptian government has been fair or transparent in its NGO registering policies.  Finally, certain NGOS remain convinced that American funding for non-registered NGOs keeps civil society from disappearing entirely or being entirely controlled by the state for undemocratic ends.  For example, Magdy Abdelhamid supports pre-conditioning aid on progress on human rights and governance issues, which would in his view preclude U.S. economic aid to Egypt.  However, Abdelhamid views the continuation of direct funding to unregistered NGOs as vitally important to political development in Egypt.**[[99]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftn99)**

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**[[3]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftnref3)** Economic aid to Egypt refers to funds allotted as part of Economic Support Funding, while military aid refers to Foreign Military Financing and International Military Education and Training.

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**[[18]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftnref18)** Foreign aid used for political ends had previously been classified

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**[[95]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftnref95)** Author interview with Fakhry el-Fiki

**[[96]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftnref96)** Author interview with FJP Economic Committee Chairman and author interview with Tarek Shaalan

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**[[99]](http://schools.aucegypt.edu/GAPP/casar/Pages/Whither-Economic-Aid-to-Egypt.aspx" \l "_ftnref99)** Author interview with Magdy Abdelhamid