

**THE US ECONOMIC ASSISTANCE  
PROGRAM TO EGYPT  
FY 2011 AND BEYOND**

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### INTRODUCTION

Since the signing of the Camp David Accords in 1978, Egypt and the United States have established strategic ties based on a common vision of a peaceful, stable and prosperous Middle East. These Accords were not only the cornerstone for peace between Egypt and Israel, but constituted the bedrock for a far-reaching Middle East peace process. To fulfil this vision, the Camp David package included economic and military assistance programs for both Egypt and Israel, with Egypt receiving \$2.1 billion and Israel receiving \$3.1 billion annually.

Over the last three decades, the US assistance program to Egypt has served the interests of both countries and has helped achieve their common objectives. Today, the relationship has many more facets than it did thirty years ago, and involves additional shared security, political and economic interests. Egypt stands as America's reliable and influential partner in the Middle East.

The US economic assistance has contributed significantly to recent economic achievements in Egypt. After years of financing much-needed large-scale infrastructure projects, the economic assistance helped Egypt transform its economy into a market-oriented modern economy. Today, the private sector in Egypt is responsible for almost 70% of the GDP, and privatization and financial liberalization plans excel. In addition, the program has played an important role in a number of other sectors vital to achieving Egypt's developmental goals, including the area of democracy and governance, where cooperation has been ongoing since the early nineties.

Egypt places an exceptionally high value on its strategic relationship with the US – it is our belief that the US does likewise vis-à-vis Egypt. More than anything else, and over the last three decades, the US assistance program to Egypt stood as a symbol of the manifestation of the depth of this relationship. As such, and accordingly, Egypt regards this program also exceptionally highly.

Egypt realized and continues to realize that the US economic assistance program cannot and should not continue forever. In this vein, and **upon a joint US – Egyptian understanding in 1998, the economic assistance program has gone down by 50% over the past 10 years.** Egypt and the US are now at the crossroads of looking into the future. Along this line, the Egyptian Government, therefore, has taken the initiative to study the structure and size of the current assistance program with an objective assessment of all its positive and negative aspects as per the actual implementation on the ground – and based on that has actually started developing a framework with priorities for the structuring of the economic assistance program beyond 2008.

In fact, in a meeting with the American Ambassador to Egypt and the USAID director in Cairo on June 18, 2009, the programs for the years 2009 and 2010 were agreed. Based on that, the program allocation for the year 2009 shall be used to finance currently ongoing projects to ensure that current and previously agreed upon activities are smoothly concluded. It is envisioned that the program should cater to complete important projects that are currently on-going, namely: basic education, health, women empowerment and child welfare, justice administration including judges training, decentralization, and human rights in addition to furthering the on-going successful economic reform and modernizing the financial and tax sectors. Other important sectors that were also agreed upon and which need additional support include small and medium enterprises, governance and democracy.

It was also agreed that at least 50% of the allocation for the year 2010 shall be directed to the Mubarak-Obama Education, Science and Technology Fund (ESTF) which will be established as a prelude to establishing an umbrella Endowment Fund. Recognizing that the umbrella Endowment Fund will take some time to build its organizational and administrative structures and accordingly may not be able to function before the year 2011, it was agreed that the Mubarak-Obama ESTF shall start earlier in the year 2010 in order to achieve the best benefit of this aspect of the program at the earliest possible time. The remaining portion of the 2010 allocation shall be used to finance development projects in the area of poverty alleviation. In 2011, the Endowment Fund shall be established and off of that, several Specific Purpose Funds will stem; including the Mubarak-Obama ESTF as mentioned earlier, a Fund for SMEs such as the American-Israeli Binational Industrial Research and Development (BIRD) Fund, and possibly others.

There is consensus among the two parties that taking into consideration the depth and the strategic importance of the relationship between Egypt and the US, **the program should not stop abruptly – but rather graduate over some reasonably agreed upon period of time.**

**Egypt has, therefore, sought a phasing out mechanism that would be: gradual over time, predictable, not related to conditionalities** that may hamper implementation, and finally that would be able to fulfill and support the developmental objectives and priorities aspired by Egypt. It is our view that these characteristics are the minimum possible; reflecting the extent of depth and breadth of the relationship between the US and Egypt.

It is in this context that Egypt put forward a **proposal in December 2006** taking the above elements into consideration. The proposal also took into account the overall status of the cash flows between Egypt and the US – particularly in light of the current debt cash outflows from Egypt to the US, and the possible imbalance that may result from an abrupt decrease in the economic assistance program while maintaining the same level of annual ESF debt repayments.

Several informal discussions took place between the two parties. Ideas were put forward in these discussions including the continuation of the assistance program and the establishment of mechanisms including the Endowment Fund mentioned earlier and the possibilities of exchange of current debts owed by Egypt into scenarios that would end up with a reasonable net cash flow model between the two countries. **It was always deemed unreasonable that any program would end up with a model resulting in cash flowing out from Egypt to the US.** It simply neither reflects the strategic nature of the relationship nor the weight of each party vis-à-vis the other. In fact, this type of analysis is not totally new. **Since 1984, similar concepts were proposed by Senator Cranston (Cranston Amendment) as applied to Israel, where according to SEC 517 “...it is the policy and intention of the United States that the funds provided in annual appropriations for the Economic Support Fund which are allocated to Israel shall not be less than the annual debt repayment (interest and principal) from Israel to the United States Government in recognition that such a principle serves United States interests in the region”.** Along this principle, scenarios were studied to redirect the ESF debt repayments (totaling approximately \$1.67 billion) into the Endowment Fund.

In light of the **several high-level rounds of discussion (March 2006 and August 2006)** in which numerous experts from the American side were involved, and also in which all the relevant ministries in Egypt participated, and based on these discussions and taking into consideration the interests of both sides, **Egypt came**

**up with a revised proposal to the American side on December 10, 2006 which was then followed by a detailed proposal submitted to the State Department in Washington D.C. on June 7, 2007 comprising the establishment of the Endowment Fund to support activities that are of top priority to Egypt's developmental agenda and which also comply with American interests – where such activities shall be financed for a ten year period, during which the whole program shall be phased out gradually – and commensurately with this, the annual ESF debt repayment installments of approximately \$150 million until 2021 (total \$1.67 billion) would be redirected into this Endowment Fund. This was later embodied in the Egyptian vision that was officially handed to the American Administration during the visit of the Egyptian Minister of International Cooperation to Washington DC in November 2007.**

#### **MAJOR CRITERIA GOVERNING THE PROPOSAL**

In developing any proposal for the economic assistance between Egypt and the US for FY 2011 and beyond, Egypt has always taken the following criteria into consideration:

- 1) Continuing a long-term economic development relationship between the US and Egypt;**
- 2) Turning into practice the long-standing conviction of Egypt to move with the relationship between the US and Egypt from Aid to Trade and gradually phase out its economic assistance program;**
- 3) Making certain that servicing old economic debts does not result in a net transfer of cash from Egypt to the US;**
- 4) Acknowledging the continuous budgetary pressures in the United States and the need to reduce the ESF appropriations requirements;**
- 5) Reaffirming the GOE ownership through its contribution to the endowment with one L.E for every one USD.**
- 6) Although Egypt's PL-480 loan repayments range between \$160 to \$200 million annually and are budgeted to continue until 2030, the Egyptian Government recognizes that the PL-480 loan payments are used by the US Government in revolving funds for future global programs, and hence in this proposal the Egyptian Government focused mainly on the ESF debt repayments only.**

Based on the above mentioned criteria, Egypt and the US need to develop an instrument to become a symbol of the special and historic relations between the two countries where such instrument would serve to stabilize the cash flow between Egypt and the US, secure sufficient funds to current projects, and contribute to the economic and social efforts and continuous reform process of the Egyptian Government.

## THE PROPOSAL

Bearing this in mind, Egypt proposes to create a self-sustaining Endowment Fund to be managed by an independent Foundation, The Egyptian - American Friendship Foundation, to properly contribute to both human development and economic progress through the creation of Specific Purpose Funds and implementation of agreed upon projects, allowing at the same time for a gradual phase out of ESF over 10 years (2011-2020) by reducing \$35 million annually with the proceeds to finance the economic development activities.

(Figures in Million US\$)

Year	Program Following Equal Reduction of \$35mn Annually
2011	350
2012	315
2013	280
2014	245
2015	210
2016	175
2017	140
2018	105
2019	70
2020	35
<b>Total</b>	<b>1,925</b>

(Table 1)

**The phase out over 10 years (10% per year) represents a significant reduction which ensures a gradual phase out of the program and at the same time helps avoid an abrupt drop right after the current phase which was an annual decrease of 5% from 1998-2008 thus reducing the program to half.**

Starting 2011, the US assistance provided will finance the Endowment Fund of the Egyptian - American Friendship Foundation. Hence, **the Endowment Fund will be financed through four major sources: 1) the total US economic assistance as shown above; 2) the redirected ESF loan payments (debt swap); 3) the**

Government of Egypt contributions; and 4) amounts from various MOUs in previous years that were not allocated due to non-alignment with benchmarks where such amounts shall be reprogrammed into the Endowment Fund (exact dollar figures to be defined later). The breakdown of this process is as follows:

- The amount that will go into the Endowment Fund will be equivalent to the figures in Table 1.

(Figures in Million US\$)

Year	Amounts of the US Economic Assistance that will go into the Endowment Fund
2011	350
2012	315
2013	280
2014	245
2015	210
2016	175
2017	140
2018	105
2019	70
2020	35
Total	1,925

(Table 2)

- Redirecting Egypt's annual ESF debt repayment installments for the period 2011-2021 into the Endowment Fund: Egypt currently pays debt services on the ESF loans to the US Government revolving around \$150 million annually, and will continue to do so until 2021. These loans are decades old and no new ESF loans have been provided to Egypt since 1983. This would provide the Endowment Fund with approximately \$1.67 billion by 2021.

(Figures in Million US\$)

Year	Redirected Debt and Interest on ESF Loans
2011	151.44
2012	154.58
2013	151.11
2014	154.06
2015	150.40
2016	153.16
2017	149.30
2018	158.29
2019	154.05
2020	149.81
2021	145.56
Total	1,671.76

(Table 3)

- Accordingly, the Endowment Fund will contain the sum of the amounts in Table 2 and Table 3.

(Figures in Million US\$)

Year	US Economic Assistance to Egypt	Redirected Debt and Interest on ESF Loans	Sum of US Economic Assistance and Redirected ESF loan payments
2011	350	151.44	501.44
2012	315	154.58	469.58
2013	280	151.11	431.11
2014	245	154.06	399.06
2015	210	150.40	360.40
2016	175	153.16	328.16
2017	140	149.30	289.30
2018	105	158.29	263.29
2019	70	154.05	224.05
2020	35	149.81	184.81
2021	0	145.56	145.56
<b>Total</b>	<b>1,925</b>	<b>1,671.76</b>	<b>3,596.76</b>

(Table 4)

- The Egyptian Government will match the amount of fund in local currency; that is for every US Dollar, Egypt will contribute one Egyptian Pound.

(Figures in Million US\$)

Year	Egyptian Government Contribution (converted at prevailing rate 1US\$=5.5LE)
2011	91.17
2012	85.37
2013	78.38
2014	72.55
2015	65.52
2016	59.66
2017	52.60
2018	47.87
2019	40.73
2020	33.60
2021	26.47
<b>Total</b>	<b>653.92</b>

(Table 5)

Accordingly, the total money in the Endowment Fund will consist of the sums of Table 4 and Table 5 (to include the Egyptian Government contribution). This does not yet include the amounts reprogrammed to the Endowment Fund not allocated from various MOUs in previous years (exact dollar figures to be defined later).

(Figures in Million US\$)

Year	Sum of US Economic Assistance and Redirected ESF loan payments	Egyptian Government Contribution (converted at prevailing rate 1US\$=5.5LE)	Total Money Raised for Endowment Fund
2011	501.44	91.17	592.61
2012	469.58	85.37	554.95
2013	431.11	78.38	509.49
2014	399.06	72.55	471.61
2015	360.40	65.52	425.92
2016	328.16	59.66	387.82
2017	289.30	52.60	341.90
2018	263.29	47.87	311.16
2019	224.05	40.73	264.78
2020	184.81	33.60	218.41
2021	145.56	26.47	172.03
<b>Total</b>	<b>3,596.76</b>	<b>653.92</b>	<b>4,250.68</b>

(Table 6)