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Changing the Paradigm of U.S. Assistance to Egypt: Alternatives to the 'Endowment' Idea

By J. Scott Carpenter
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Recently leaked documents detail an exchange between Washington and Cairo regarding the future of U.S. economic assistance to Egypt. The documents indicate that the Obama administration has welcomed Cairo's idea of ending traditional assistance in favor of creating a new endowment, "The Egyptian-American Friendship Foundation." This idea has a long, checkered history and, if implemented, will be bad for both American taxpayers and the Egyptian people. The administration should work with Egypt to craft alternatives that advance common objectives, including democratic reform.

Evolution of a Bad Idea

U.S. economic and military assistance to Egypt began in 1979 in the wake of the Camp David Accords, which initiated the cold peace between Israel and Egypt. Since then, Cairo has received more than $50 billion in total assistance, with an annual average of $815 million for economic development and $1.3 billion for military hardware. Over time, the amount of economic assistance as a percentage of Egyptian gross domestic product has shrunk dramatically from 5 percent in 1979 to less than a quarter of a percent today.

In 1998, the two countries agreed to a ten-year plan to reduce economic assistance, at the same time the United States and Israel agreed to phase out economic assistance. The goal was to decrease the annual total of U.S. economic aid to Egypt to $415 million by 2008. As early as 2006, the parties planned to formulate a new deal for the next decade, but negotiations with the Egyptian Ministry of International Cooperation dragged on for nearly two years and produced no comprehensive agreement. In FY 2009, Egypt received a heavily earmarked $200 million aid package while more negotiations ensued.

The 2006-2008 negotiations stalled in part due to Washington's lack of enthusiasm for a June 2007 Egyptian proposal to establish "The Endowment Fund." For Cairo, such an endowment would have multiple advantages, foremost being the elimination of any prospective "aid conditionality" and, with it, an end to congressional interference.

Although the U.S. ambassador in Cairo was an active booster of the idea, Washington preferred working with the Egyptian government to identify key economic sectors that could benefit from a targeted, strategic use of U.S. assistance. The Bush administration also wanted to find a way to link aid to democratic reforms. The model Washington had in mind was the successfully negotiated financial sector memorandum of understanding that had been critical to Egypt's recent economic growth. Ultimately, Washington hoped to negotiate an agreement that would bypass the MIC altogether in favor of direct support for Egyptian budgetary priorities. In theory, funds would be released directly to the Ministry of Finance through Egypt's Central Bank when conditions of the prospective assistance memorandum were met. This idea, however, proved wholly unacceptable to International Cooperation minister Fayza Abul Naga, who would have played no role in the decisionmaking process and would therefore lose access to U.S.-dollar-denominated accounts. Following disastrous discussions in August 2006, negotiations stalled.

New Steps in the Wrong Direction

The discussion was revived during the transition between the Bush and Obama presidencies, however. In that brief window, the U.S. embassy in Egypt, under new leadership, took steps to "restore" the bilateral relationship, which it perceived to be badly damaged. These steps included the decision to accede to Egyptian demands that the U.S. Agency for International Development cease dispensing grants to nongovernmental organizations that Cairo considered "non-registered." This list included many human rights and other advocacy groups.

As the leaked documents from Cairo and Washington (available here and here, respectively) reveal, the most recent iteration of the "Friendship Foundation" proposal would involve a number of "funds," including a "Mubarak-Obama Education, Science, and Technology Fund (ESTF)." According to the documents, the United States has already agreed that 50 percent of FY 2010 assistance will go toward the ESTF "as a prelude to establishing an umbrella Endowment Fund." The remaining 50 percent is designated for "poverty alleviation." The language of the FY 2010 appropriations bill, however, authorizes only up to $50 million to be used "for an endowment to further the shared interests of Egypt and the United States."

If Washington and Cairo carry out the plan, the umbrella fund would be established beginning in 2011, incorporating several additional initiatives such as a "Fund for SMEs (Small and Medium Sized Enterprises)." Whatever the merits of such funds, their true intent is stated clearly in the Egyptian proposal: "a phasing out mechanism [of U.S. assistance] that would be: gradual, over time, predictable, not related to conditionalities."

Cairo's proposed assistance totals are ample cause for concern as well. In the endowment request, the Egyptian government asks for $1.9 billion over ten years beginning in 2011. To augment this already large sum, Cairo also proposes debt relief, or what it calls "debt swaps," to help it make its debt payment (principal and interest) to the endowment. This adds an additional $1.7 billion to the proposal, for a total of $3.6 billion over ten years. Although Cairo plans to match U.S. contributions at a rate of one Egyptian pound for every U.S. dollar (or $653 million total), this amount pales in comparison to the considerable burden Washington would assume if the endowment were actually established.

The U.S. Response

According to the leaked documents, the Obama administration has thus far resisted Egyptian efforts to consolidate the whole of U.S. economic support under the new funds. It has also pushed back on the scale of the request and ignored the "debt swap" concept for the moment. Still, it has not rejected the idea outright, nor has it proposed a suitable replacement. In fact, making even $50 million available to the endowment before the details of its governance structure are agreed on seems stunningly deferential to the Egyptian government. For its part, Congress has been unusually quiet on this scheme, so far raising few red flags on a plan that would, effectively, emasculate its oversight role regarding U.S. aid to Egypt.

Alternatives?

Egypt is a major U.S. strategic partner on a wide range of Middle East issues. It has the largest population of any country in the region, a growing economy, and the beginnings of a real middle class. At the same time, the country faces an imminent succession challenge and an uncharted path forward. Under these circumstances, establishing some clarity for out-year funding of U.S. assistance programs makes sense. But a "Friendship Foundation" is not the way to go.

Given the paltry contribution that U.S. aid is currently making to Egypt's economy, a reasonable argument could be crafted to scrap the program altogether. If this is deemed politically impractical, then the strategic goal should be to further buttress the macroeconomic policies that have earned Egypt plaudits from the International Monetary Fund and others. This would involve deepening economic reforms while urging badly needed political reforms.

In light of these very different alternatives, the administration, working with Congress, should pause to review the objectives of U.S. assistance to Egypt. During the review period, it should even consider dramatic aid increases over the next decade to incentivize real change.

For example, Washington could help the Egyptian minister of finance and his team devise a plan for ending Cairo's ruinous subsidies, a stated Egyptian objective. A clearly benchmarked memorandum of understanding could be negotiated in which Egypt would receive increased assistance aimed at tackling the subsidy challenge over the next decade. Another alternative would be to revive the already agreed "Fund for the Future," a deal inked by former secretary of state Condoleezza Rice in 2006 but thwarted by a Congress ill disposed to approve Bush administration ideas. That initiative -- which has a detailed governance structure already laid out -- would have created a venture capital fund to support Egyptian entrepreneurs.

Whether or not either of these ideas receives a hearing, the Obama administration should find some alternative to the endowment proposal. It is difficult to see how the current plan -- with an unclear governing structure and funding spread too thin over numerous sectors -- can achieve much. In contrast, establishing negotiated benchmarks in targeted sectors creates the promise of a win-win proposition and a virtuous cycle for the Egyptian people and the American taxpayer. Whatever approach is ultimately chosen, the administration should negotiate the new program with the Egyptian cabinet's economic team so as to maximize the impact of U.S. assistance. Even the best of friends disagree from time to time and should be able to be honest with each other: the idea of a Friendship Foundation is a bad one whose time should never come.

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