

## **Egypt Assistance: Endowment Counterproposal**

The Government of Egypt (GOE) has, since 2007, been seeking the gradual and predictable elimination of Economic Support Funds (ESF) over ten years and the establishment of an Egyptian-American Friendship Foundation (endowment) to serve as a long-term instrument to support Egyptian development priorities.

The USG, in response, has been focused on an endowment as a cooperative mechanism to institutionalize our assistance relationship, supporting economic and social development in Egypt as part of a larger, continuing assistance portfolio, and as a potential future legacy should ESF eventually be phased out. The USG has designed a potential counterproposal to Egypt on the endowment along the following lines.

### *Size and Origin of Funds:*

- The USG proposes a contribution of \$50 million annually over five years —\$250 million total—subject to availability of funds, with a contribution from the GOE of roughly \$45 million total over five years. The USG will also encourage the endowment to seek private sector contributions, whether directly or via private sector co-funding of projects under the endowment. The underlying principle is to start slowly to test the endowment's success, and to avoid redirecting significant amounts of ESF funding away from current development programs that further U.S. objectives in Egypt, including democracy programs.
- The U.S. contribution to such an endowment would be drawn from the total ESF appropriation, beginning in FY 2011 if we can reach agreement in time. We did not include the Egyptian debt relief component in our counterproposal.

### *Time Horizon and Sustainability:*

- The USG and the GOE agree that an “evergreen” fund best suits our goals. At the end of the five-year period, the two Governments will assess the effectiveness of the endowment and decide whether to increase, decrease, or sustain the rate of annual contributions.
- The USG will require performance indicators to monitor success, which if not met could justify limitations to, or termination of, future support. The USG will also propose establishing a mechanism to permit ad-hoc U.S. assessments of the endowment's progress.

### *Governance:*

- The USG will propose that the endowment be housed in a U.S. or internationally-based non-profit corporation, subject to normal audit and oversight procedures. Funding will be provided on an annual basis as a donation directly to this organization.
- A majority of Board members will be prominent private citizens of both nationalities, with replacement Board members to be selected by majority vote of the Board. Each government will have no more than two public servants. We expect that a primarily private sector board will lead to increased efficiency and effectiveness in programming funds.
- In the event of asset dissolution, the GOF proposes that the principal, income, and appreciation of the endowment fund be transferred to another organization similar in mission, to be used in a manner consistent with that mission. The USG is open to considering the GOE's proposal on asset dissolution should the endowment be terminated. We believe this dispensation of funds, however, must be at USG discretion (the alternative would be returning the USG-provided funds to the U.S. Treasury).
- The USG will propose that the endowment be dollar-denominated to minimize currency risk.

### *Legal Issues with Establishing the Endowment:*

- The USG will propose that the endowment be established through a bilateral agreement, approved by the Egyptian People's Assembly and Presidential Decree, and to provide for tax exemptions and other mechanisms to facilitate the work of the endowment.

### *Implementation:*

- The USG and the GOE are in agreement that the endowment corporation would not itself implement programs. We are open to discussing the creation of special funds as long as the endowment also uses standard contract and grant implementation mechanisms. The USG recognizes the limited effectiveness of sub-funds, however, given the small initial size of the endowment. Initially, we will establish a list of criteria that the endowment will use to decide on the best implementing mechanism for a specific activity.

### *Types of Activities for Funding:*

- The USG and the GOE agree on education as a promising area for the endowment's initial focus, but we will propose that the endowment be flexible enough to promote human resource development in Egypt as the funds grow.